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JIMMA UNIVERSITY

COLLEGE OF LAW AND GOVERNENCE

LAW SCHOOL

LLM PROGRAM ON COMMERCIAL AND INVESTMENT LAW

IMPACTS OF FOREIGN DIRECT INVESTMENT ON DOMESTIC TEXTILE MANUFACTURING INDUSTRY (LEGAL AND PRACTICAL ANALYSIS)

A Thesis Submitted in Partial Fulfillment of the Requirement for Degree of Master of Laws (LLM)

SUBMMITED TO LAW SCHOOL

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ID. NO.; LLM00976/06

JUNE/2015

Acknowledgement

I would like to thanks the Almighty God for giving me the strength and motivation through the entire period of my life and this study to undertake and accomplish this work.

Conducting a research is a difficult task to pass through without ones help. Taking this opportunity I would like to express my deeply felt appreciation to all persons and institutions who give me any kinds of support, to conduct this research starting from the beginning, selection of topic, writing proposal for research and while collecting data and other sources necessary to the last accomplishment of this research paper.

Specially, first, I would like to extend my respectful gratitude to my advisor Mr., Ermias Ayalew (Asst. Professor Lecture of law at Bahirdar University) without his unreserved and invaluable advice and constructive comment this work would not have been complete. And second, I am also indebted to extend special thanks to Mr. Birhanu Beyene (Asst. Professor Lecture of law at Jimma University) and Mr., Sintayew Demeke (Lecture of law at Jimma University) for their constructive comments on the proposal of this work.

In addition, my express thanks goes to Jimma University Law and Governance College for give me a chance to attend this course and giving me financial assistance that help me to conduct this research paper. And also I don't want to pass without appreciation Oromia Supreme Court for his permission and sponsoring me to attend this course.

Finally, I am deeply indebted to my family who has struggled over the years for a brighter future and supported me throughout my life and completion of this work. Specially, I cannot compensate the encouragement and what is contributed by my wife Belaynesh T.

Getaneh H.

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Acronyms

ADLI - Agricultural Development Lead Industrialization

BIT – Bilateral Investment Treaty

EBC - Ethiopian Broadcast Corporation

EIC – Ethiopia Investment Commission

ETGAMA - Ethiopian Textile and Garment Manufacturer Association

FDI – Foreign Direct Investment

FDRE – Federal Democratic Republic

FI - Foreign Investment

GDP – Growth Domestic Product

GTP – Growth and Transformation Plan

MNC – Multi-National Company

MNE – Multi-National Enterprise

TIDI - Textile Industry Development Institution

TNC – Trance National Company

TT – Technology Transfer

TVO – Oromia Television

UNCTC - United Nations Commission on Transnational Corporations

Abstract

Foreign Investment, either made by foreign investor or domestic investor, is very much necessary for the development of a country.. It is necessary for economic development of countries, especially for least developing countries, by filling a gap that is created by lack of the capacity (such as technology, skilled labor, capital and access of global market). Domestic investors in developing states can also benefit from foreign direct investment through transfer of advanced technology, acquiring modern management system, generating investment capital and creating opportunity to get access in to global market.

Of course, from conflicting theory of foreign direct investment and Federal Democratic Republic of Ethiopian Industry Development Strategy we can understand that as foreign direct investment has also its own negative effect on host state especially on infant domestic industries irrespective of its advantage. There for the host state (Ethiopia) should focus on the advantage of foreign direct investment by minimizing or eliminating if possible its negative effect.

The researcher discuss the impacts of foreign direct investment on domestic textile manufacturing industry from the perspectives of expectation of Federal Democratic Republic of Ethiopian law and policy of by evaluating the practical aspects of foreign direct investment and domestic textile manufacturing industry in Ethiopia. The study find out that as there is much of positive impacts and some of negative impact. There is a gap of law that governs the effects of foreign direct investment in Ethiopia and transfer of technology. It also needs to minimize those effects by taking some regulatory and practical action.

CHAPTER ONE

1. GENERAL INTRODUCTION

1.1. Background of the Study

Investment is expenditure to acquire property or other assets in order to produce revenue. It refers to the placing of capital or laying out of money in a way intended to secure income or profit from its employment.[1] This investment can be invested either by public or private investors or either by foreign or domestic investors[2]. Investment owned either government directly or by public enterprise that are accountable for government can be taken as public investment, while investment made by other than government which means by individual person (either legal or natural person) can be taken as private investment.[3]

Based on the nationality of investors, investment can be divided in to two. Domestic investment, which means, investment made by nationals of the country or foreign national treated as domestic investor according to the relevance law of the country including the government, public enterprise as well as corporate society established by the law of the country. Foreign investment, which means investment made by foreign national or enterprise wholly owned by foreign national having invested foreign capital in Ethiopia.[4]

Foreign investment (FI) involves the transfer of tangible or intangible assets from one country to another for the purpose of their use in that country to generate wealth under the total or partial control of the owner of the assets.[5] FI is very much necessary for economic growth and development of a country by bringing foreign currency, transferring new technology, creating employment opportunity, access to new market for domestic industries and advanced managerial skill. FI can be invested directly which is called Foreign Direct Investment (FDI) or indirectly by portfolio investment. FDI is a financial investment in a domestic enterprise by which a foreign

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1HENRY, BLAKS LAW DICTIONARY, CAMPBELL BLACK, M.A, 6th Edition, ST. PAULOS MINN, WEST PUBLICATION CO 1991

2 Article 2(4) of Investment proclamation, Proclamation No. 769/2012, Federal Negarit Gazeta of The Federal Democratic Republic of Ethiopia, 18th Year No. 63, ADDIS ABABA, 17th September, 2012

3 Id at Article 2(5,6 and9)

4 Id at Article 2(4 and 5)

5 M. Sornarajah, The international Law on Foreign Investment, 3rd Edition, CAMBRIDGE UNIVERSITY PRESS, 2010 Page 8

investor gains a significant equity stake in the firm[6] and it involves direct transfer of physical or tangible transfer of asset to host state which is protected by customary international law.[7] The major players in FDI are transnational corporations.

Capital for investment comes from both domestic and foreign sources. While domestic sources are by far the largest, foreign investment can be strategically decisive as transnational corporations, the primary source of FDI, can potentially transfer technologies, skills and global market links which are lacking domestically, thus stimulating industry growth.[8]In many countries, the stated objectives of FDI-led development strategies were to stimulate domestic investment, generate technology spillovers, improve the environmental performance of industry and raise living standards, especially for the poor.[9]

When we see FDI, we can presume the presence the different agreement such as bilateral investment agreement (BIT) and investment contract. Investment agreements define rights and responsibilities of the three parties' (FI, home state and host state) by stating what they can, cannot and must do. In the absence of overarching rules, the relationship between transnational company's (TNC) and host governments is governed solely by national policies and direct bargaining.[10]

The interests of the parties are not the same. For TNC, foreign investment is motivated by the arch for rents and/or market share. TNC seek to protect their intellectual property and maximize control over their operations.[11] In investment agreements they seek protection from uncompensated expropriation and other discriminatory host government actions, as well as freedom of access to national investment opportunities.[12] For host governments, inward FDI is a potential source of growth and technology transfer (TT). Host governments seek to gain access to intellectual property and, representing the public interest, to exercise sufficient control over transnational company's operations to reap economic gain and to minimize environmental and

6 Lyuba Zarsky, International Investment for Sustainable Development, Balancing right and Reward, EARTHSCAN, London Streling, VA, 2005 page 15
7 Supra note 5, Page 9
8 Supra note 6, page 1
9 Id at page 3
10 Id at page 5
11 IbId
12 Id at page 6

social harms. Home state also has political objective that may injects to home state through investors.[13]

As we can understand from conflicting theory of FDI theory, FDI has a great role for development of least developing country by introducing new technology and by bringing capitals to host state, and in other side FDI has an effect of eliminating infant domestic industry and even goes to the extent of capital repatriation effect.

Our constitution as it is a base for our policy and laws provides that investment is needed to advance our economic and social development.[14] Under economic social and cultural right provision of the constitution, it provides that as every Ethiopian citizen has the right to engage freely in economic activity and to pursue livelihood anywhere in the country.[15] The government also has the duty to formulate policy that shall benefit all Ethiopians without discrimination from the country's legacy of natural and intellectual resources.[16] The government has also a duty to ensure all Ethiopians equal opportunity to improve citizen's economic condition and benefit from equal distribution of wealth without discrimination.[17]

Our law and policy expected to get expected advantage of FDI such as transfer of advanced technology for domestic investors by minimizing the negative effect that comes following the expansion of FDI. Having this as an introduction for the research, the researcher discuss the impacts of FDI on domestic manufacturing industry in Ethiopia particularly by focusing on domestic textile industry from the perspective of Ethiopian law and policy and based on what practically seen in textile manufacturing industry.

So, under this chapter background of the study which provides general information and literature review some research extensive literature review are discussed. Statement of problem by describing the problem and objective of the study which include both genera objective of the study and specific objectives of the study with research question which contain main question

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13 Ibid
14 The first paragraph of Proclamation of Federal Democratic Republic of Ethiopian Constitution, Proclamation No. 1/1995, Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia, 1st year No. 1, ADDIS ABABA, 25th December, 1995
15 Id at Article 41 sub article 1
16 Id at Article 89 sub article 1
17 Id at Article 89 sub article 2

and sub question that needs answer also briefly discussed. At the last of this chapter, significant of the study the benefit the research has, scope and limitation of the study the area which will covered by researcher and finally but not the least, organization of the study will be also discussed.

1.2. Statement of Problem

From the first two paragraph of preamble of FDRE investment proclamation number 769/2012 we can understand that the country want to encourage and expand investment especially in the manufacturing sectors and want to strength the domestic production capacity. For this purpose, the country needs to increase inflow of capital and speed up the transfer of technology (TT) in to the country.[18] The country want to increase domestic production capacity which means (production by domestic investors) in other side wants to increase inflow of FDI to speed up TT. However, the country might face the challenge how to keep a balance between these two objectives: increasing domestic production capacity of domestic investors and increasing inflow of FDI. FDI is expected to have more capacity in both capital and technology than domestic investors. If there is unbalanced capacity between FDI and domestic investors, we should know as what kinds of impact will have on domestic investors with this unbalanced capacity of FDI and domestic investors. Knowing this problem is important for this research if there is any to search for the possible solutions.

Ethiopia as a developing state seeks to use investment to accelerate the its economic development[19] and enable FDI play its role in economic growth and economic development.[20] Generally speaking, FDI is very important for developing countries like Ethiopia through proving such advantages as transfer of technology, generating foreign currency, job opportunity etc. On the other side, there in unbalanced capital, technology, experience, etc between FI and Domestic Investors this is a danger for domestic infant industry as both compete on the market. Because, FDI has more capacity and can compete on both domestic and global market easily than domestic industries.

18 Supra note 2 at the preamble
19 Id at Article 5(1)
20 Id at Article 5(7)

A foreign investor is allowed to invest in those sectors listed out in the schedule of the Investment Regulation number 270/2012 but not include sectors that are exclusively reserved for the government or for domestic investor.[21] From this provision we can understand that manufacturing industry including textile industry sectors is accessible equally for both foreign and domestic investors in Ethiopia. When we see total number of capital invested in Ethiopia is about 150 billion birr and among this total capital only one third of them are hold by domestic investors while two third of them are hold by FDI. Almost more than 91% of the total capital of textile industry is owned by foreign investors, which is by far greater than invested by Ethiopian nationals. [22] This unbalanced fact between FDI and domestic investment needs instigates one to know what kinds of problem it brings on domestic production and on growth of domestic infant industry. Accordingly, this research tries to bring the issue into attention, which is important to overcome such problems and find ways for our domestic investors to become strong and competitive. Since our country is plan to grow and to join in to those who have middle income country until 2023 by increasing domestic production, this days and in future this problem will most likely to be continue until industrialization become strong and competent enough not only at national level but also at international level by Ethiopian national or domestic investors which makes Ethiopia to be converted into developed country.

So, the researcher is going to see that, in the context of Ethiopia as what kinds of relationship is there between FDI and Domestic Investor in manufacturing industry sectors specially in relation with textile industry sectors and what kind of impact FDI has on Domestic Textile Industry sector from both legal and practical perspectives.

1.3. Objectives of the Study

The research has the following general objective and specific objectives.

General Objective of the Study

The general objectives of the study is to examine the impacts of FDI on domestic manufacturing industry of Ethiopia, in general, and on textile sectors, in particular, in order to indicate possible

21 Article 4 of Investment Regulation number 270/2012, Federal Negarit Gazeta of The Federal Democratic Republic of Ethiopia, 19th year No. 4 ADDIS ABABA, 29th November, 2012
22 Ethiopian Investment Commission documentation department

solutions to balance the country's interests to enhance FDI and promote the growth of investments by its own nationals.

Specific Objectives of the Study

- To examine whether there are possibilities for domestic investors to benefit from the existence of FDI in the country by way of introducing or providing opportunities for technological transfer and to domestic textile industry that emanate from FDI. And evaluate as FDI brings knowledge, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources[23] for domestic textile industry sector or not.
- To investigate as FDI making domestic textile industry internationally competitive, opening up export markets, providing backward and forward linkages and access to international quality goods and services and augmenting employment opportunities [24] or not.
- To examine whether there should be a need to protect domestic infant industry to save from competition arise from FDI or not.
- To examine as FDI and Domestic Textile Industry are friends or foes before and after production stage in relation with production cost and market competition in light of above points which stated under this sub topic.

1.4. Research Question

1.4.1. Main Question of the Study

The main research question is Does FDI have any impact (either positive or negative) on domestic manufacturing industry especially on textile industry?

1.4.2. Sub-Question of the Study

Is there any new technological transfer and up gradation and experience that transferred or introduced to domestic textile industry from FDI?

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23 FDRE Ministry of Information, Operation and Audiovisual Department, Industry Development Strategy of Ethiopia, August 2002 page 33 and 34 and also see Foreign Direct Investment inflows to India since the 1990s – Issue Challenges: Comparison with China, Page-8

24 Ibid

Is there any optimal utilization of human capabilities and natural resources for domestic textile industry sector that emanate from inflow of FDI?

Does FDI makes domestic textile industry competitive internationally and opens export market?

Does FDI affect or effect domestic textile industry at both production stage and after production stage in relation with market competition?

What kinds of practical impact are there in light of objectives of attracting FDI in relation with domestic textile industry on the ground in the context of Ethiopia?

What is the position of investment law to benefit domestic investors from existence of FDI?

How we can protect legally the domestic infant textile industry sectors from the competition which may arise out of FDI if any?

1.5. Significant of the Study

This research has a great significance. The finding of the study will hopefully benefit Ethiopian manufacturing industry in general and especially domestic textile industry sectors by looking and evaluating the actual impact of FDI which could be positive or negative effect on domestic manufacturing industry in general and on infant textile industry sectors in particularly. It enables us to know the level or the extent of FDI that uses or harms domestic manufacturing industry and textile industry sectors. Knowing this fact through the method employed for this study, the study reached on conclusion and provided alternative recommendations.

This research will have importance for government. Government's primary focus is to encourage and expand investment on domestic manufacturing sectors and to increase or strength domestic production capacity to accelerate the economic development of the country.[25] And in other side government want foreign investment to play their roles in the country's economic development[26]. From this we can presume that both domestic investment and FDI should be supplementing each other at least FDI should not affect domestic manufacturing industry sectors. If so, as both FDI and Domestic Manufacturing Industry are there in Ethiopia especially in textile manufacturing sector, government should know as what kind of relationship is there between

25 Supra note 2 the first paragraph of the preamble
26 Id at Article 5(7)

FDI and domestic manufacturing sectors. Particularly its impact on textile industry to take the possible corrective measures for the affect that may happen due to FDI.

Another significant of this study is for domestic manufacturing sectors since government want to speed up the transfer of technology in to country[27] and this transfer of technology presumed to be consumed by domestic manufacturing industry. So this study will be used as an input for Domestic Investors as FDI has what kind of impact on domestic manufacturing industry sectors specially on textile manufacturing sectors and to use the effect of FDI and to handle the affect of FDI on Domestic Investment if there is any.

This research also has a significant for FDI by making them aware the impact of FDI on domestic manufacturing sectors and this will use for them as information to understand the environment of the FDI and Domestic Investment effect relationship.

1.6. Review of Literature

Three literatures that directly relate to the research topic were reviewed to have understanding about the impacts that FDI had on economic developments of host states. The first is 'FDI Inflows to India since the 1990s –Issues and challenges: Comparison with China' which focus on FDI promotion in Indian in comparisons with that of China.[28] The paper shows that both adopt market oriented economic policies and designed policies to attract FDI inflow. They open up their markets to international trade and investment inflows. As a result their economies have been getting increasingly integrated with the global economy. The literature shows that both countries have enjoyed high positive average GDP growth rate over the last two decades although China substantially exceeds India. It suggested that India should take trade liberalization measures by reducing average tariff and complement it with export promoting measures as China has done. It further recommended India to adopt policies that can boost its exports of FDI generating services like software. The country has competitive advantage in intellectual capital, skilled labor and a pool of workforce with knowledge of English.[29]

27 Id at The second paragraph and Article 5(8)
28 Foreign Direct Investment Inflows to India since the 19990s –Issues and Challenges: Comparison with China page 46
29 Ibid

The second literature reviewed in this research paper is 'The Impact of FDI on Growth in Developing Countries an African Experience' which deals to show the contribution of FDI to economic growth of African countries.[30] The relationship between FDI and economic growth in the continent is discussed and the contribution of FDI to growth is uncovered. The writer concludes that the contribution of FDI to growth is estimated to be positive from the continent's point of view. When dealing with some selected countries however, it was discovered that the contribution of FDI was not positive in some countries. In most of the countries and for the continent as a whole, the relevant coefficient estimate is not significant.[31]

The third literature is entitled 'Impacts of FDI on Economic Growth in Jordan' which focuses on the FDI-led growth hypothesis in the case of Jordan by considering the short run and long run relationship between FDI and economic growth and the perception of the civil society, and foreign from coward FDI.[32] After examining the relationship between FDI and Growth Domestic Product (GDP) he found a positive link between FDI and growth. But econometric result shows that FDI inflows do not exert an independent influence on economic growth. And also the direction of causation is not towards from FDI to GDP growth but GDP growth to FDI. That is the direction growth impact of FDI on the Jordanian economy has not existed so far. Based upon these results the ultimate objective of the Jordan government is to attract FDI for development an appropriate policy mix is necessary to be taken in the future.[33]

This research deals with impacts of FDI like above papers but it is on domestic textile manufacturing industry. All papers are not focus on Ethiopia rather they focus on India, Africa and Jordan. The first paper was deal about attraction of or inflow of FDI in comparison with China. But my paper will not focus on attraction of inflow of FDI rather the impact of FDI on domestic textile industry. The second paper deal with impact of FDI on growth in developing country particularly by specifying on African experience and found that as FDI has both positive and negative contribution in countries. But my paper will not focus on impacts of FDI on growth of developing country rather focus on Impacts of FDI on Ethiopian (developing country)

30 Sarumi Adewumi, Impact of FDI on Growth in Developing Countries, An African Experience, Jonkoping University, September 2006, Page 15
31 Ibid
32 Basem Mohamed Louzi and Abeer Abadi, THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN JORDAN, August Page 253
33Ibid See also www.arpapress.com/Volumes/Vol8Issue2IJRRAS_8_2_16.pdf

manufacturing sectors particularly on textile industry sectors. The third paper deals with impacts of FDI on growth of Jordan which has some similarity with the second topic and focuses more on social and economic perspective using some empirical data.

No one show that or try to look that the impacts or relationships of FDI on Domestic manufacturing industry particularly on Ethiopian textile industry.

There are also existing wide range and often conflicting empirical studies on the effect of MNEs on various aspects of the development of developing countries. Many studies have been also shown that the Multinational enterprises helps or hurts depends up on the policy choices of the host countries themselves. Beside each developing country may need to revise its own policies.[34]

So there is a knowledge gap on the relationship of FDI and domestic manufacturing industry which is based on empirical data. But under this research the researcher try to see the actual impact of FDI on domestic manufacturing sectors in general and on domestic textile manufacturing industry sectors in particular from legal and practical perspective under the consequent chapters.

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1.7. Method of the Study

This study examined the impacts of FDI on domestic textile industry in Ethiopia. As the title of the research indicates the research is on Ethiopian textile industry and the researcher randomly selected some textile industry both owned by foreign and domestic investors. Three domestic investors and two FDI were selected for the study and conducted through Ethiopian Textile and Garment Manufacturer Association (ETGAMA).

The methodology that has been used in this research is mainly qualitative method and also quantitative methods of data were employed. The researcher used primary source data which is mainly collected from Ethiopian Investment Commission, Ministry of Industry, Science and Technology minister, Ethiopian Textile Industry Institute.

34Id page 29

Data was collected to find out the actual impact of FDI in Ethiopia. The primary methods of data collection are questioners, interview, discussion and observation from EIC, Textile Industry Development Institution (TIDI), Ethiopian Textile and Garment Manufacturer Association (ETGAMA), Ministry of Science and Technology and Ministry of Industry in addition to law and policy documents. Secondary methods of data collection are from documentary or written analysis.

Primary source

Ethiopian investment laws such as proclamation and regulation policy (Industrial Development Strategy) were reviewed. The governmental officials and experts selected for interview based on their availability and relevancy for the purpose of the study and who expected to know the practical impacts of FDI on domestic industries. Some FDI and domestic textile investors were interviewed. At the same time questioner also collected from them to find out the practical impact of FDI on domestic textile industries based on expected advantage of FDI. Eleven individuals were interviewed and questioners also collected at the same time

Secondary source

The researcher used which has a relationship with investment, including GTP, different guide lines, reports from investment commission, industry minster and others. Data that serves for the study and different books, articles and any document from either published or unpublished and electronics media and internet site which has relationship with the topic or area of the study have been utilized.

The researcher uses the following methods of analysis: legal analysis, interpretation and description of laws and content analysis of responses of interview. Analyses of legal records and policy documents have been made. The Interpretation and description of the Investment law provisions, treaties, polices and regulations have been made. The reviews of previously conducted researches and scholarly writings have been conducted.

1.8. Scope and Limitation of the Study

As we can understand from the topic of this study which says "Impacts of Foreign Direct Investment on Domestic Textile Manufacturing Industry (legal and practical analysis)", the scope of the study is limited to evaluating the advantages and disadvantages of FDI on domestic textile industry in light of investment law and policy.

The limitation of the study was resources such as budget and time. Since empirical data was needed for the study, and interviews and questioner were used to investigate the actual impact of FDI on domestic manufacturing industry, conducting the research required time and money. The data was collected from different area. And also there is lack of comprehensive investment policy so that searching from different policy and even lack of different reference on the area of the study are some of the limitations. Non cooperation of concerned bodies within the given time, for different reason is also the limitations of the research.

1.9. Organization of the Research

This research has four chapters one of which is the previously discussed general introduction of the research. The second chapter deals with FDI in general. The chapter began with the introduction of its content under the first topic and deals with theories of foreign investment including the well known conflicting theory of FDI. FDI in context of Ethiopia from both legal perspective and practical perspective also discussed at the last of chapter two. Rewrite

Under chapter three, the research discussed the manufacturing industry in Ethiopia from law and policy and practical perspectives. Under this chapter after discussing the introduction of the chapter, two main topics are discussed. These are the manufacturing industry in Ethiopia and textile industry in Ethiopia in particular. Under both topics the researcher will see the policy direction from FDI side with their legal and practical aspects.

Under chapter four, analysis of legal and practical impacts of FDI on domestic textile industry is made. Under this chapter there are five topics. The first topic is introduction part of the chapter. Under the second topic practical observation and analysis of manufacturing industry and textile manufacturing industry is discussed. The third topic deals with positive impacts of FDI on domestic textile industry and discussed from the perspective of capital resource (Foreign Currency), Transfer of new technology, advanced managerial skill and skilled labor, market opportunity for domestic investors and strengthening domestic production capacity. Under fourth topic negative impacts of FDI on domestic textile manufacturing industry is discussed.

Finally, under chapter five, the research winds up by providing conclusion and recommendations of the study.

CHAPTER TWO

2. FOREIGN DIRECT INVESTMENT IN GENERAL

2.1. Introduction

Investment is the lifeblood of economic growth, sustainable or otherwise.[35] For rich and poor alike, investment is of special importance in charting a global path to sustainable development. Investment is needed to nurture the institutions, technologies, organizations, ideas and values that could allow humans the world over to live well while preserving the Earth's ecosystems.[36]

Investment can be defined as every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk.[37] It can also be defined as expenditure of capital in cash or in by an investor to establish a new enterprise or to expand or upgrade one that already exists.[38]

FDI constitutes transfer of physical property such as equipment or physical property that is bought or constructed such as plantations or manufacturing plants. Such investment may be contrasted with portfolio investment. Portfolio investment is normally represented by a movement of money for the purpose of buying shares in a company formed or functioning in another country.[39] It could also include other security instruments through which capital is raised for ventures. The distinguishing element is that, in portfolio investment, there is a separation between, on the one hand, management and control of the company and, on the other, the share of ownership in it.[40] When we compare both FDI and Portfolio investment, FDI has more importance for the development of a given states because there is transfer of asset, capital and host state which can generate foreign currency as we can infer from above discussions. However, there can be an instance of profit repatriation to the home country by multinational companies which has negative effect on host states.

35 Supra note 6, at page 1
36 Ibid at page 1
37US Model BIT article 1 page 3.
38 Supra note 2, at Article 2 Sub Article 1
39 Supra note 5, at Page 8
40 Ibid

FDI is considered as a means of obtaining not only capital but also technology, scarce management skill, and outlets for non-traditional export of manufactures, processed commodities and traded services.[41] It may also create employment opportunities and raise the level of domestic wage. Employment opportunities can be seen from two perspectives, from labor and domestic investor perspectives. From labor perspective if high employment opportunities available in the country, the labors will get an access for the job which has more payment or advantage. This results for turnover for the investors that pay low wage. Workers will benefit or get advantage of payment. If we see the presence of high employment opportunity from the perspective of domestic industry, competition on labor will created with FI and the labor market will become high cost. Those investors who pay high wage or give more advantage will get labor than those paying low wage or advantages. It is expected that foreign investors have more capital than domestic investors and probably have the capacity to pay more wage than domestic investors when we think logically. This may affect domestic investors by increasing cost of production.

Foreign investors are agents in the process of cultural borrowing that constitutes industrialization.[42] The aspect of culture transfer tends to be diffused throughout the host society by the reemployment of trained personnel, backward and forward linkages and competitive emulation. However, it is not certain that the net results from a given investment will be positive. The situation becomes complex with foreign investment bringing simultaneous costs and benefits to host countries. In case of cultural transfer, FI has also been criticized for bringing cultural Imperialist.[43] FDI, in short, is more than a flow of capital. It is a cross-border expansion of production undertaken by large corporations.

Foreign investments, especially FDI, have a great controversial based on its effect that has on developing countries. This controversy emanate from the perspectives of the advantage of FI and shortage or disadvantage of FDI. Different scholars also propose the inflow of foreign investment by stating its advantage for developing country such as Harry Johnson and other scholars argue against the advantage of FI by raising an argument based on short coming or

41Ramesh C.Chitrakar, Foreign investment and technology transfer in developing countries, (1994), center for economic development and administration Tribhuvan University and development and project planning center University of Bradford, published by Avebury, Athenaeum press ptd Newcasle upon tyne page 10
42 Id at pag 11
43 Ibid

disadvantage of FDI such as F.H. Cardoso. Some theories developed by scholars will be discussed in the upcoming section to have more understanding about the advantage and disadvantage of FI.

2.2. Theory of Foreign Investment

The controversy about the impact of FI in the development of developing countries has generated a vast literature. To cover this literature it may be helpful to see some of them. Morad and contributors have identified four approaches to the theory of FDI and other additional main theories of FDI: Classical theory and middle path theory.[44] All theories focus attention on the economic development of the host state, particularly the host developing state.[45]

1. ***"The pro-foreign"***

This is based on the belief that national and foreign private sector enterprises, if permitted to operate in competitive market conditions, offer developing countries the best prospects for speedy national economic growth.[46] The analysts of this approach picture FI as adding new resources of capital, technology, management and marketing to the host economy in a way that improves efficiency and stimulate change.[47] They also perceive FI as creating jobs, fostering growth and improving the distribution of income by binding up wages while driving down the returns capital. Some of the proponent of this approach are; Harry Johnson, Peter Drucker, P.T. Bauer and John Diebold.[48]

2. **The classical theory**

This theory is almost similar with the pro-foreign theory of FI. It takes the position that FI is completely helpful to the host economy.[49] The factor that the theory relied on (to support this view) is from the perspectives of the following points.[50]

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44 Ibid
45 Supra note 5 at Page 47
46 Supra note 41 at page 12
47Ibid
48Ibid
49 Supra nota 5 at Page 48
50 Ibid

Foreign capital; accordingly the fact that foreign capital is brought into the host state it ensures that domestic capital available for the use of public benefit.

New technology; foreign investor usually brings with him technology which is not available in the host state, and this leads to the diffusion of technology within the host economy.

New employment; There is new employment created, whereas, without FI, such opportunities for employment would be lost. The labor that is so employed will acquire new skills associated with the technology introduced by the foreign investor.

Skills in the management of large projects of FDI will also be transferred to local personnel or domestic worker. Infrastructure facilities will be built either by the FI or by the state, and these facilities will be to the general benefit of the economy. The upgrading of facilities such as transport, health or education for the benefit of the foreign investor will also benefit the host society as a whole including domestic investors.[51]

However, the theory does not explain why, despite all these benefits, there is still state interference with FI. Nor does it explain why, after such a long period of FI flows, no economic development has taken place and resource-rich countries remain abysmally poor.[52] Despite all this acceptance of the classical theory, the presumed advantage of the new technology that is brought in by the FI may also be incorrect, as it is usually the case that the technology that is introduced into the host state has become obsolescent in its state of origin.[53]This theory does not provide how technology is transferred practically to the country and obligation or responsibility of FI is not expected to do so when foreign investors come to host state to invest. This also does not manifested by different BIT and contractual agreement.

3. The dependency theory

The dependency theory is absolutely opposed to both the pro-foreign and the classical theory, and takes the view that FI will not bring about meaningful economic development to host state[54]

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51 Ibid
52 Ibid
53 Id at Page49
54 Id at Page53

by emphasizes the risk that multinationals pose on the third world countries.[55] The theory focuses on the fact that most FI is made by MNCs which have their headquarters in developed states and operate through subsidiaries in developing states which mainly seeks to preserve their interest. The subsidiary devises its policies in the interests of its parent company and its shareholders in the home state. As a result, MNCs come to serve the interests of the developed states in which they have their headquarters. Development becomes impossible in the peripheral economies unless they can break out of the situation in which they are tied to the central economies through FI. The resources which flow into the state as a result of FI are seen as benefiting only the elite classes in the developing state, who readily form alliances with foreign capital. This results in human rights violations as conditions favorable to the operations of MNCs have to be maintained by legislation or force. Indigenization measures and efforts to exert control by permitting foreign investment through joint ventures are seen as failures. The FI is able to defeat these attempts at control through his alliance with the elite classes.[56]

This theory comes to the diametrically opposite conclusion to that of the classical theory, in that it holds that FI is uniformly injurious. It holds that, rather than promoting development, FI keeps developing countries in a state of permanent dependency on the central economies of developed states.[57] Unless a developing state can break out of the situation of dependency, economic development becomes impossible in that state. The panacea advanced is to reject foreign investment rather than attract it.[58]

The analysts of this approach asset that multinational enterprises (MNE) soak up capital for their projects rather than bringing in many new resource. They use inappropriate technologies developed in response to the labor / capital proportions in the home country, and that they drive domestic producers out of the market. Some of the proponents are T.D. Santos, Ronald Muller, F.H. Cardoso, Faletto, Furtado, C.Wieber, and James Weaver.[59]

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55 Supra note 41 at page 12
56 Supra note 5 at Page53
57 Ibid
58 Ibid
59 Supra note 41 at page 12

4. **"*The bargaining school*"**

Developed by One wich Greico (1986) and suggest that the advantage or profit gains from negotiations between foreign firms and host state government. FI is therefore concerned with micro level surveys and focuses directly on outcome of individual investment negotiations. The bargaining perspective learns how to extract great benefit from multinationals. The key policy that has emerged from bargaining school's analysis's that "FDI ought to be permitted, even encouraged, by host state government and these government ought to build the national institutions needed to enhance country's share of resulting benefit."[60]

5. **"*The structuralist approach*"**

It has many points in common with dependency approach, but did not find either delinks age or socialism as the valid option for developing countries.[61] It however challenges the bargaining school's optimism about the long-term negotiation prospects of the third world. Some argue that "the structural character of international oligopolies and the developing country elites may in a way that reduce the power of host government as foreign firm be entrenched in the local economy."[62]

6. **The middle path theory**

The studies of the United Nations Commission on Transnational Corporations (UNCTC) on the role of foreign investment helped to identify the beneficial as well as the harmful effects of foreign investment.[63] The beneficial effects identified were very similar to those already identified by supporters of the classical theory of foreign investment. These benefits to the local economy include flow of capital and technology, the generation of new employment and the creation of new opportunities for export income.[64]

While pointing out the benefits brought by FI, the studies of UNCTC also identified the deleterious effects of FI. For the first time, serious efforts were made to identify the precise types

60 Ibid
61 Ibid
62 Ibid
63 Supra note 5 at Page 56
64 Ibid

of activity of MNCs which could harm the host economy. This enabled the host countries to take regulatory measures to counter harmful practices. They also resulted in efforts to fashion codes of conduct for MNCs, thus generating principles which, though not international law, will have an influence in shaping the course of the development of the law for the future. MNCs should avoid certain identifiable conduct which was seen as harmful to the economic development of the poorer states.[65]

Some of the harmful effects of foreign investment these studies identified may be briefly stated. The studies pointed out that multinational corporations defeated the tax laws of states by engaging in transfer pricing.[66] This practice involved fixing an artificially high price for an item permitted to be imported at concessionary rates bought from the parent company. Tax credits were later claimed on the basis of this artificial price. There were practices associated with transfer of technology (TT), widely touted as one of the benefits brought by FI, which deprived the host economy of the benefits of technology transfer. There were many restrictive clauses introduced into the transfer agreement which prevented the transferee from obtaining the full benefits of the transfer. They were intended to maximize the benefit to the transferor, but their indirect effect was to hurt the host economy. Thus, there were restrictions on the export of the goods manufactured with the technology, grant-back provisions which required that new inventions or adaptations made by the transferee be given over to the transferor, tie-in clauses which required associated products to be purchased only from the transferor, and similar restrictions controlling the use of technology.[67]

The idea that foreign investment is generally beneficial to development is no longer accepted in academic literature. While there is evidence of its development effects, there is also evidence that it may limit growth. There must be other conditions, such as human capital, present for foreign investment to have a positive impact on economic development. As a result of these changing viewpoints, it is unlikely that the classical view will continue to be a guiding influence on policy-making relating to FI in developing countries.[68]

65 Ibid
66 Ibid
67 Ibid
68 Id at Page 58

Once it is conceded that MNCs can both benefit and harm economic development, it is easy to adopt the position that FI should be harnessed to the objective of economic development and must be carefully regulated to achieve this end. The influence of this view, which strikes a middle course, has been significant. There is an indication that many developing countries, which are increasingly enacting regulatory frameworks within which MNCs are to function, have taken some leads from this theory.[69] Many developing states have now enacted legislation to set up screening bodies which permit entry to or give incentives to investments which are approved by these bodies. Some have legislation designed to ensure that technology transfers are effected without too many restrictions on their use by the transferee. Unlike the classical theory, which favors liberalization and the freedom of movement for MNCs on the assumption that this promotes development, the newer theory gives recognition to the regulation of FI by the host state.[70]

2.3. Role of FDI

Investment is important particularly to the poor country. Through investment in the building of productive capacities, knowledge skills, technology and institutions can be transformed into dynamic patterns of economic development. With development comes the potential for greater equity, within and between nations. Greater equity, in turn, enhances the prospects for global peace and security.[71]

FDI takes place in two ways: 'mergers and acquisitions' and 'greenfield investment'. Mergers and acquisitions mean, the purchase of existing domestic companies by TNCs, in whole or in part. 'Greenfield investment' is, the creation of new company or productive capacity.[72]

When we see global trend, economy which based on agro economy, it need transformation from agrarian and subsistent to industry led economy.[73] So we need FDI to do so and limp radical

69 Ibid
70 Ibid
71 Supra note 6 at page 1
72 Kevin P. Gallagher and Lyuba Zarsky, International Investment for Sustainable Development, Link Between Development and Sustainablity, London Sterling, VA,2005 page 16
73 Ato Aklilu Woldesilasie Habte, Information & Promotion Directorate Director, EIC, May 15/2015 at 2:00PM-300PM

transformation. Where there is a gap between domestic capacity and FDI and to fill the gap needs to invite more FDI and to contribute for production capacity of domestic production.

Ethiopia attracts FDI in manufacturing industry sectors as part of its effort to transform the agriculture led industry economy to industry led economy. To accelerate economic development in manufacturing sectors, to realize the vision of becoming middle income country, and to develop export oriented economy for the country FDI will have a great significant for Ethiopia. Where there is lack of knowledge and technology like in Ethiopia there is a need to promote FDI to bring economic growth through TT, capital accumulation (by increasing foreign income), experience sharing (transfer knowledge) in the manufacturing investment and to create jobs for citizens(to create job opportunities) that is why Ethiopia involve herself in attraction of FDI.[74]

The importance of FDI extends beyond the financial capital that flows into the country. FDI inflows can be a tool for bringing knowledge, managerial skills and capability, product design, quality characteristics, brand names, channels for international marketing of products, etc. and consequent integration into global production chains, which are the foundation of a successful exports strategy.[75]

FDI could benefit both the domestic industry as well as the consumer, by providing opportunities for technological transfer and up gradation, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources, making industry internationally competitive, opening up export markets, providing backward and forward linkages and access to international quality goods and services and augmenting employment opportunities. For all these reasons, FDI is regarded as an important vehicle for economic development particularly for developing economies. FDI flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. In a world of increased competition and rapid technological change, their complimentary and catalytic role can be very valuable.[76]

74 Ibid
75 Supra note 28, Page-8
76 Ibid

The FI policy and incentives of a host county can be as important motivating factors as location, product cycle and internationalization factors.[77] More and more developing countries are, therefore, trying to keep their policies as open and as favorable as possible. Even the countries that had restrictive policies in the past seem to have made them more open in recent years.[78]

2.4. FDI in Context of Ethiopia

2.4.1. Legal perspective

Policy factors play an important role in attracting FI.[79] They may affect the cost and benefits that accurate to both FI and host economy. Though both home and host country policy factors may be important, the emphasis here is on the host country factors. These policy factors basically refer to the policy measures adopted by the host countries in terms of general openness and permissible sectors, foreign ownership and control, performance requirements, access to domestic finance, regulatory and procedural matters, investment protection agreement and facilities like protection, foreign exchange, foreign labor, taxation, repatriation and infrastructure[80]

It is known that FI mostly have huge capital and strong world market net work coverage. Thus in Ethiopia where there is scarcity of investment capital and market access, the inflow of FI to the country, has an important contribution in the promotion of the Industrial Development Strategy by way of transferring advanced technology, acquiring modern management system, activating the investment capital and helping to successfully penetrate into the global market.[81]

On the other hand, it must be known that FI has disadvantages in connection with profit and dividend repatriation after the foreign based company is commencing its operational activities. Besides since there will be weak worldwide market network as well as modern management skill and know how, the country may face the problems in developing productivity and ensuring sustainable competitiveness at the initial few years.[82]

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77 Supra note 41 at page 50
78 Ibid
79 Id at page 29
80 Ibid
81 Supra note 23 at page 34
82 Id at page 35

It is only possible to attract foreign investors by creating conducive environment that encourages the production of competitive goods, both in quality and price, and gives guarantee to the protection of private property. This protection of private property should therefore, be assured by way of stabilizing and guaranteeing the private property against nationalization and expropriation, and creating efficient and transparent judiciary and civil service system. [83] Thus the private sector is said to be an engine of the industrial development strategy, when a fertile ground that boost the capacity of the industrial development strategy could be formulated by making the private sector to be the prime moved of the strategy and wide participation of FI in partnership with the domestic ones.[84]

From the first two paragraph of preamble of investment proclamation number 769/2012 as derived or emanate from the policy and development strategy, we can understand that the country want to encourage and expand investment especially in the manufacturing sectors and want to strength the domestic production capacity and needs to increase FDI / inflow of capital and speed up the TT in to the country.[85] The country want to increase domestic production capacity in other side wants to increase inflow of FDI to speed up transfer of technology. Investment objectives signed out in the preamble and in a separate provision of the proclamation is maximizing well-being, accelerating economic growth and development, speeding up technology transfer, increase export earning, developing domestic market and saving foreign exchange through import substitution, creating ample employment opportunity, sustainable social and economic development will achieved through investment of manufacturing sectors.[86]

2.4.1.1. Investment allowed for Foreign Investors

Area of investment reserved for the government or investment jointly with government; area of investment reserved for investors and area of investment that allowed for foreign investors are provided under part two of investment proclamation No 769/2012. The proclamation while providing area of investment exclusively reserved for government and which is allowed jointly

83 Id at page 40
84 Id at page 43
85 Supra not 2, at the preamble
86 Lecture note, Ermias Ayele (Assistant Professor)

with government is clearly listed, and area of investment that is allowed for domestic investors and foreign investors are referred to the investment regulation.[87]

Area of investment allowed for foreign investors as provided under article 8 of investment proclamation, which refers to investment regulation, the regulation No. 270/2012 allow foreign investors to invest in the area of investment specified in the schedule attached to the regulation. Accordingly, under manufacturing industry; food industry such as processing of meat and meat products and processing of fish and fish products, under beverage industry such as manufacturing of alcoholic beverage and manufacturing of wine, under textile products industry such as preparing and spinning of cotton, wool, silk and similar textile fibers and weaving, fishing and printing of textiles are some of example listed under the schedule. Of course it has some exception, those specified or listed under article 4 of investment regulation which is not allowed to invest by FI.

The regulation follows closed-system approach while stating areas that open for FI. Because not all area that are not reserved either for the government or domestic investors are open for FI. Area of investment that is not included or listed under the schedule of the investment regulation seems to be not allowed for foreign investors except permitted by the investment board.[88] The list provide under schedule seems exhaustive. Unless otherwise permitted by the board for FI while FI request to invest on the area that is not provided under the schedule or reserved for either of domestic investor or for government it does not mean that it is allowed for FI.

As a principle FI are allowed to invest in all manufacturing sector except for those provided under Article 4 sub article 1 and 2 of investment regulation number 270/2012. There is some area under the schedule that is not open for FI. These are seems as they do not need high technology which means those need less sophisticated in textile industry, leather industry, printing industry plastic industry and cay and cement products manufacturing area which need less technology intensive and can be carried out by domestic investors.

Textile and Textile Industry involves the production or preparation and spinning of cotton, wool, silk and similar textile fibers; Weaving, finishing and printing of textiles; Other textile

87 Supra not 2 at Article 6,7 and 8
88 Supra note 21 at Article 4 (1) and (2)

finishing activities; Manufacturing of knitted and crocheted fabrics; Manufacture of made-up textile articles, except apparel; Manufacture of wearing apparel (including sport wears) and Manufacture of accessories for textile products. Under textile industry sector Finishing of fabrics, yarn, warp and weft, apparel and other textile products by bleaching, dyeing, shrinking, mercerizing or dressing area is not open for FI as they seems to be less sophisticated and less technology intensive and can be carry out by domestic investor.[89] From this discussion we can understand that manufacturing industry especially textile industry almost all is accessible equally for both foreign and domestic investors.

2.4.1.2. Investment Incentive and Objectives

Our investment law provides investment incentive to encourage investors and to attain the investment with the objectives to improve the living standard of the people through the realization of sustainable economic and social development in general. Some of specific objectives of the investment proclamation include: to accelerate the country's economic development; to exploit and develop the immense natural resources of the country; to develop the domestic market through the growth of production, productivity and services; to increase foreign exchange earnings by encouraging expansion in volume, variety and quality of the country's export products and services as well as to save foreign exchange through production of import substituting products locally; to encourage the role of the private sectors in acceleration of the country's economic development, to enable FI play its role in the country's economic development and to create ample employment opportunities for Ethiopians to advance the TT required for the development of the country.[90] This proclamation No. 769/2012 provides as incentives to achieve these objectives will determine under the regulation to be issued.

Investment and export incentive are also provided under investment regulation. Fiscal and non-fiscal incentives are listed. Custom duty and income tax exemption in different types of manufacturing investment sectors and based on their location of investment are provided under fiscal investment incentives. Loss carry forward is non fiscal incentive guaranteed for investment.[91]

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89 Ibid

90 Supra note 2, at Article 5 and 23

91 Supra note 21 at part two section one and two, see also An investment guide to Ethiopia, Opportunity and Conditions, Ethio Tikur Abay PP, 2013 Page 28 up to 30 , Availeble at www.ethioenvest.org

2.4.1.3. Transfer of technology (TT)

Technology transfer is defined as "the transfer of systematic knowledge for the manufacture of a product, for the application or improvement of a process or for the rendering of a service, including management and technical know-how as well as marketing technologies, but may not extend to transactions involving the mere sale or lease of goods"[92]. In Ethiopia where there is scarcity of investment capital and market access, the inflow of FI to the country, has an important contribution in transferring advanced technology[93], acquiring modern management system, activating the investment capital and helping to successfully penetrate into the global market.[94]

This definition under investment proclamation for regulating technology transfer and TT agreements is manifested by definitional inadequacy of TT.[95] Because the provision do not provide comprehensive definition of TT which is not inclusive lacking clarity regarding major elements of TT which fail to encompass key elements of TT like know how, patent, trademark, etc and fails to specify adequate listing of excluded transactions.[96]

Under Ethiopian investment proclamation, the EIC has the duty to issue a certificate of registration up on fulfillment of some condition by investor. These conditions are provides under sub article 2 of article 21 which is where there is a completed application from signed by the recipient of the technology, a photocopy of the authenticated agreement between the recipient and provider of the technology, a photocopy of valid business license or investment permit of the recipient of technology and a certificate of registration or business license of the provider of the technology is fulfilled certificate of registration issued. The power of the commission is mere registration of an agreement. This implies less authority of investment regulatory organ that results from the failure of law to empower the commission. This is accompanied by poor

92 Supra note 2 at Article 2 (10)
93 Id at Article 5 (8)
94 Supra note 23 at page 33 and 34
95 Kassim Kuffa Jarra, The System for Regulating Technology Transfer vis-à-vis Investment Law, The Comparative Analysis of other Existing Approach versus Technology Transfer under the Ethiopian Investment Law, LAMBERT Academic Publishing, 2014 page 206
96 Ibd

institutional framework for regulating TT due to failure of EIC to establish unit which administer TT agreements and screens drawbacks of TT.[97]

The proclamation does not provide clearly as how new technology that comes following FDI will be transferred and registered. And also the provision is not clear with regard to the conditions considered by EIC to register an agreement as TT Agreement. The commission registers the agreement made between different investor that is going to be registered. Among different advantage of FDI new technology is the one the country need to have, but the law seems to be silence as how transfer of technology through FDI is become effective as we can understand from the reading through of investment law.

2.4.2. Practical perspective

Ethiopia follows free market policy and when we say free market, it means the market should be open for all. FDI by the very nature inter in to country exploit resources and after they used they will go out of the country where there is more advantage. But the country should use from that advantage of FDI, e.g. employment, know how, technology etc. The contribution of FDI for economic growth is high than its contribution for development. It is domestic investors that contribute for development of the country more than FDI because all profit gained from domestic investor is expected to be left in the country while the profit of FDI is expected to go out of the country to its home state.[98] So, domestic investors should get the capacity to replace the place of FDI, when FDI go out from the country for whatever reason. This may be done by acquiring skill and technology from FDI.

A number of developing countries prefer FI as joint ventures and in an export sectors.[99] The tendency, however, is towards a higher share of foreign ownership in the case of joint venture and up to 100% share especially in export sectors. Also by accepting FI in import substitution industries, especially in the area of national priority, domestic market should have more competitive than before. Some developing countries seem to have well come FI for their regional development.[100]

97 Id at page 209.
98 Supra note 73
99 Supra note 41, at page 50
100 Ibid

It is an undeniable fact that Ethiopia has made a considerable progress in economic and social development since 1992 as a result of the implementation of favorable policies and strategies that are instrumental in improving the national economy. The Industrial Development Strategy focuses on export manufacturing with priority given to textile and garments, leather and leather products, agro-processing, and small and micro-enterprises.[101]

The Government of Ethiopia in recognition of the role of the private sector in the economy has revised over four times (Proclamation No. 15/1992, Proclamation No. 37/1996, Proclamation no. 116/1998, Proclamation No. 280/2002) the Investment Code over the last twenty years before 2012 to make it more transparent, attractive and competitive. Major positive changes regarding foreign investments have been introduced through investment proclamation No.769/2012 and amended proclamation No. 849/2014.[102]

Due to the investment-friendly environment created in the country, the inflow of FDI has been increasing over the last twenty one years. However, the overall trend of investment in 2012 both the total number of projects and capital invested have shown slight increase.[103] Ethiopia remains an untapped and unexploited market for investors. China, India, Sudan, Germany, Italy, Turkey, Saudi Arabia, Yemen, the United Kingdom, Israel, Canada and the United States are the major sources of FDI.[104]

The Ethiopian government has formulated the five year Growth and Transformation Plan (GTP) to carry forward the important strategic directions in maintaining a fast growing economy in all sectors. Accordingly, Ethiopia's economy is projected to grow at an average growth rate of 11.2 percent.[105]

The EIC and Regional Investment Offices licensed 62,068 investment projects with an aggregate capital of Birr 1.2 trillion in the period between 1992/93 – 2011/12.[106] Of these projects, 52,462 (84.5 percent) were domestic, 9,498 (15.3 percent) foreign and 108 (0.2 percent) public. In terms

101 An investment guide to Ethiopia, Opportunity and Conditions, Ethio Tikur Abay PP, 2013 Page 6, Available at www.ethioenvest.org
102 Ibid
103 Ibid
104 Ibid
105 Ibid
106 Annual report of National Bank of Ethiopia 2011-2012 page 5

of capital, Birr 483.4 billion (39.5 percent) was from to domestic investors, Birr 466.2 billion (38.1 percent) from FI and Birr 275.2 billion (22.5 percent) from the public sector.[107] This figure is total investment in the country which includes every kinds of investment.

The inflow of FDI in manufacturing industry especially in textile industry sectors know a day is high. Because comfortable zone available in the country and comfortable strategy especially for textile industry. The inflow of FDI in textile industry is increasing from time to time to make an investment in Ethiopia even though it is still a sunrise industry in the country.[108] Even though the country has a huge potential for textile investment yet it is below potential. The main problem is lack of input material like cotton is a bottleneck for this sector.

As far as the investment legal frame work is concerned it revise from time to time to come up different challenge that happen especially in relation to attraction of investment and administration and to make the environment more convertible. But structural incompetency to regulate TT and review TT agreements is there in investment commission. There is no suitable separate sector and professionals within the commission that is established for purpose of regulating TT and TT agreements.[109]

Even concerning registration of TT, I can say there is nothing in science and technology minister. While I observe the minister to take an evidence that serve as an input for this research they told me that as there is nothing done in relation with organizing the technology that transferred to our country following FDI and they told me that to govern this as draft law is prepared.

The domestic textile industries cannot compete with FDI in textile industries since the later use modern technology and invest huge amount of capital as practically seen. Unnecessary competition in winning the local market and also pulling workers by paying higher wage or more advantage; shortage of cotton supply due to growing industry demand; some companies brings in

107 Ibid
108 From questionary collected TIDI
109 Supra note 9~~6~~5 at page 209., W/o Iyerusalem Garedew, License and registration department officer, EIC, June 08/2015 at 10:00AM - 10:10AM and I personely also observe this problem

expatriates with bad behavior not accepted in the culture of the country.[110] These are some problems that seen practically in relation with investment which stated by different officials and concerned body. Those are in relation with electric power supply, availability of land, water, phone and internet, finance and tax. So, service providers should be given maximum attention to the sector and support according the policy of the country.[111]

As bases for my paper, before I look the impacts of FDI on Ethiopian domestic manufacturing industry specially in relation with textile industry which is the core of this research under chapter four, let see that the concept of industry in general and textile industry in particular under chapter three which means under chapter three to make the research more clear. You are not communicating your idea. Edit the language problem.

110 Ageazi Gebreyesus, Secretary General, ETGAMA, June 02/2015 at 2:30PM , Ato Aklilu Woldesilasie Habte, Information & Promotion Directorate Director, EIC, May 15/2015 at 2:00PM-300PM and From the questioner collected from TIDI
111 Ibid

CHAPTER THREE

3. MANUFACTURING INDUSTRY IN ETHIOPIA

3.1. Introduction

Industry in a general sense is the production of goods and services in an economy. The term *industry* also refers to a group of enterprises (private businesses or government-operated corporations) that produce a specific type of good or service. Some industries produce physical goods, such as lumber, steel, or textiles.[112] The word *industry* comes from the Latin word *industria,* which means "diligence," reflecting the highly disciplined way human energy, natural resources, and technology are combined to produce goods and services in a modern economy.[113]

The term "industry" in its broader sense comprises manufacturing, mining, utilities and construction. Manufacturing comprises the mechanical and chemical transformation of agriculture and mineral resources in to basic, intermediate, and final products. Manufacturing and industry are used interchangeably in this restricted sense.[114]

Industry can be defined as any department or branch of art, occupation or business conducted as a means of livelihood or for profit, especially, one which employs much labor and capital and is a distinct branch of trade. The term is susceptible of more than one meaning. It may be define in terms of end uses for which various products compete, it may also devote an aggregate of enterprises employing similar production and marketing facilities and producing products having markedly similar characteristics.[115]

An industry is usually classified either as producer good or consumer goods. Industries also may be classified as primary, secondary, or tertiary industries. Industries use a range of inputs, such as capital, technology, natural resources, labor, and management, to produce goods and services. In order to manufacture products, money is needed

112 Microsoft ® Encarta ® 2009. © 1993-2008 Microsoft Corporation.
113 Ibid
114Makonnen Alemmayehu, Industrializing Africa Development Option and Challenge for the 21st country, 2000 page 2
115 Supra note 1

to purchase buildings, equipment, and machinery and to pay workers. This money is called finance capital. Buildings, machinery, and other equipment are referred to as physical capital.[116]

Industrial growth depends on the availability of both finance capital and physical capital. Finance capital is often raised by borrowing money from a financial institution, such as a bank, or by selling stocks (certificates representing shares of ownership in a business). If finance capital is scarce in a country, industrial growth may be curtailed. So a state has to have financial capital to bring industrial growth or economic development for its nations.[117]

Sustainable industrial development is development that meets the need of the present without compromising the ability of future generations to meet their needs. Sustainable development has two key concepts; the concept of needs of the world poor, and the concept of limitations to development imposed by the stage of technology and social organization to ensure that future human needs can be meet. Sustainable industrial development is the application of the general concept of sustainable development to a particular sectors or industry. To be sustainable, industrial development must fulfill a number of criteria. First, it must be environmentally sound, i.e. not lead to deleterious effects on the environment. Secondly, it has to be so managed that the needs of the present and future generation are met.[118]

Production technology refers to the way capital, technology, natural resources, and labor are combined to creates final goods. A production technology that requires many workers and relatively few machines is called a labor-intensive technology. A technology that uses many machines and relatively few workers is called a capital-intensive technology.[119] For least developing country labor intensive technology is necessary because the industry can hold many employments which have its own contribution to reduce unemployment level as industries grow, and developed country needs to have capital intensive technology.

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116 Supra not 112
117 Ibid
118 John Ntambirweki, Senior lecture, Faculty of Law, Maker ere University, Industrial and Enforcement of Environmental law in Africa, Industry Expert Review Environmental practice, Law and Sustainable Industrial Development, page 24
119 Supra note 112

Manufacture which is defined as the making of goods or wares by manual labor or by machinery, especially on a large scale, has expanded as workmanship and art have advanced, so that now nearly all artificial products of human industry, nearly all such materials as have acquired changed conditions or new and specific combinations weather from the direct action of the human hand, from chemical process devised and directed by human skill or by the employment of machinery, are commonly designated as manufactured.[120] Manufacturing is a huge component of the modern economy. Everything from knitting to oil extraction to steel production falls under the description of manufacturing. The concept of manufacturing rests upon the idea of transforming raw materials, either organic or in organic, into products that are usable by society. The American Bureau of Labor Statics classify manufacturing into hundred of sub-fields. This list will simply classified these into six general sectors. They are Clothing and Textiles; Petroleum, Chemical and Plastics; Electronics, Computer and Transport; Food; Metals and Wood, Leather and Paper.[121]

3.2. Manufacturing Industry in Ethiopia

3.2.1. Policy Direction of Ethiopian Manufacturing Industry

Policy of Industry Development Strategy is enacted by government in August 2002. It has put in place the principles that primarily focus on the promotion of agricultural-led industrialization, export led development, and expansion of labor intensive industries.[122] These principles are inter-dependent and inter-linked with one another. The strategy has also set the other principles that clearly stated the pivotal contribution of the private sector, the leader ship role of the government, and the integrated and coordinated participation of the public at large in nurturing the strategy. This strategy refers to those industries which are primarily involved in the production of manufactured goods.[123]

The Development Strategy referred as ADLI is the fundamental building block of industrial development in Ethiopia. To support this key policy, the private sector will be promoted so that it can play a more significant role in promoting industrialization and sustaining economic growth.

120 Supra note 1
121 Industry journal by Industry minister, corporate communication directorate Volume 2, No. 4, July 2014 page 44
122 Supra note 23 at page 13
123 Id at page 3

To ensure accelerated and sustained industrial development the main focus will be on industries that are labor intensive, have broad linkages with the rest of the economy, use agricultural products as inputs, are export-oriented and import substituting, and contribute to rapid technological transfer.[124]

The other fundamental principles of the Industry Development Strategy are such as Considering the Private Sector as an Engine of the Industrial Development Strategy, Implementing Agricultural Development Led Industrialization Principle, and Implement Export-led industrialization principle. Focusing on the expansion of labor intensive industry direction, Implementing effective domestic-foreign investment partnership method, Implementing the direction also fundamental principle of stratagy as we can understand from the document.

It is known that FI mostly have huge capital and strong world market network coverage. Thus in Ethiopia where there is scarcity of investment capital and market access, the inflow of foreign investment to the country, has an important contribution in the promotion of the Industrial Development Strategy by way of transferring advanced technology, acquiring modern management system, activating the investment capital and helping to successfully penetrate into the global market.[125]

As we can see from our industry development strategy private sectors are highly encouraged. Ethiopia has now followed the path of the free market economy system; in this it is inevitable that the private sector would gradually become the propeller of the growth of the economy.[126] That is why under the first paragraph of the preamble of our investment proclamation provides 'the encouragement and expansion of investment, especially in the manufacturing sector, has become necessary so as to strengthen the domestic production capacity and there by accelerate the economic development of the country and improve the living standards of its people'.[127]

The Industry Development Strategy also clearly stated that as the competition from FDI become strong against our domestic investors. However, the Ethiopian private investors compete with

124 FDRE, Ministry of Finance and Development, GTP, Annual Progress Report for FY. 2011/12 March 2013, Addis Ababa, Page 31
125 Supra note 23, at page 33 and 34
126 Id at page 1
127 Supra note 2, at The first paragraph of the preamble

their foreign counterparts who possess latest technology, huge capital resources and advanced managerial skills with the problem of lack of trained and skilled manpower, and shortage of capital resources coupled with low level of technological advancement. This could make the competition stiff to our investors.[128] So how domestic investors get benefits arise out of FDI practically is need to discuss more.

3.2.1.1. Vision and Pillars under GTP

Currently the first GTP is going to be completed and the second GTP is likely to be continued. In the first GTP Ethiopia's long-term vision is *"To become a country where democratic rule, good-governance and social justice reigns, upon the involvement and free will of its peoples; and once extricating itself from poverty and becomes a middle-income economy of 2002-2023."* And its vision in the economic sector is *"building an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy; to sustaining economic development and securing social justice; and, increasing per capita income of citizens so as to reach the level of those in middle-income countries."*[129]

The pillars of Ethiopia's strategy for sustaining the rapid and broad-based growth path hinges on the Sustaining rapid and equitable economic growth; Maintaining agriculture as a major source of economic growth; Creating favorable conditions for the industry to play key role in the economy; Enhancing expansion and quality of infrastructure development; Enhancing expansion and quality of social development; Building capacity and deepen good governance and Promote gender and youth empowerment and equitable benefit[130]

3.2.1.2. Creating Favorable Conditions under GTP

The narrow base of the industrial sector is a challenge with significant implication on the country's capacity to generate foreign exchange and create job opportunities for its growing labor force. In the plan period, the industry sectors were expected to receive utmost emphasis by way of encouraging export based and import substituting industries. Vertical and horizontal linkages between agriculture and industrial sector were promoted. The Government's program

128 Supra note 23, at page 7 and 8
129 FDRE GTP 2010/11—2014/15 Volume I, Main Text Ministry of Finance and Development (MoFED) November 2010, Addis Ababa Page 21
130 Id at Page 22

will also further focus on strengthening the small-scale manufacturing enterprises, as they are the foundation for the establishment and intensification of medium and large scale industries besides creating employment opportunities and accelerating urbanization. These were expected to play supportive role for the development of the agricultural sector. The government also encourages medium and large scale industry expansion.[131]

As clearly stated in the Country's Industrial Development Strategy, value adding private sector is considered the engine of the sectors' growth. Over the years the business environment has become friendlier and trade and investment environment have improved rapidly; thus, attracting growing domestic and foreign private investment. As such, the Government will continue to make all the necessary facilitation and support to realize the GTPs industry growth objectives[132]

The first GTP give a great attention for industry by believing that development of the industrial sector should turns out to be the foundation and leading sector of the country's development activities, special emphasis will be given particularly to micro and small enterprises sector and large and medium scale industries.

3.2.1.3. Strategic Directions under GTP

The underlying objective of the strategy, it needs to increase the share and the benefits earned (gained) from the global economic integration with an ultimate goal of becoming an industrialized country. The industrial development strategy formulated by the government is clearly articulates the fundamental principles and directions in order to ensure accelerated and sustained industrial development in the country. This is mainly by focuses on industries that:- Labor intensive and having wide market, Use agricultural products as input, Export-oriented and import substituting and Contribute for faster technology transfer.[133]

Under large and medium industry development, such as Textile and Apparel Industry, Leather and Leather Products Industry, Sugar and Sugar Related Industries, Cement Industry, Metal and

131 Id at Page 24
132 Ibid
133 Id at Page 56

Engineering Industry, Chemical Industry, Pharmaceutical Industry, Agro-Processing Industry; sub-sectors is given particular emphasis.[134]

Among the major development objectives of industrial sectors during the first GTP period is strengthening private sector investment in order to ensure accelerated and sustainable development of the sector and strengthening sector's capacity by locally producing machineries and spare parts required by the industries.[135]

GTP clearly provide the ways of implementation of strategies of large and medium scale industries by creating conducive environment for the industrial development to attract both domestic and foreign investment. It needs to create networked synergy to have more local investors in the sector and attracting foreign investors by evaluating the achieved results and experiences gained is creating in domestic industrialists. Attracting FI, result based efforts should be exerted focusing on various investment alternatives and others.[136]

3.2.2. Practical aspect of Ethiopian Manufacturing Industry

The industrial development strategy considers the private sector, an engine of growth, as one of its fundamental principles.[137] In Ethiopia industry sectors can be seen in three forms as we can observe from GTP. These are Micro and Small Scale Enterprises Development, Medium and Large-Scale Manufacturing Industry Development and Public Enterprise.

3.2.2.1. Micro and Small Scale Enterprises Development

Public development programs have been used to promote the development of micro and small enterprise and to promote employment opportunities. Thus micro and small enterprises development as well as job creations were integrated in the construction of new public universities, the development of sugar industry, integrated housing development, road construction and railway networking and construction, power generation, as well as cobblestone

134 Id at 57
135 Ibid at Page 57 and see also Federal Democratic Republic of Ethiopia Growth and Transformation Plan (GTP) 2010/11—2014/15 draft Ministry of Finance and Development (MoFED) September 2010, Addis Ababa Page 28
136 Id 29
137 Supra note 23 at page 12

development during the first three years of GTP period.[138]Therefore, more emphasis should continue to be given to enhance the productivity and competiveness of the enterprises and transform the successful enterprises to medium and large scale industries. In this regard the quality of the industrial extension services should be improved to transform the technical and entrepreneurship capacity of the business operators and thereby also their productivity and competitiveness. In addition to promoting micro and small enterprises using the prevailing strategy, a clear strategy should also be designed and implemented to support these enterprises in the upcoming years.[139]

3.2.2.2. Medium and Large-Scale Manufacturing Industry Development

GTP encourages the private sectors to participate in manufacturing sectors. In the manufacturing industries priority focus has been given by the GTP to textile and apparel, leather and leather product development, agro-processing, chemical and pharmaceutical, metal, food and beverage sectors. Accordingly, concerted efforts were exerted during the first three years of GTP implementation to support medium and large scale manufacturing industries with the believe that they can play vital role in industrialization of the economy and to sustain and enhance the high rate of industrial growth registered so far in the sector. Apart from being labor intensive and forming a strong linkage with agriculture, these medium and large industries are key for both export growth and import substitution. [140]

The medium and large scale manufacturing industry grew at 14.5 percent in 2012/13. Over the first three GTP years, medium and large scale manufacturing on average grew at 14.9 percent per annum. The medium and large scale manufacturing sub-sector, however, still remains very small accounting for less than 3 percent of GDP. Thus the sub-sector has to grow much faster to drive industrialization and transformation of the economy.[141]

138 Federal Democratic Republic of Ethiopia Growth and Transformation Plan Annual Progress Report for F.Y. 2012/13 Ministry of Finance and Economic Development February 2014 Addis Ababa page 38
139 FDRE, GTP, Annual Progress Report for F.Y. 2012/13 Ministry of Finance and Economic Development February 2014 Addis Ababa page 39
140 Ibid
141 Ibid

3.2.2.3. Public Enterprise

The GTP envisages that the government will selectively intervene in the economy where the private sector is unable or unwilling to undertake certain projects in order to foster industrialization and structural economic transformation. These include investments on Sugar, Metal and Engineering and Coal Phosphate Fertilizer Complex.[142].

In general, although the industrial sector has grown by 18.5 percent in 2012/13, the growth rate falls short of the target and the sector still accounts only for 12.4 percent of GDP. The manufacturing industry in particular is expected to grow faster and play a more important role in the economy. Thus the industry needs to be promoted to encourage domestic investment and attract FDI. In addition, the critical constraints related to logistics and transport, access to land and credit, as well as public services and facilitation need to be addressed to promote the development of the manufacturing industry.[143] In our country there are about 5,856 domestic, 34 public and 2,110 FDI projects with 33,126,953,000birr which is 22%, 17,636,160,000birr which is 11%, 97,652,704,000birr which is 66% capital respectively out of total industry sectors. The following tables shows the number of project operated by domestic, public and FDI with their respective capital and by sector, investment type and status of investment.

142 Id at page 41
143 Ibid

Table 1: **Summary of Licensed Domestic and Public Investment Projects by Sector, Investment Type and Status Since January 01, 1992 – November 19, 2014**[144]

Investment type	Sector	Implementation	Operation				Pre-Implementation	Total No. of project
		No. of Project	No. of Project	Capital in '000' birr	Perm. Empl.	Temp. Empl.	No. of Project	
Domestic	Real estate, renting and business activities						1	1
	Agriculture, hunting and forestry	549	1,541	6,057,492	45,575	416,334	7,796	9,886
	Construction	146	208	2,489,275	13,103	16,234	6,187	6,541
	Education	124	392	2,945,070	18,845	6,060	1,423	1,939
	Electricity, gas steam and water supply	1					22	23
	Fishing	1	3	5,558	515	10	12	16
	Health and social work	139	104	999,779	3,705	2,047	679	922
	Hotels and restaurants	451	392	2,000,504	10,897	6,869	4,590	5,433
	Manufacturing	982	1,682	9,865,357	61,112	48,863	11,012	13,676
	Mining and quarrying	19	29	345,002	1,583	461	182	230
	Other community, social and personal services activities	31	23	75,201	633	373	766	820
	Real estate, renting and business activities	325	1,110	5,507,060	13,522	8,674	19,447	20,882
	Transport, storage and communication	154	278	2,063,811	7,784	1,768	643	1,078
	Wholesale, retail trade & repair service	86	94	772,844	1,979	1,211	1,184	1,364
Domestic Total		3,008	5,856	33,126,953	179,253	508,904	53,944	62,811
Public	All sectors	35	34	17,636,160	5,775	2,234	113	182
Grand Total		3043	5,890	50,763,113	185,028	511,138	54,057	62,993

Table 2: **Summary of Licensed Foreign Direct Investment (FDI) Projects by Sector, and Status Since August 22, 1992 – November 21, 2014**[145]

Sector	Implementation	Operation				Pre-Implementation	Total No. of project
	No. of Project	No. of Project	Capital in '000' birr	Perm. Empl.	Temp. Empl.	No. of Project	
Agriculture	291	245	10,547,696	121,344	261,520	399	863
Manufacture	470	858	66,902,300	82,188	43,932	792	2,120
Mining	5	18	587,256	817	334	6	29
Education	28	52	468,727	2,618	1,226	42	122
Health	37	48	323,366	1,741	503	24	109
Hotels (Resort, Hotels Motels and lodges and Restaurants	67	111	1,759,287	3,549	1,474	117	295
Tour Operation, Transport and Communication	23	55	198,347	799	447	56	134
Real estate, Machinery and Equipment Rental and Consultancy Service	122	531	8,803,697	11,687	12,275	299	952
Electric (Generation Transmition and Distribution)		1	1,000	10	5	3	4
Construction	72	139	7,442,767	16,259	35,467	154	365
Others**	21	52	618,259	1,500	5,512	13	86
Grand Total	1,064	2,110	97,652,704	242,512	362,695	1,905	5,079

NB; No.-Number, Perm. Empl.-Permanent Employment, Temp. Empl.-Temporary Employment

*** Recreation and Gymnasium Center & Eco-Lodge Development, Physical Fitness, Skin Health Care and Massage Service, Export of Leather (Crust and Above Level), Import o Chemicals for leather Industry/ Through Bonded Warehouse System/, Importation of LPG and Bitumen etc...*

144 Source- Ethiopian Investment Commission, Documentation Department
145 Ibid

The largest capital of FDI comes from Turkey and Saud Arabia. The largest number of project comes from China and India. Let see some of them by capita and project since 1992-2014[146]

Table 3: **Summary of Origin of FDI in terms of capita and N. of projects[147]**

No.	Country Origin	Capital in "000" birr		Country Origin	No. of Project
1	Turkey	19,819,058.34		China	367
2	Saud Arabia	15,639,660.58		India	131
3	China	13,481,660.76		USA	101
4	India	7,223,017.215		Sudan	79
5	France	1,968,336.4		Turk	70
6	USA	1,167,397.893		UK	60
7	Kuwait	1,196,270		Netherland	47
8	Sudan	790,301.844		Saud Arabia	40

As we can see from the above table since foreign owned companies have strong capital, high technology, and experience, their production capacity is higher than domestic investors. Domestic investor lack sufficient capital and technology know how; also there is lack of experienced and capital equipped their production capacity is lower than FDI.[148] Therefore it needs to make at least proportional to attain the objective that provided under our law and policy that we have seen before.

3.3. Textile Industry in Ethiopia

3.3.1. Introduction

The textile industry is primarily concerned with the production of yarn, and cloth and the subsequent design or manufacture of clothing and their distribution. The raw material may be natural or synthetic using products of the chemical industry.[149] A textile or cloth is a flexible woven material consisting of a network of natural or artificial fibers often referred to as thread or yarn. Yarn is produced by spinning raw fibers of wool, flax, cotton, or other material to produce

146 Supra note 121, at page 18
147 Ibid
148 Questioner from TIDI and ETGAMA
149 http://en.wikipedia.org/wiki/Textile_industry access at November 1/2014

long strands. Textiles are formed by weaving, knitting, crocheting, knotting, or pressing fibers together felt.[150]

Clothing and textiles are the processing of the raw wool to make cloth, as well as knitting and sewing these to make garments. This industry includes tailors and all involved with fabric and sewing. It also includes all uses of wool and other raw products to make towels and sheets. Synthetic such as polyester are included under chemical manufacturing. The material, not the product, is at the center of defining this sector.[151]

Textiles are made from a variety of raw materials. This consists of natural fibers and man-made fibers, the later compromising cellylosics and synthetics. Man-made fibers have been gaining increased market acceptance against cotton and wool.[152]

Textile Mills and garment making establishment in some African countries are finding it difficult to sell their products.[153] Dumping, illegal imports, and aid shipments, especially of the second hand garments, are the main reason for this state of affairs.[154] If the government concerned does not take immediate measures, the consequences will be grave in terms of dwindling capacity utilization and the eventual closure of textile mills and garment manufacturing establishment. This would, naturally, a substantive part of industrial labor force as the textile industry account for a high production of industrial employment in African countries.[155]

Many of the countries outside the humid tropics are suitable for cotton growing. This is particularly true of the Sahelian countries have limited resource; yet industrial integration in West Africa could be greatly enhanced. The countries in the sub region were needs to specialized in all aspects related to cotton growing, textile production, garment making, and eventually manufacturing textile machinery and equipment.[156] Now let see the policy direction of textile industry and later its practical aspects.

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150 http://en.wikipedia.org/wiki/Textile. access at November1/2014 at 2:30PM
151 Supra note 121 at page 44
152 Supra note 114 at page 245
153 Id at page 247
154 Ibid
155 Ibid
156 Ibid

3.3.2. Policy Direction of Textile Industry

Textile and Garment Industry sub-sectors are given special attention in the development effort of the Government.[157] Since cotton is the basic input for the textile and garment industry, the sub sector has a direct link age with the agricultural sector. As a reason of this, the sub-sector flutes us the basic principles of the industries development strategy. The Industry Strategy Development recognized the sub-sector as it helps to maximize capital saving, labor intensive and value added on agricultural products. The sub-sector also gives chance to compete in the export market.[158]

The strategy provides that as it is possible to establish chemical industries whose products would be used as inputs by the textile industries. To expand and enhance the development of the textile and garment sub-sector, it is important and necessary to promote the operations in the cotton, textile and garment sub-sector.[159] Moreover, to bring about fast growth, there is a need to establish consultative thrum the members of which would the actors in the sub-sector. The forum gives special attention to the development of the sector and also examines plan set for the development of the sector and oversee its implementation.[160]

The problem that stated under Industry Development Strategy is being exited in the textile and garment industries pertaining skilled manpower and management inhibits the industries from being competitive both in price and quality neither in the domestic nor in the foreign markets. To ameliorate these problems there is, thus, a need to involve foreign companies in the management of the industries through contract management arrangements.[161] This would enable the industries benefit the industries from their rich experiences. In order to improve the productivity of the workforce, there is also a need to undertake vocational and technical training.[162] So, the question says, how far those foreign companies investing in the sector are benefiting domestic industries from their rich experience. This is an important question that needs to be addressed. Furthermore, to ease the management and the productivity problems of the public textile and

157 Id at page 225
158 Ibid
159 Id at page 228
160Supra note 121 at page 229
161 Id at page 230
162 Id at page 231

garment enterprises, and thereby to make them play active role in the sub-sector, there is a need to privatize them or to run them either through joint venture on contract management arrangements.[163] For example Hawasa textile factory which were own by government before and then given to foreigner by contract arrangement for management. Know it is under private investor by privatizing process. Adiababa Textile Factory privatized in 2003 EC while foreign investor buy half of the factory which were know as block A and now called BM Garment and Textile Factory and domestic investor buy the rest half of the factory which were known as block B, and now called Yirgalem Addis Textile Factory. Bahir Dar and Kombolcha textile factory is also on the process to be privatized.[164]

In Ethiopia 97 textile industries are exists. Out of this 68 of them are Foreign owned, 25 owned by Ethiopian national and 4 of them are owned by Public enterprises.[165]

Foreign partners which are coming to the country through the above arrangements, as they would bring with them technology, market and management skill and know how they should be supported and be rendered priority in credit services that would help for their investment.[166] In the attempt to produce export standards products the quality and standards Authority of Ethiopia Should render services to the industries that would enable them to produce export standard products.[167] To encourage the industries in their export credit service, efficient marketing and information systems and exemption from export taxes have to be in place. Such incentives is provide under article 23 of investment proclamation number 769/2012 and part two of investment regulation number 2701/2012. As the researcher try to see objectives of incentives under chapter two it is necessary to attain these objectives.

Investors in the sub-sector should improve their competitiveness and take advantage the market opportunities that are made available to the European Union and the United States[168] FIs are using this opportunity currently. So, our domestic investors should also get the capacity to use the market access by producing large amount of product that fit export standards.

163 Ibid
164 Supra note 110
165 Supra note 144
166 Supra note 23, at page 233
167 Id at page 234
168 Id at page 245

3.3.3. Practical Aspect of the Textile Industry

The textile industry is the largest manufacturing industry in the country. There are more than fourteen state-owned and private major textile and garment factories. But now most of them are privatized and some of them are on the process. Now only four state owned textile industry are there. The industries were employs around 30,000 workers and constitute a share of 36% of the entire manufacturing industry.[169] The main textile products manufactured in the country are cotton and nylon fabrics, acrylic yarn, woolen and waste cotton blankets and sewing thread.[170]

Textile and apparel industry in the first three years of GTP implementation, a total of USD 246 million foreign were obtained from the textile and apparel industry. The industry also created 12,490 new jobs over the last three years compared to a GTP target of 40,000 jobs. Given that 1 billion USD is expected from the industry in export earnings by 2015GC. For this purpose, the strategies designed to promote private investment in the sector need to be implemented more effectively.[171] In 2014 more than 100USD foreign currency was obtained. The main manufacturing of investment being implemented in the textile sectors is FDI from Turkey, India, China, Pakistan, etc. Inflow of FDI increase from time to time by both number of project and capital registers increase for last 10 years.

The domestic potential of cotton production, such as basic raw material is much larger, compared to the demand of the currently installed spinning capacity. The availability of cheap labor is one of the major parameters for consideration in this industrial sector, as it presents one of the strategic industries for export development.[172] Even if labor is cheap most of them are un skilled

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Ethiopia has registered an unprecedented growth in the export of textiles and garments and the industry has yet to reach its full potential. To boost the textile industry the government and other stakeholders has been working with Swiss consultant firm, Gherzi, to undertake a benchmark study to solve the sector's problems and move towards international standards.[173]

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169 http://www.ethiopianexporters.com/products.html. access at November1/2014 at 3:00
170 Ibid
171 Supra note 138, at page 39
172 http://www.ethiopianexporters.com/products.html. access at November1/2014, 3:15PM
173http://www.ethiopiainvestor.com/index.php?view=article&catid=1:latest-news&id=2274:record-growth-for-ethiopian-textiles&option=com_content. access at Nevember1/2014 at 3:20PM.

When we compare investment by Ethiopian nationals in textile industry with FDI the former is at the stage of infancy. Deputy Ministry of Ministry of Industry Mr. Sisay Gemechu Said "… few past year income gained from exporting textile industry is becoming decline compare with expected plan and needs to identify the problem and take immediate action…"[174] FDI is encouraged to export their product than providing on domestic market. Because it needs to protect domestic textile industry form FDI and our purchasing capacity also weak. Always domestic investors need to upgrade and use new technology to get the capacity to compete with FDI in either domestic market or international market.

Let see some figures that shows the total number of projects that operate in Ethiopia by classifying them as domestic investment and foreign direct investment with their respective total share of number of project and their capital.

Number of project that operates in Ethiopia is 97. Out of 97 total number of project only 25 which are 25.77% of them are domestic textile project among this 4 which is 4.12% of them are under public sectors, while the rest 68 which is 70.1% of them are FDI. Not only by the number of project but also if we look their capital there is a great difference between domestic and foreign textile industry. The capital of domestic industry is 1,097,903,000 which is only 8.7% while capital of FDI is 11,494,841,000. Such great gap is also as it is in their employment level. Domestic industry employ 4,733 which is only 20% and FDI employ 18,198 employments which constitute 80%.[175]

Table 4; **Summary of Licensed Textile Investment Projects by Investment Type, and Status Since July 21, 1992 – November 11, 2014**[176]

Sector	**Implementation**	**Operation**				**Pre-Implementation**	**Total No. of project**
	No. of Project	**No. of Project**	**Capital in '000' birr**	**Perm. Empl.**	**Temp. Empl.**	**No. of Project**	
Domestic	**17**	**25**	**1,097,903**	**4,733**	**329**	**257**	**299**
Foreign	**20**	**68**	**11,494,841**	**18,198**	**3,813**	**68**	**156**
Public	**2**	**4**	**121,020**	**64**	**0**		**6**
Grand Total	**39**	**97**	**12,713,764**	**22,995**	**4,142**	**325**	**461**

NB; No.-Number, Perm. Empl.-Permanent Employment, Temp. Empl.-Temporary Employment

174 http://www.tidi.gov.et/. access at Nevember1/2014 at 3:25PM
175 Supra note 144
176 Ibid

This fact tell us as there is a large gap between FDI and domestic investors that operate in textile manufacturing industry sectors in Ethiopia. The gap was expected by Industry Development Strategy as the country will face competition stiff to her investors. So, immediate measure should be needed to balance this difference by raising shares of domestic investors to see the industrialized Ethiopia which created by Ethiopian nationals. If not this would likely make us looker of FDI while they industrialized the country and the share of Ethiopian will be very small or minimized in the near future than today.

CHAPTER FOUR

4. LEGAL AND PRACTICAL ANALYSIS OF IMPACTS OF FOREIGN DIRECT INVESTMENT ON DOMESTIC TEXTILE MANUFACTURING INDUSTRY

4.1. Introduction

As discussed in chapter two of this research, FDI is important for development of a developing state. FDI inflows can be a tool for bringing knowledge, managerial skills and capability, product design, quality characteristics, brand names, channels for international marketing of products, etc. FDI has large capital, well technology, how know that domestic investor in context of our country. So we need to have more FDI. In other side there is a need to increase the capacity of domestic investors. Irrespective of the fact that both domestic and FDI has equal access to invest in textile industry in Ethiopia, we will discuss as what kind of either positive or negative impact FDI have on domestic investors.

Ethiopia is the one among developing state and uses investment in general to accelerate the country's economic development[177] *and enabling FDI to play its role in economic growth and economic development.*[178] But the question here is how FDI play its role in economic growth and economic development? While searching the answer for this question, it needs to look the industry development strategy. The strategy clearly state that as FIs mostly have huge capital and strong world market net work coverage. Thus in Ethiopia where there is scarcity of investment capital and market access, *the inflow of foreign investment to the country, has an important contribution in the promotion of the Industrial Development Strategy by way of transferring advanced technology, acquiring modern management system, activating the investment capital and helping to successfully penetrate into the global market.*[179]

So the researcher uses this idea as a legal base of the paper what our law and policy expected from FDI is transferring of advanced technology, acquiring of modern management system,

177 Supra note 2 at Article 5(1)
178 Id Article 5(7)
179 Supra note 23, page 33 and 34

activating investment capital and access to global market for domestic manufacturing industry which is one factor for the economic growth and economic development of Ethiopia.

Ethiopia has now followed the path of the free market economy system, in that it is inevitable that the private sector would gradually become the propeller of the growth of the economy.[180] The industrial development strategy should, thus, consider the private sector, an engine of growth, as one of its fundamental principles.[181] I think it is by using private sectors (FDI) as a tool to bring its advantage for the country will bring economic growth and development that is why the second paragraph of our investment proclamation clearly provides as increasing inflow of capital and speed up the TT is necessary for Ethiopia.[182] Those advantages of FDI are foreign currency, employment opportunity, TT, import substitution and etc as stated under our law and policy and we also expect that advantage.

More than 10 industry zone is building by government and giving them by lease for investors. Government gives different incentives for the sectors. Ethiopia is negotiating to enter to WTO (WTO accession) which requires liberalization of economy specially trade sectors. Domestic investors start to compete not only with FI operate in Ethiopia but also with the rest of investors located everywhere in the world. So it becomes difficult for domestic investors to compete with them.[183]

From our law and policy to ensure accelerated and sustained industrial development the main focus will be on industries that are labor intensive, have broad linkages with the rest of the economy, use agricultural products as inputs, are export-oriented and import substituting, and contribute to rapid technological transfer.[184] Textile manufacturing industry is among the industry that satisfy this condition that is why it given priority.

The policy document also clearly put that as the competition from FDI become strong against our domestic investors by saying that it must be understood that however the Ethiopian private investors, compete with their foreign counterparts who possess latest technology, huge capital

180 Id at page 1
181 Id at page 12
182 Supra note 2 2nd paragraph of preamble
183 Supra note 110
184 Supra note 24 at Page 31

resources and advanced managerial skills with the problem of lock of trained and skilled manpower, and shortage of capital resources coupled with low level of technological advancement. This could make the competition stiff to our investors.[185] Even if there is high competition from FDI, Ethiopia's industrialization should depend to a great extent on the Ethiopia private sectors not just on foreign investors.[186] So our domestic investors need to have the capacity to overcome the strong competition that comes from FDI.

Therefore from above discussion we can understand as FDI is necessary country's economic growth and then development in on side and there is fear that FDI could make the competition stiff to our domestic investors and this may be hard for the future of the country while on the way of looking industrialized country creating by domestic investors. So we need to know the actual impacts of FDI on domestic textile manufacturing industry by looking some practical observations that researchers conduct on under next sub section.

4.2. Practical Analysis (Observation)

4.2.1. Introduction

Interview were made with different officials and investors and collect questioners from Ministry of Industry, EIC, (TIDI), Ministry of Science and Technology and with domestic and ETGAMA that enable us to understand the actual impacts of FDI on domestic textile manufacturing sectors practically and try to observe the practical effect of FDI and domestic investor.

The researcher made an interview with officials of EIC (director of information and promotion) and give the response that, FDI needs to grow economically, to increase our GDP, to increase capital, to create employment, to transfer technology, adopt technology, to have knowhow and etc... Domestic investors need to be trader which is not productive, they are service sector. Government attracts trader to be producer. In Ethiopia there are few investors like foreigners who have the capacity to invest by large/huge capital when we compare with her capacity. Even those who have large capital they do not have interest to engage on investment rather they prefer to engage on trade.[187] So the country needs to attract more FDI.

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185 Supra note 23 at page 7 and 8
186 Supra note 121, at page 40
187 Supra note 73

Genet Seboni, the former Ethiopian Investment Agency Directors for Contract Administration Directorate says that, from legal perspective being opened is good. For example weavings used for garment raw material, product of on industry is row material for the other. Domestic industries fear competition there were no as such export textile. Know some industry like Ambesa leather industry start to produce in quality and compete with FDI by exporting their product.[188] Our law provides equal access and equal opportunities for both FDI and for domestic investor in manufacturing sectors including textile industry. Because of our country follow free market economy[189] and to make them capable of competing with FDI so that inter in to global market.

Those officials told me that as the law provides equal access for both FDI and domestic investors as we can see from investment law, the practice also show that both are equally treated and even there is a need to attract more FIs to exploit the country's resource. And also they state that as there is no negative effect of FDI on domestic investors. But they said that local investors feel that as they are harmed by being foreign investors invest in Ethiopia. Local investor without know how, technology, capacity they need protection from government. This is like command economy while our policy is free market policy. But FDI is useful for our country and our country can compete with other states and international organization like WTO also requires / forces to make free. Need to create capacity. Competitiveness creates between foreigners and domestics investors and this competitiveness makes domestic investors and our county strong competitor at global level.[190]

FDI needs Peace and security, Stability of macro-economic condition which is not fluctuated, Social stability and altitude of society for FDI, Natural environment such as land, water (its attractiveness), Human resource (Is there trainable labor? Is it industrial? How is working area? Proportion of work force), Investment climate (Laws, Policy is it enabling? Is there government support? Bureaucracy is it suitable for work?) Communication can easily communicated with language, Natural climate, International practice like labor law, financial system is in light of international organization recommendation? And they want you to protect international practice,

188 Genet Seboni Aga, the former Directors for Contract Administration Directorate, EIC, December 2/2014 at 9:40-10:10
189 Supra not 73
190 Ibid

Investment protection they need guarantee from expropriation private right; BIT and multilateral agreement are considered[191]

As those officials say domestic investors were dead before FDI were expanding. When FDI inters to our country, domestic investors start to react. They raise example that as Turk companies invest on textile industry and the export outside for international market. At this time domestic investors also follow them. Some domestic investors do not want FDI and they want to be closed. They want to be protected because they fear more FDI for the fear of competition which they may expect to be off from competition. This is results from luck of awareness and self-centeredness.[192]

As both Mr. Aklilu and Ms. Genet explain that domestic industry has no any effect on FDI and even foreign investors do not bother about domestic investor. But they state that as domestic investors fear the presence of FDI. Even they need to be protected from FDI and want to the extent that FDI is to be closed.

4.2.2. Some Practical Observation of Manufacturing Industry

If we see the figure of FDI and domestic industry in manufacturing and textile sectors which are in operation from 1992-2014 total number of domestic project of manufacturing industry is 1,682 which is 66.34% while FDI is 858 which is 33.77%. From this data we can easily understand as large number of total project is controlled under domestic investors. But this is not a case if we look in to the capital of them. Total capital of domestic manufacturing industries is 9,865,357,000birr which is 12.9% while total capital of FDI manufacturing industry is 66,902,300,000 which is 87.1%. So in this case how the country bring industrialized Ethiopia by domestic or local investors? If we say FDI is helpful for our domestic investor, how we justify this unbalanced figure? It is more unbalanced than the other if we see in textile manufacturing industry sectors.

The policy and the law of the country require or expected to TT and experience from FDI to domestic industry and ultimate goal is to see industrialized Ethiopia by Ethiopian investors. If so

191 Ibid
192 Supra note 188

this gap is likely to be continue and it is difficult to attain the expectation of law and policy of the country. But this does not mean that FDI should not be promoted to our country.

Ethiopia gives attention to private sectors especially for manufacturing sectors. More than 100 joint investments were created by foreign and domestic investors. But if we see from the perspective of opportunity of investment in Ethiopia it needs especial attention to participate domestic investors. Most Ethiopian investors previously were done merchandise. There were very little that previously done for domestic investor to work (participate) jointly with FIs. It is new direction of investment to do jointly with FIs. This kind of investment needs long time to get response and investors need to understand that as they will get profit and as the country will benefited. The investor needs to be ready before entering into investment by idea and capacity. Especially if we have knowledge we can get capacity our banks is giving loans even for foreign investors. Korea in 1960 their GDP per capital income is 67USD but know 32,000USD to replace this fact Ethiopian including diasporas should invest their knowledge and capital in the county.[193]

Before 30 years Germens were operate in Turk, know Turk is investing outside their country. They learn from Germany and substitute them. Know in Ethiopia Chinas, Turks and others are participating, so our investors should learn and take technology from FIs by employing their labor by paying more salary, by creating partner, by facilitating training for their labor domestic investor can take technology from foreigner and they should create the capacity to replace foreign investors while foreign investors go out of the country for the purpose of searching market other that Ethiopia.[194]

Dr. Mulatu Teshome, the president of Federal Democratic Republic of Ethiopia says that the interest of Ethiopian and Ethiopian government "***is not looking country of industrialized by foreigner rather it is looking industrialized country creating by domestic investors***".[195] There are some but needs to be more and I ask them to participate up to their capacity planning their business plan and government will help them.[196]

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193 EBC report ETV1, March 15/2015 at 8:30PM
194 Ibid
195 Ibid
196 Ibid

4.2.3. Some Practical Observation of Textile Manufacturing Industry Sector

When we see the proportion of textile industry in both numbers of project and in terms of capital, there are 25 domestic projects which is 26.88% with the capital of 1,097,903,000 and 68 foreign projects which is 73.13% with the capital of 11,494,841,000. The domestic projects capital is 8.72% and FDI projects capital is 91.28%.[197] Holding this fact, can we say FDI has no any effect on domestic manufacturing sectors and is it balanced or proportional? Assume that if we say FDI has no any impact on domestic textile manufacturing industry, the expected advantage of FDI should be available for domestic investors.

Of course as we try to see under previous discussion, our industry development strategy put the fear of competition arise from FDI against our domestic investors and seems as the country do not escape from the fear even if the strategy try to put the possible out way from this competition by encouraging export oriented investment and the like.

For example if we see some of domestic textile industry like Hawasa textile factory which start to operate in 1981 EC and delivering its production for Ethiopian domestic Production Distribution Corporation and there were no market problem at the command market economy of the country.[198] But after the change of market policy to free market policy the factory is unable to get market and transfer the administration of the factory to Chinese. Because of non effective of the factory under Chinese administration again the factory rent by Turk investors for about 3 years and again transferred to private sectors.[199]

Dukem Textile plc start to administer Hawasa textile factory starting from May 5 /2003 EC and the factory start to recover and compete with the environment of free market economy. The factory starts to get high profit that never get before last 25 years and made salary increment for employee. The factory plans to expand the existing factory to supply finished cloth.[200]

Generally Hawas textile factory Sh.C. become profitable within short time by releasing previous factory from debt, operating by domestic investor become successful, become exemplary for other similar factory, every concerned body expected to give attention for the factories more

197 Supra note 144
198 Supra note 23, at page 26
199 Ibid
200 Ibid

successful results.[201] This can be taken as one practical advantage of impacts of expansion of FDI in the country under umbrella of free market policy which become effective with the great support of government for the investor.

The Manager of Almada Textile Factory, Ato Yibelew Gebre Silase, said the factory planned and works this year to double its production. Last year sales were 220 million birr and this year plan to increases 460 million and to export 5-10 percent of its production to global market. Last year only 1 % was exported. Create job opportunity over 5000 individuals. The factory plan and work to decrease cost of production to get high profit by taking different measures.[202] This show that while those FDI textile factory is expand in Ethiopia domestic textile industries also start to activated by taking different measure.

Adiyababa textile factory is privatized in 2003 EC. FI and domestic investor each buy half of the factory.[203]Adiababa were one of public textile industry that operates in Addis Ababa. But since 2003 the factor through privatization process sold half part which known as block one to Foreign Investor and called it as BM Ethiopia Garment and Textile Sh. C. This shows us as even existing domestic textile manufacturing industry is transferred to foreign investment.

Some Challenges of Textile Industry in General

No planned and regularly offered technical training to develop skills of the work force, Lack of know-how in process technology, especially in finishing and at almost all level of management hierarchy there is lack of competence of manpower.[204] The machines used in the textile manufacturing are largely backward, Maintenance requirement is frequent and costly and Utilization of full capacity is very difficult. Production efficiency is poor, Absence of commission dyers like in other textile exporting countries and No excess capacity.[205] Marker Related; Absence of research and development effort to produce different yarn varieties, Poor back ward and forward linkages, No cotton grading/classification. Policy related; Absence of

201 Ibid
202 EBC business news, ETV1, March 16/ 2015 at 1:00PM and also March 17/2015 at 11:00AM
203 Supra note 110
204 ETGAMA, Challenges and prospects of the textile and garment / apparel sectors, Dec. 2010(Unpublished) page 12, 13 and 14
205 Ibid

clear and workable sector strategy that directs and transforms actors to a higher level of play and discouraging banking policy to access investment and working capital.[206]

4.3. Positive Impacts of FDI on Domestic Textile Manufacturing Industry

Employment, technological transfer, access to global market foreign currency and import substitution (saving foreign currency) are the expected advantage of FDI. FDI brings some new technology to both domestic manufacturing and textile industry. Some of them are put in the following manners. The role of FDI is important to strength the domestic production capacity in manufacturing sectors. The role of FDI for example Ayka Addis on the way for small and micro enterprise is giving sub contract work for supplying of raw material and transferring knowledge to create market chain.[207] To these domestic small and micro enterprises Ayka Addis provides training to local employees.[208] Is this the case in the Ethiopian textile industry? How do you find out this?

The production capacity of FDI is very high when we compare them with domestic investor production capacity because they have huge capital and update technology. The production capacity and variety of production has increased by more than two fold in the country due to the arrival of FDI.[209] If high production is produced in the country different international retailer will come to the country and in this process domestic investor also benefit by getting global market access here in Ethiopia. Because normally international companies (like H&M is doing) create direct contact with the textile companies to outsource cloth products they come to Ethiopia following FDI[210].

4.3.1. Transfer of New Technology

Among different advantage of FDI new technology (transferring of advanced technology) is the one that the country needs to have, but as we have seen under chapter two of the research, the law seems to be silence as how transfer of technology through FDI becomes effective. What

206 Ibid
207 Supra note 110
208 Ibid
209 From the questioner collected from TIDI, EIC and ETGAME
210 Supra note 121, at page 42

kinds of advanced technology are transferred to our country? To get this answer if we see from legal perspective the Industry Development Strategy expected TT from FDI. While we look investment proclamation under its objective it also has the expectation of transfer of technology from FDI. But procedurally it is not clear that how those technologies will be transferred to our domestic investors industries.

The law should clearly provide more different incentives for attraction and transfer of advanced technology to the country following FDI and should be regulated well. Unless and otherwise the expectation of the law fails to be achieved.

i. To Manufacturing Sectors

In respect to technological transfer for example if we see Eastern Industry Zone there are new machine that operated by domestic employee and even some labor from Eastern Industry Zone have got training in china by foreign owned companies. So we can say there is TT.[211] These machines are imported by FDI for their investment purpose and in the way our domestic labor get an advantage to get training and operate the machine.

There are TT from foreign manufacturing sectors using high technological machinery in any manufacturing sectors such as efficient production, quality improvement, new technologies of electronic control, automation, environment protection, improved methods of machinery selection, construction design, utility design, feasibility, new ways of planning, harvesting, seeding (e.g. in floriculture) new ways of processing and packing (e.g. in manufacturing sectors).[212] Techno wave i.e. equipment, knowledge organizational aspect. Info wave i.e. style of recordation and documentation are among the technology that transferred to Ethiopian manufacturing sectors from FDI.[213]

ii. To Textile Sectors

Technology also transferred from foreign textile sectors to domestic textile sectors. Very huge industry comes from FI. The technology entered in our country which is involved large man power. How to use high technology machineries to produce yarn, textiles fabrics, garments etc

211 Oromia TV, report on March 12/2015at 9:30PM
212 From the questioner collected from TIDI, EIC and ETGAME
213 Ibid

new ways of knitting and dying, new ways of wearing and garment making are transferred to domestic textile industries. New technology machinery, current technology knowledge and skill knowledge sharing on production technique and quality aspect are introduced to domestic textile industry.[214]

Of course there is to some extent and it should be encouraged more specially in terms of utilizing natural resource. Many collaborative activities are being practiced through sub contracting works like expatriates sharing, training quality awareness based on customer demand.[215]

Table 5: **Technology Transfer Agreements Register at EIC from 2004 – 2014GC[216]**

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
No. TTA Registered	2	1	2	2	1	0	1	5	4	2	2	22

4.3.2. Advanced Managerial Skill and Skilled Labor (Acquiring Modern Management Style)

FIs come with their experience and skill of management, employing professional staff and production. Expert is to bring professional (expertise) who have better knowledge in the sector come to the country[217]. An investor who employs duly qualified expatriate expert required for the operation of his business shall be responsible for replacing, within a limited period, such expatriate personnel by Ethiopians arranging the necessary training thereof.[218] Our law clearly provides that as employment of expatriates is exceptionally permitted until Ethiopian national get training than make them enable to work on their post. Different techniques and skills of management were transferred through knowledge creation and capacitating professional, improve their human services skills and FDI helps domestic industry to improve their production mechanisms by professionals and increasing their product quality.[219] TT especially in the area of textile and garment most of employee are Ethiopian citizen. There is some factory almost all labor is from domestic citizens. [220]Local investors are working with FI by taking orders and producing in subcontracting basis which allows them to get new techniques of efficient productivity.

214 Supra note 186
215 Supra note 110
216 EIC, License and Registration Department archive
217 From the questioner collected from TIDI
218 Supra note 2 at Article 37 (1) &(2)
219 From the questioner collected from TIDT
220 Oromia TV, March 12/2015at 9:30PM

Table 6: **Employment opportunity created by FDI in textile manufacturing industry in 68 projects**[221]

FDI in Textile Sectors	Permanent	Temporary	Total
No. of Employee	18,198	3,813	22,011

4.3.3. Market Opportunity for Domestic Investors (Access to Global Market)

Some market access created for some domestic textile investment. FDI has potential market for small scale industries and cotton farmers. There is a beginning that Ayka Addis start to create link market (integrate supply chain) with some three domestic investors. More than 80% of textile is imported to the country. Domestic investors do not willing to export their market because they are more profitable in domestic market than while exporting their products.[222]

Government gives incentives for the sector to encourage export. FDI located in our country expected to produce their product for export (global market). Ethiopia has comparative advantage on labor cost than other country.[223]

There are new market opportunities of export and well known international buyers have started tp give attention to the country.[224] Global retailers such as H&M and others are interested in Ethiopia because they realize that Ethiopia has huge competitive and comparative advantages in the textile and garment industries. These sectors are very labor intensive and require a lot of people which Ethiopia has in abundance. Labor cost is also another advantage Ethiopia has since it's cheaper than many other competing countries. In Ethiopia for instance monthly labor manufacturing cost is around 60 dollars compared to close to 600 dollars in some parts of China.[225] Therefore this gives Ethiopia a big labor cost advantage. Ethiopia also has the potential to provide all the raw materials, such as raw cotton, to be sourced locally. in fact, in the near future, all investors have to import machineries. On the market access side, despite some of the transitional challenges at the moment in managing the supply chain efficiently, the distance to Europe and the Middle East is much shorter than manufacturers from other parts of the world. That is why these big global retailers have started to come to Ethiopia.[226]

221 Supra note 144
222 Supra note 110
223 Ibid
224 From the questioner collected from TIDI
225 Supra note 121 at page 42
226 Ibid page 42

FDI encourage participating on global market internationally. As the FDI are more prone to global business since they have many connections, this opportunity builds up image of the country's industry which paves way for domestic investors to emerge to expert business at global market and they will also learn a lot. Different global retailers also attracted to Ethiopia. If there is TT and experience sharing, there is possibility of making textile industry competitive internationally.[227]

Some textile companies will become competitive domestically and internationally. New market outlets are created. Competitiveness increases for companies such as Almada Textile Factory following the coming of international buyers into Ethiopia.

4.3.4. Capital Resource (Activating investment Capital)

FDI generates foreign currency. It has a role in increasing reserve of foreign currency and the currency can be made available to the government and for domestic investors indirectly. There is also other means of getting foreign currency for domestic investors directly from FIs if jointly invest. The following table shows the foreign currency that the country gained in 2014 from export of textile and garment.

Table 7: **Foreign currency gain from Textile and Garment from 1997 – 2006 (USD) 2014**[228]

Budget Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
In cash (USD)	6,759	11,102	12,618	14,612	14,438	23,210	62,224	84,626	98,988	103,336
Growth in %		64.3	13.7	15.8	(1.2)	60.8	168.1	36.0	17.0	4.4
Yearly average growth	46.8									

4.3.5. Back Ward and For Ward Linkage

Forward and back ward linkage with domestic small scale industries is created. Domestic textile industry are competitive, FDI has contribution for their competitiveness. Mostly textile industry use different raw materials and agricultural product. As foreign investors started to operate wildly, shortage of cotton was created. So, domestic textile industries started to search other way

227 From the questioner collected from TIDI
228 Supra note 121, at page 20

of getting cotton to coop up with the competition. Back ward production is created. Back ward production chain has supply for FDI and domestic industry gradually upgraded.[229] The growth of the textile industry also brings new opportunities for the cotton subsectors. At production stage there is back ward effect creating cotton farm. E.g. Almada Textile factory established cotton farm because of shortage of cotton in the market (especially competition with FDI) After production competition is seems to be restricted. FDI comes with market, government promote export for domestic industries. Domestic investors are protected by policy by encouraging export oriented industry for FDI as we understand from the industry strategic policy.[230] Of course express restriction of FDI will have its own impact on attraction of FDI that is why the policy uses implied restrictions.

4.4. Negative Impacts of FDI on Domestic Textile Manufacturing Industry

There is some local market competition. A challenge raised from FDI against domestic investors, mostly FDI sales their production on domestic market when they expected to sale for global market.[231] It may have an effect of monopolizing the market from the domestic infant industries. If those who provides their product on domestic market is to be continued because their huge capacity in terms of both capital and advanced technology they can make domestic textile industries out of market.

Even if the advantage of FDI is expected as TT to domestic investors, foreign technology is closed for domestic and not transferred for domestic textile industry as well.[232]

There is also competition for raw materials that serve for production due to growing textile industry demand and also market competition after production which means on the market unless the market is well regulated. The most challenging problem of domestic investors is lack of raw material such as shortage of good quality of cotton, long staple cotton, yarn, label, dyes and chemicals from the local market. For this and most probably other reason, mostly, domestic textile investors do not have any profit.[233] High cost of trained labor cost, because employment

229 Supra note 73
230 Ibid
231 Supra note 110
232 Ibid
233 From the questioner collected from TIDI

opportunity created by FDI and competition arise from them and this raise cost of production for domestic investors. Unnecessary competition in winning the local market and also pulling workers and capital out flow in some aspect even if expected to generate foreign currency.[234]

234 Ibid

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENATIONS

Industrial Development Strategy provides that as FDI should have to fill a gap that would created from the shortage of capacity of DI. Investment laws which means both proclamation and regulations has provides that the same idea as they emanate from the policy. Investment laws encourage and promote more FDI. FDI *has an important contribution in the promotion of the Industrial Development Strategy by wavy of transferring advanced technology, acquiring modern management system, activating the investment capital and helping to successfully penetrate into the global market.*

The impacts of FDI on domestic textile manufacturing industry from the perspective of technological transfer, acquiring modern management skills, access to global market and activating investment capital has been discussed. Those will have very important for the developments of domestic industries and development of the country especially which is necessary to attain the goal for becoming middle income country. These are discussed in light of Ethiopia investment law and policy. Accordingly, the conclusions and recommendations of this research paper is provided as follows.

5.1. Conclusions

Legal perspectives; Among different advantage of FDI new technology is the one the country need to have, but the law is not clear that as how advanced technology following FDI will be transferred to the country. Even if the law and policy has the objective of transferring technology from FDI to local industries, which is considered as a base and an input for the developments of domestic industry, investment proclamation is not adequate to regulate technology transfer Under article 21 (1 and 2) of proclamation 769/2012. There is no clear condition to say technology is transferred to the county because the requirement of the law to register technological transfer is not substance requirement rather it is procedural or technical requirement. The power of the commission is mere registration of technological transfer agreement. This implies less authority is given for investment commission to regulate technological transfer. There is poor institutional framework for regulating technology transfer and there is no ways screening drawbacks of technology transfer will made whether it is out dated or has negative impact on the country.

By requiring new technology FDI is promoted but there are no as such requirements of new advanced technology required by FDI while investing to the country as provided under part three article 10 and 11 of proclamation 769/2012. There is nothing done in science and technology minister and to draft a law which govern administration of technology. Even if technology transfers is an investment by itself, technology following FDI should be administered and governed under EIC

Practical perspectives; Even though the FDI inflow is important for economic growth, the real impact on economic development is not clear. On one hand the economic development of Ethiopia is double digit and for this growth of FDI is presumed as it has its own contribution to this economic development. On the other hand there is a huge difference in dominating and holding manufacturing industry especially in textile industry which is more than 90% of textile investment. Even if GTP were planned to create more investment by domestic investors in the sectors, which is in line with Industry Strategy Development and investment proclamation, the figure in textile manufacturing sectors is not clear about the objectives sought to be achieved by the law.

The domestic textile industries are unable to compete with FDI in textile industries. Unnecessary competition in winning the local market (raw materials) and also pulling workers by paying higher wage or more advantage are there. Shortage of cotton supply exists due to growing industry demand which increase the production cost of domestic investor.

There is some local market competition. A challenge raised from FDI against domestic investors, mostly FDI sales their production on domestic market when they expected to sale for global market by exporting

Since large number of FDI project with huge capital of textile industry are invested in Ethiopia, those advantage of FDI is introduced to domestic investors. Even if not enough with the number of FDI. Since many of FDI with large capital were engaged in Ethiopia, those investors would come with foreign currency and that currency serves the country for economic development. For instance repatriated profit by the multinational companies to the home country also disadvantage to the host country, this may result in shortage of currency and affect the expansion of domestic industries. But, on the case at hand there is evidence that shows increase of foreign currency by 46.8% since 1997.

There are some technologies transferred to domestic textile industry such as, how to use high technology machineries to produce yarn; textiles fabrics, garments etc new ways of knitting and dying, new ways of wearing and garment making. New technology machinery, current technology knowledge and skill knowledge sharing on production technique and quality aspect are introduced to domestic textile industry from FDI. Apart from this, different techniques and skills of management were transferred through knowledge creation and capacitating professional. It was also possible to improve human services skills. FDI has been helping domestic industry to improve their production mechanisms by professionals and increasing their product quality

Access of global market is created. New market opportunities of export well known international buyers give focus to the country. Global retailers such as Tesco, H&M and others are coming to Ethiopia following large amount of FDI.

Backward and forward linkage also created by creating cotton farm and delivering semi-finished product as a raw material for other industries.

Most of our domestic industries lack exposure to international business and modern management techniques. Hence FDI would bring new culture which would fill these gaps and also challenge the local factories in terms of workmanship, interaction with workers and buyers.

5.2. Recommendations

Since transfer of technology is the most important for the industrial development of a given state, a law should provide a clear procedure of transfer of technology that emanate from FDI. This should be implemented by enacting new law or by amending existing law. Investment commission should have the power of screening and administrating both the advantage and drawbacks of technological transfer.

Additional condition to regulate foreign technology transfer to Ethiopia is needed. This requirement should be substance requirement that it should be unpacking of price, it should not result significant harm on human or wild life and should be made available for domestic industry to be utilized domestically as much as possible.

The Investment Commission should also be empowered by establishing department of technology transfer and with the professionals that are going to screen the technology that would be transferred to Ethiopia following FDI based on substance standard.

The government which means the ministry of industry (Investment Commission) should discharge his responsibility of leadership role as it set under Industry Development Strategy. By taking different action to balance the gap between FDI and Domestic Investors and should facilitate business environment, so that Ethiopian investors grow with the foreign investors. It needs to create a "win-win" situation for both Ethiopian investors and foreign investors coming to this country. Which means it needs to facilitate joint venture and other kinds of partnerships for domestic and foreign investors. For example, when a foreign investor comes to Ethiopia, the ministry and EIC should facilitate the linkage either for the Ethiopian company to be joint venture equity partner or for it to fit into in the foreign investor's supply chain properly to supplement domestic investors by creating department under EIC.

Government has to build capacity supporting of the infant textile industry by helping them to introduce new technology and giving technical training to their employees. This should be done because the textile industry is large industry which use many employment, new and high technology focusing area of the policy and strategy of the country.

Government intervention is needed to support import of raw material such as cotton until the production of cotton in Ethiopia is improved. Government should strictly control FDI who should not sale their product on local market.

Domestic investors should look for creative solution to compete with FDI by creating chain to solve the cotton shortage problem, for example, through engaging in cotton farming.

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   - Interview with Fitsum Argaw, Director Ethiopian Investment agency, EIC, by Ethiopian Broadcast Corporation, December 4/2014 by EBC at 11:45 PM
   - Interview with Genet Seboni Aga, Directors for Contract Administration Directorate, EIC, December 2/2014 at 9:40-10:10
   - W/o Iyerusalem Garedew, License and registration department officer, EIC, June 08/2015 at 10:00AM - 10:10AM

7. Others

   Media

   - EBC (Ethiopian Broadcast Corporation) business news, ETV1, March 16/ 2015 at 1:00PM and also March 17/2015 at 11:00AM

- EBC (Ethiopian Broadcast Corporation) Report ETV1, March 15/2015 at 8:30PM
- Oromia Television (TVO), report on March 12/2015at 9:30PM

Guideline

- EIC, An investment guide to Ethiopia, Opportunity and Conditions 2013, Ethio Tikur Abay PP, Available at www.ethioenvest.org
- EFDR, Industry minister, corporate communication directorate, Industry journal Volume 2, No. 4, July 2014

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- Foreign Direct Investment inflows to India since the 1990s – Issue Challenges: Comparison with China
- Challenges and prospects of the textile and garment / apparel sectors, Ethiopian Textile and Garment Manufacturers Association [ETGAMA] Dec. 2010(Unpublished)

Others

- Microsoft ® Encarta ® 2009. © 1993-2008 Microsoft Corporation.
- US Model BIT
- Industry minister, Corporate Communication Directorate, Industry Journal, Volume 2, No. 4, July 2014
- From the questioner collected from Textile Industry Development Institute, Ethiopian Investment Commission, Ethiopian Textile and Garment Manufacturer Association.

Appendix

Part one Questioner for officials /experts

The information that you will provide will only be used for academic purpose and will keep confidential. Therefore do not hesitate to provide credible and valid information.

A. Profile of the Respondent

1. Position in the government office;

   G/Directors_____, Directors_____, Team leader_____, senior expert_____, junior expert____

2. Years of Experience in investment office ____
3. Please indicate the highest level of education that you have completed?

   A, PhD____, B, Masters____, C, 1st Degree____, D, Diploma and TVET level____

B. Main Questions

1. Explain why Ethiopia involves herself in manufacturing industry deals with FDI? Objectives /Aims? ____
2. What does inflow of FDI in manufacturing industry looks like? Specially Textile industry Sectors ____
3. What is the role of FDI in strengthening the domestic production capacity in manufacturing sectors? ____
4. Whose production capacity in manufacturing sectors is high currently in Ethiopia in;

   Manufacturing sector in general? A, FDI B, Domestic investor

   Textile sector in particular? A, FDI B, Domestic investor

   How? Why? ____

5. What is the role of FDI in bringing foreign capital and in transfers of technology in to Ethiopia? ____
6. How much foreign currency Ethiopia get from foreign manufacturing sectors in general? _______ and from textile sectors in particular? _____________________
7. How many and what kind of technology were transferred to Ethiopia

   A. From foreign manufacturing sectors in general ____________________________

   B. and from foreign textile sectors in particular? ____________________ ________

8. Is there any new technological transfer and up gradation and experience that transferred or introduced to domestic textile industry that from FDI? ____________________
____
____

9. Is there any optimal utilization of human capabilities and natural resources for domestic textile industry sector that emanate from inflow of FDI? ____________________
____

10. Does FDI makes domestic textile industry competitive internationally and opening up export market? ___ ____
____
____

11. Does FDI affect or effect domestic textile industry at both production stage and after production stage in relation with market competition? ___________________________
____
____

12. What kinds of practical impact are there in light of objectives of attracting FDI in relation with domestic textile industry on the ground in context of Ethiopia? ______________
____
____

13. How we can protect the domestic infant textile industry sectors from the competition which may arise out of FDI? ______________________________________
____
____

14. Any additional idea ____ ____________________
____
____

SUMMERY QUESTION

Does FDI have any impact (either positive or negative) on domestic manufacturing industry especially on textile industry?

Positive Impacts (Advantages) ____

____

____

Negative Impacts (Disadvantages) ____

____

____

What would be the possible solution to come up any negative impacts that practically seen? From whom what is expected? (From government, Domestic Investors, FDI, & Others

From government ____

____

____

From Domestic Investors ____

____

____

From FDI ____

____

From Others ____

____

Any Additional Idea ____

____

____

Part Two- Questioner for Domestic Investors

The information that you will provide will only be used for academic purpose and will keep confidential. Therefore do not hesitate to provide credible and valid information.

A, Profile of the respondent

1. Name of the company; ________________________________
2. Address (office) in Ethiopia; ____________________
3. Location of the company's manufacturing industry; ______________________
4. Your status in the company ____________________________

B, Main question

1. Is there any technology that you obtain from FDI? A, Yes___ B, No ___ If yes, how many? And what kinds of technology you get? If no Why? ____________________

   ____

2. Explain why Ethiopia involves herself in manufacturing industry deals with FDI? Objectives /Aims? ____

   ____

3. What does inflow of FDI in manufacturing industry looks like? Specially Textile industry Sectors ____

   ____

4. What is the role of FDI in strengthening the domestic production capacity in manufacturing sectors? ____

   ____

5. Whose production capacity in manufacturing sectors is high currently in Ethiopia in;
   i. Manufacturing sector in general? A, FDI B, Domestic investor
   ii. Textile sector in particular? A, FDI B, Domestic investor
   iii. How? Why? ________________________________ __________

   ____

6. How many and what kind of technology were transferred to Ethiopia

i. From foreign manufacturing sectors in general________________________________ ____________________

____

7. and from foreign textile sectors in particular? ________________________________

____

8. Is there any new technological transfer and up gradation and experience that transferred or introduced to domestic textile industry that from FDI? __________

____

9. Is there any optimal utilization of human capabilities and natural resources for domestic textile industry sector that emanate from inflow of FDI? ____________________

____

10. Does FDI makes domestic textile industry competitive internationally and opening up export market? ____

____

11. Does FDI affect or effect domestic textile industry at both production stage and after production stage in relation with market competition? ____________

____

12. What kinds of practical impact are there in light of objectives of attracting FDI in relation with domestic textile industry on the ground in context of Ethiopia?

____

____

13. How we can protect the domestic infant textile industry sectors from the competition which may arise out of FDI? ______________________________________

____

____

14. Any additional Idea ____

____

____

____

SUMMERY QUESTION

Does FDI have any impact (either positive or negative) on domestic manufacturing industry especially on textile industry?

Positive Impacts (Advantages) ______________________________

____

____

____

Negative Impacts (Disadvantages) ______________________________

____

____

What would be the possible solution to come up any negative impacts that practically seen? From whom what is expected? (From government, Domestic Investors, FDI, & Others

From government ______________________________

____

From Domestic Investors ______________________________

____

____

From FDI ______________________________

____

____

From Others ______________________________

____

Any Additional Idea ______________________________

____

Part Three- Questioner to Foreign Investors

The information that you provides will only be used for academic purpose and will be kept confidential. Hence please, don't hesitate to provide credible valid information.

A, Background of Investor

1) Name of the company; ________________________________
2) Home country of the company; __________________________
3) Address (office) in Ethiopia; ____________________
4) Location of the company's manufacturing industry; ______________________

B, Main Question

1. Why you choice Ethiopia for investment? ___________________________
   ____
2. Is there any incentive that you get from government? ____________________
   ____
3. Is there any technology that you bring to Ethiopia? If yes what kinds of technology you have brings? ____
   ____
4. Do you have any responsibility of bringing new technology to the country?
   ____
5. Is there any kind of advantages that you have brings to domestic textile industries?
   ____
6. Is there any disadvantage you have brings to domestic textile industry?
   ____
7. How you see domestic textile manufacturing industry in light of FDI?
   ____
8. Any additional idea ______________________________________
   ____

SUMMERY QUESTION

Does FDI have any impact (either positive or negative) on domestic manufacturing industry especially on textile industry?

Positive Impacts (Advantages) ____

____

____

Negative Impacts (Disadvantages) ____

____

____

What would be the possible solution to come up any negative impacts that practically seen? From whom what is expected? (From government, Domestic Investors, FDI, & Others

From government ____

____

From Domestic Investors ____

____

From FDI ____

____

From Others ____

____

Any Additional Idea ____

____

____