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Foreign Direct Investment (FDI) Outlook in Ethiopia: An Evidence from Oromia Region Selected Special Zones

Tesfaye Hailu
Jimma University

Abstract
The study examined the Foreign direct Investment (FDI) outlook in Ethiopia; an evidence taken from Oromia Region, Special Zones. Ethiopia, one of the fastest growing economy in the world, projected to join the lower-middle income countries by 2025, is keep transforming all sectors for better performance and is running a mega projects. In addition to the internal operations, foreign direct investment (FDI) is a catalyst for the economy. Recurrently, the country is keep promoting investment opportunities and signing bilateral agreements to ease trade and investment and remove double taxation with different countries. The economic stability, geographical location, inexpensive and sufficient labour, growing local market are the leading factors to invest in Ethiopia. Trade regulations & custom clearances, limited infrastructure, limited access to foreign exchange & local finance, restriction of preferred business sectors some obstacles of foreign investment in Ethiopia. To improve on the inflow of foreign direct investment (FDI), Government should therefore invest more in infrastructure and Improving policy and regulatory environment, tax reforms, investors' tax friendly tax and legal systems, removal of capital controls are essential to FDI attraction and contribution to growth in the economy
Keywords: Foreign Direct Investment, opportunities, challenges, trend, Oromia special zones

1. Introduction

Ethiopia is one of the fast growing developing countries in the Sub Saharan Africa and the current government allocating substantial budgets on infrastructures to catalyze the growing economy with the aim of "rising Ethiopia to its former glory" (as it's known, Ethiopia was one of the four origins of ancient great civilizations ever occurred on this planet) by setting stretched goals. To attain this stretched goals, the government is reforming sectors in the country to enhance their effectiveness and productivity. With this fact, The World Bank report has predicted that the country can join the lower-*middle-income country* by 2025, if the current trend/scenario to continue. To ensure this, the government has operated mega projects in Growth and Transformation Plan (GTP) I, and is operating in the GDP II. These projects are intended to accelerate the development of the country and will have a positive impact on attracting foreign investment (World Bank, 2012). Multinational corporations are looking developing countries for their investment destination due to availability of resources and inexpensive labour. Host countries are also keep promoting to attract more FDI inflows to speeding up their economic development by easing the FDI entry processes (Rahman, 2013). Similarly, Ethiopia through its missionaries (ambassadors), electronic promotions and organizing international events intensively to promote investment opportunities in the country (EIC, 2017).

The country has nine regions and two city administration. Among these region Oromia is largest and populous region, with abundant natural resources. Therefore, this area is more liked by investors due several factors including proximity to the capital city (Addis Ababa), access to market, availability of labour, better infrastructure and so on. Broadly speaking, the region has numerous zones among them the Oromia special zones are destinations of foreign investment in the country (allafrica.com, 2017).

Ethiopia, has the largest livestock population, is the second populous in Africa, endowed with abundant natural resources, share borders with six countries and Somali land (recognized by the country as independent country but not by UN), relatively stable in economic and politics in East Africa, possess well recognized airline, owned arable land, referred as tower of water in Africa, building the largest hydropower station in Africa, and many other untapped resources but still not on the position to lure investors as the neighbor Kenya do (EIC, 2015).

Though, the country has huge potentials for foreign investment, still ranking behind Kenya, Uganda and Tanzania even in the East Africa. To attract foreign investors, untapped opportunities should be promoted and challenges should overcome. In addition to this, the country has formulated a well-designed investment proclamation (Negarit gazette, 2012). Thus, this study has tried to investigate the FDI outlook in Ethiopia by taking evidences from Oromia region, Special Zones. Notably, in Sebeta, Gelan and Burayu Towns and additional information were gathered from Ethiopian investment commission.

2. Objective of the study

The core objective of this study is examining the outlook of FDI in Ethiopia; an evidence from selected Oromia special zones

Specifically, the research was emphasized on

1. Examining the challenges and prospects of Foreign Direct Investment in Ethiopia
2. To assess the leading factors that attract foreign investors in Ethiopia

3. Review of Related Literatures

3.1. An overview of Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is a key element in this rapidly evolving international economic integration, also referred to as globalization. Foreign direct investment (FDI) is the investment made by a company outside its home country. It is the flow of long-term capital based on long term profit consideration involved in international production (Caves, 1996). Foreign direct investment occurs when a firm invests directly in facilities to produce and/or market a product in foreign country.

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country (Kunle *et al.*, 2014).

3.2. FDI in developing countries

According to the FDi intelligence Report 2016, the largest recipient of FDI in 2015 based on region was Europe (4049 projects) Asia-Pacific (3883 projects), North America (1734 projects), Africa and Middle East (1254 projects) and Latin America and Caribbean (1010 projects). Based on countries, UK was the leading country by attracting FDI inflows (974 projects) followed by USA, China and India. Similarly, according to engineering news report 2016, the largest recipients of FDI inflows in Africa are South Africa, Egypt, Kenya, Morocco and Nigeria (Breytenbach, 2017).

Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them (OECD, 2002).

Foreign direct investment (FDI) is prized by developing countries for the bundle of assets that multinational enterprises (MNEs) deploy with their investments. Most of these assets are intangible in nature and are particularly scarce in developing countries. They include technology, management skills, channels for marketing products internationally, product design, quality characteristics, brand names, etc. In evaluating the impact of FDI on development, however, a key question is whether MNEs crowd in domestic investments (as, for example, when their presence stimulates new downstream or upstream investments that would not have taken place in their absence), or whether they have the opposite effect of displacing domestic producers or pre-empting their investment opportunities (Agosin, 1999).

Developing and newly industrializing countries have been strongly advised to rely primarily on foreign direct investment (FDI), in order to supplement national savings by capital inflows and promote economic development (Nunnenkamp, 2002).

FDI is considered less prone to crisis because direct investors, typically, have a longer-term perspective when engaging in a host country. In addition to the risk-sharing properties of FDI, it is widely believed that FDI provides a stronger stimulus to economic growth in host countries than other types of capital inflows. The underlying argument is that FDI is more than just capital, as it offers access to internationally available technologies and management knowhow (*The Economist,* 2001).

The growth of Foreign Investment has become more prominent in the world economy due to its contribution to the growth and development of an economy. Foreign Direct Investment as a category of international investment where resident entity in one country obtains a lasting interest in an enterprise resident in another country. FDI can be in form of equity capital, reinvested earnings and other capital.

Beneficial as FDI can be, especially for developing economies through technology transfer, increasing market liquidity, increase resource absorption, its contribution can bring with it negativities in the form of loss in domestic production control, crowding out of domestic enterprise through unfair competition and unfavorable Balance of Payment especially when production by the foreign firm still relies on importation of raw inputs (Idowu, 2014).

In 2015, East Africa recorded its highest ever share of FDI projects in the continent, achieving 26.2% of total projects. This means that the sub-region could pose a challenge to Southern Africa's historical FDI leadership.

Kenya, East Africa's anchor economy, posted a resurgence in FDI in 2015. The country has bucked the trend of slowing economic growth experienced across most of Africa. It posted a GDP growth rate of 5.6% in 2015, which is set to accelerate to 6.0% in 2016. In line with this, the country saw its FDI project numbers surge more than 50% over 2014 levels, becoming the 2nd largest FDI recipient, after South Africa. Other East African economies **Uganda, Tanzania and Rwanda** are also reported higher inward investment project numbers. **Ethiopia** is another economy of interest to investors, also highlighted as an emerging FDI destination in our previous edition of the Africa Attractiveness survey. In 2015, the country retained its position as the eighth-largest investment destination in Africa, despite a 6.3% drop in FDI projects from 2014. The Ethiopian Government has prioritized developing a light manufacturing hub for light manufacturing a key priority (EY's Report, 2016).

3.4. Factors influencing FDI

According to IMF report (2003), investors underscore that the motivators for investing in EMCs and the determinants of investment locations differ among countries and across the economic sectors. They concur, however, that certain general factors consistently determine which countries attract the most FDI. IMF (2003) reports that motivation for and determinants of FDI and investors cite in particular as the following:

- Market size and growth prospects of the host country play an important role in affecting investment location since FDI in EMCs is increasingly being undertaken to service domestic demand rather than to tap cheap labour.
- Wage-adjusted productivity of labour, rather than the local labour cost, will increasingly drive efficiency-seeking investments of "footloose" firms that use EMCs as export platforms.
- The availability of infrastructure is critical. EMCs that are best prepared to address infrastructure bottlenecks will secure greater amounts of FDI.
- Except in some sectors, tax incentives (holidays) do not play an important role in determining investment location, although reasonable levels of taxation and the overall stability of the tax regime do.
- A broad consensus in the host country in favour of foreign investment is an important consideration for investors. In this context, a reasonably stable political environment, as well as conditions that support physical and personal.

3.5. The role of FDI in Developing countries

In recent times, developing countries see the role of FDI as a crucial to their development. FDI is regarded as an engine of the growth as it provides much needed capital for investment, increases competition in the host country industries, and aids local firms to become more productive by adopting more efficient technology or by investing in human and /or physical capital. Foreign direct investment contributes to growth in a substantial manner because it is more stable than other forms of capital flows (Anyanwu, 2012). Other benefits of FDI for host countries are; creating new job opportunities, improving living standard for people, creating competition for domestic businesses and causing them to improve their efficiency, bring new technologies, bring new management ideas and styles, and improving the balance of international payments through export (Edwin, 2014).

3.6. Empirical Review on the relationship between FDI and Economic Growth

Since 1993, China has been boasting the largest amount of FDI inflow of all developing countries, with about 90% of it brought in by green-field investment. FDI has played an important role in contributing to the country's economic/trade development and institution reform. In fact, the Chinese government has already formulated a series of FDI policies, such as tax incentives and the guiding directory on industries open to foreign investment. In 2001, China removed all restrictions that discourage foreign investment. By the end of 2013, China had accumulated more than $500 billion in FDI (Wang 2005; Jiang, 2014).

According to Duman (2017), there six factors that drive investment in China. Capital availability- in the early 2000s, china overtook the United states as the world's largest recipient of foreign capital; **competitiveness**- china's attractiveness as a destination for investment capital rests on its development of infrastructure, resource availability (physical and labour), productivity and workforce skills and the development of the business value chain; **regulatory environment**- in recent years china has ease some rules and regulations which impede foreign direct investment; **stability**- political and economic stability can facilitate an influx of FDI; **local Chinese market and business climate**- the most glaring aspect of china is the sheer size its population and market, and the prospects for growth that result from the size. **The ability of enterprises- backed by foreign capital**-to sell to a sizeable local market makes china an attractive destination for FDI. As the Chinese economy to prosper, evolve and mature, higher-end industries such as healthcare, IT, engineering, robotics and luxury goods among others, can gain a bigger footprint in china as its local conditions, resources and other FDI determinants are enhanced; openness to regional and international trade- market openness serves important roles in attracting FDI. Of critical importance is a business ability to sell its products and services to both local and foreign markets. But if there is limited or no access to foreign market-then local market may not be warrant a significant investment in money and energy.

A study conducted in Kenya states that, foreign investment in Kenya remains relatively weak considering the size of its economy and its level of development though it's the leading country in the East of Africa by attracting FDI. This can be explained by a number of hindrances to investment, notably the country's poor-quality infrastructure, lack of security due to terrorism and an unfavorable business climate. Nevertheless, Kenya became one of the largest recipients of FDI in Africa, with FDI inflows significantly increasing since 2010. This rise is related to investments, mainly Chinese, in the mining and hydrocarbon sectors. Moreover, it is one of the most attractive East African countries to companies wishing to invest in the region. A Chinese investor has launched a project to create a railroad connecting Rwanda, Uganda, South Sudan and Kenya, for a cost of nearly USD 14 billion. In 2015, Kenya benefited from a 50% rise of FDI projects compared to the previous year, becoming the second African country in terms of FDI, behind South Africa (USD 1.5 billion up from USD 990 million). According to early projections provided by Kenya Investment Authority in April 2017, the FDI influx could have reached as high as USD 2.5 billion in 2016.

Similarly, in Tanzania the FDI inflow was stagnant till the late 1990s. Since, 2000s the country started being successful in attracting FDI to its economy. Overall, it can be argued that in the late 1990s a certain momentum in FDI flows has been registered as a result of a relatively successful investment policies enacted by the Government of Tanzania. Foreign investors become convinced about Tanzania's resolve towards liberalization and the country's potential as host to FDI activity. Over the 1995-2012 period, Tanzania is estimated to have received around US$ 12 billion in cumulative FDI inflows compared to just US$282 million registered over the 1980-1995 period (UNIDO, 2014).

In 2015, India replaced China as the leading destination for FDI projects in the Asia-Pacific region with $63bn of announced inward capital investment across the year, accounting for 53% of FDI into China and India collectively. India, unlike China, has experienced growth in both project numbers and capital investment for the past two years. China managed nominal growth (2%) in 2013 but between 2011 and 2015 this was the only year it was achieved. In 2015, a 23% decline in capital investment has mirrored the 16% decline in projects destined for the country. India, on the other hand, had a turbulent five years but achieved growth in both 2014 and 2015 for capital investment and project numbers, bolstering its position and allowing it to overtake China (FDiintelligence, 2016).

The Nigerian government establishes a series of incentives to attract foreign capital as foreign investment played a major role in the economy before early 1970s until 1972 when a large part of the nonagricultural sector was controlled by foreign owned companies. Between 1963 and 1972, an average of 62% of total capital was in foreign hands (Idowu, 2014). In 1995, the economy was liberalized after placing a considerable restriction on FDI in most policy domain affecting business activities. The Nigerian Investment Promotion Commission Act of 1995 which laid out the framework for Nigerian investment policy. Under this act 100% foreign ownership is allowed in all industries except for oil and gas where investment is constrained to existing joint ventures or new production sharing agreements (Umueni, 2011).

Zhang (2001) argued that Foreign Direct Investment has positive growth impact that is similar to domestic investment along with partly alleviating balance of payment deficit in the current account. He opined that via technology transfer and spillover efficiency, the inflow of direct foreign investment might be able to stimulate a country economic performance.

Otepola (2002) also examined the importance of direct foreign investment in Nigeria. The study empirically examined the impact of FDI on growth. He concluded that FDI contributes significantly to growth especially through exports. Ricardo, Hwang and Rodrick (2005) argued that Foreign Direct Investment (FDI) provide a path for emerging nations to export the products developed economies usually sell, in effect increasing their export sophistication. Many developing countries pursue FDI as a tool for export promotion, rather than production for the domestic economy.

3.7. Research Methodology

This study was focus on FDI outlook in Ethiopia by taking evidences from Oromia region selected special zones. It was descriptive research in nature mainly concentrate on the examining the major challenges and opportunities of FDI in Ethiopia.

Data were gathered from foreign investors, Ethiopian Investment commission, and UNCTAD reports through structured questionnaire, structured interview and analysis of reports. Thus, both sources of data were used for this study.

Once data gathered, then data feed to SPSS, then by using descriptive method of data analysis was made. Finally, data were presented and discussed accordingly.

4. Result and Discussion

4.1. Countries Invest In Ethiopia

Ethiopia remains an untapped and unexploited market for investors. China, India, Sudan, Germany, Italy, Turkey, Saudi Arabia, Yemen, the UK, Israel, Canada and The USA are the major sources of FDI (EIC, 2015).

The below pie chart 4.1 show that composition of investors in Ethiopia. Chinese firms are leading by investing in the Oromia Special Zones followed by India and Turkey. According to the World Bank report (2012), Chinese Foreign Direct Investment (FDI) into Africa is on the rise and Ethiopia is at the forefront of this trend. Both countries' economic cooperation is expanding rapidly. As a result china was both the largest import and export trading partner of Ethiopia. The economic cooperation between the two countries has also been facilitated by the strong political support from both governments. For Chinese firms, the main reason to invest in Ethiopia **are** to take advantage of a good understanding of the investment climate gained from entrepreneurs' social networks; to take advantage of the perceived opportunities provided by the current state of the Ethiopian economy; to maximize cross-border investment incentives provided by the Ethiopian and Chinese governments; to make a strategic move of the parent company into the African market and to invest in favor of the stable political environment of Ethiopia.

According to this survey, India is the second largest country by investing in the Oromia Special zones. According to thehindu.com (2007) around 265 Indian companies are operating in the whole country and most of them are engaging in modern farms.

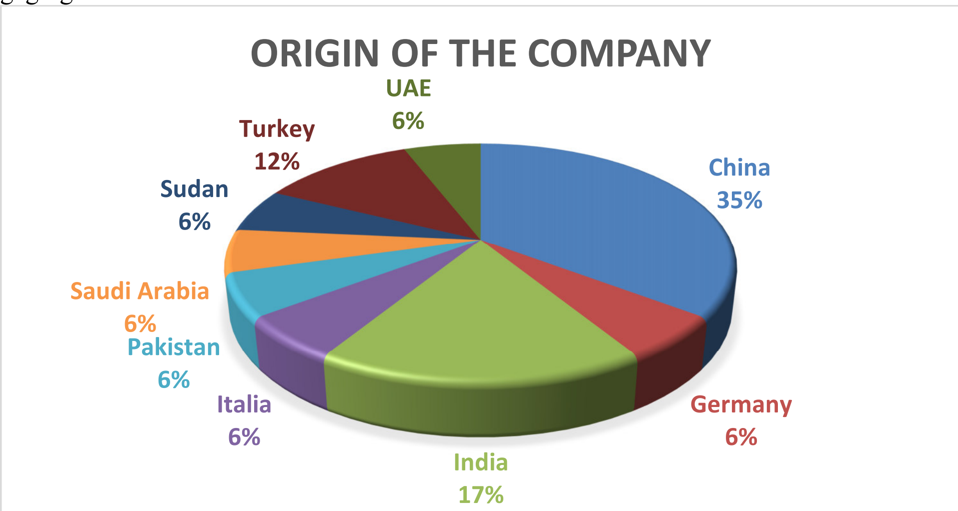
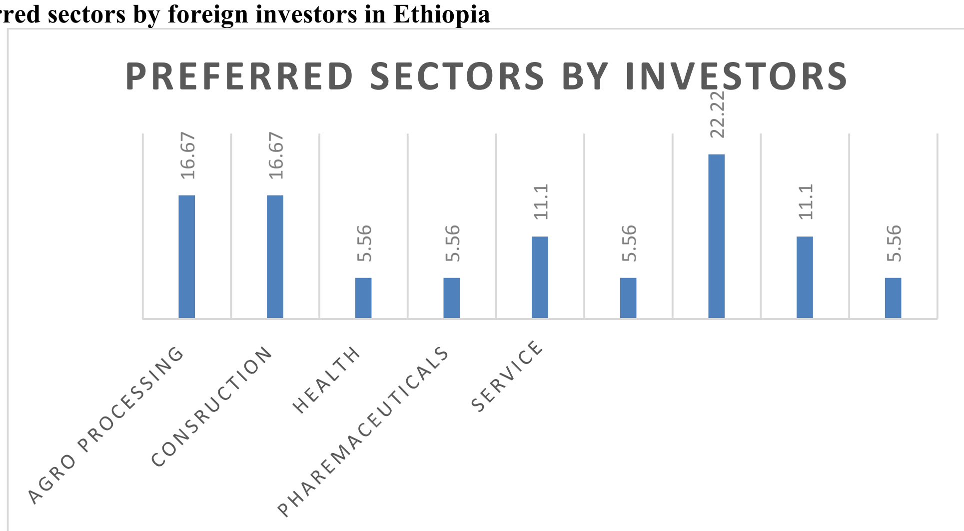


Figure 4.1.Foreign investors in Ethiopia (by Country)

The third largest investor in Ethiopia is Turkey. Ethiopia is Africa's top investment destination for Turkey. The Turkish ambassador to Ethiopia had disclosed that Ethiopia remains the biggest recipient of Turkish direct investment in Africa. Most of Turkish companies are licensed with textile and construction sectors (Tekle, 2017).

4.2. Preferred sectors by foreign investors in Ethiopia



Ethiopia is considered as one of the most stable countries in Africa. Economically, the country has formulated a 5 years Growth and transformation Plan 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 double digit annually (Tadesse, 2017).

It is undeniable fact that Ethiopia has made a considerable progress in economic and social development since 1992 because of the implementation of favorable policies and strategies that are instrumental in improving the national economy. Foreign investors are flooding due to these and other external factors. The inflow if FDI in terms of total number of projects and capital invested has been increasing over the past two decades (EIC, 2015).

Some sectors are prioritized by the government to foreign investors i.e. textile and apparel, leather and leather products, agro-processing, sugar and related industries, chemical industries, pharmaceuticals, and metal and engineering (Tadesse, 2017). According to this survey, companies' preferred textile and apparel industry (22.22%) followed by agro-processing (16.67%) construction (16.67%), leather and leather products (11.10%), service (11.10%), Health, pharmaceuticals, metal and engineering and telecommunication 5.56% each.

4.3. Prospective of FDI in Ethiopia

Ethiopia has one of the fastest growing economies in the world. The IMF estimates Ethiopia will have an average GDP growth rate of 7.4% from 2017 to 2020. The government of Ethiopia follows integrated 5-year plans to guide its state-led industrial development. The second of these Growth and Transformation Plans (GTP II), covering 2016–2020, is now being implemented. GTP II sets a target of an average growth of 11% in the next five years with the objective of middle income status by 2025. To realize these goals, the government continues to pursue consistent and prudent macroeconomic policies and to invest heavily in large-scale social, infrastructural and energy projects. Included in the GTP II are incentives for international investors, such as facilitation of repatriation of investment and profit, ease in hiring expatriate personnel, temporary income tax exemptions for investments in selected sectors, duty-free imports of capital goods, components and raw materials for exporting industries and manufacturers in priority sectors (Cole, 2017).

According to the Ethiopian Investment commission report (2015), various factors are playing a crucial role on luring foreign investors. These factors can be categorized as political, economic, financial services, taxation, Human resource and education, and market. Furthermore, (EBC, 2016), Ethiopia wants more foreign direct investment in agriculture, energy, transport, and manufacturing among other sectors, as it seeks to sustain an average economic growth rate of 11% over the last decade.

Politically, the country is one of the most stable country in the horn of Africa. Economically, in order to enhance the export sector, the government has established the Ethiopian commodity exchange (ECX). In addition to this, the rural development policy and strategy is under implementation, underlines that Agricultural-Led development will bring about fast economic growth, enable its people become beneficiary of economic growth, and lay solid foundation for the industrial development. To utilize the enormous potential for hydropower energy, the country is running renewable mega hydropower plants across the country.

Priority is given to road transport infrastructure development, because it's playing a vital role on transporting goods in Ethiopia. In addition to the road transport, to sustain the rapid economic growth, it requires availability of railway network. Therefore, the government is constructing a total of 2395 km of national railway network. The old railway connects Addis Ababa to Djibouti being replaced by electrified railway, expected to boost Ethiopia's import-export trade. The reputable Ethiopian airline is also playing its role on providing cargo services worldwide.

18 financial institutions and insurance companies are operating in the country. The government also offer different tax holidays or exemptions which ranges from 2-10 years depending on the nature of investment.

The country has well established labour law, and investors are allowed to hire expatriate staffs for professional and technical areas. Additionally, Ethiopia is the second populous country in the sub-Saharan Africa. Most of them are young and easily trainable and industrious.

The population is an advantage by itself. As we can learned from China, India, Brasil and other countries their human resources are their target for their product. The greater the population the better market for product. Since Ethiopia sharing border with six countries, products can easily exported to these countries at minimum transportation and custom barriers. Thus, geographical advantage is also playing a vivacious role on attracting investors.

Arable land, livestock farming, agro processing sectors also open for foreign investors. Investing in coffee plantation, horticultural farming, cotton farming, sugar cane plantation, leather and leather products are also lucrative areas.

4.4. Important factors to invest in Ethiopia

Factors related to the investment climate, such as ease of import and export, availability of local suppliers, regulatory framework, production costs, adequate infrastructure and the country's geographic location explain most of the cross-country variations in FDI inflows.

The effectiveness of incentives is thus linked to the environment from where these are offered and therefore incentives can never fully compensate and offset the challenges posed by generally weak or unfavourable investment climate conditions.

The Survey results confirm these findings. Firms were asked to rank the importance of selected factors on their decision to invest in Ethiopia. It emerges that the three most important factors reported as influencing investment decisions were political and regional, economic stability and resources availability, and local market conditions. The fact that local market is ranked among the three most important factors is consistent with previously analyzed results indicating that local market conditions are a principal driver to local market-seeking FDI, which by far constitutes the most prominent investment motive in the sample. It may also be argued that the apparent low presence of 'footloose' export-oriented FDI may have led to a less 'stressed' investment policy framework that does not see the need to use comprehensive incentive instruments to compete in FDI markets.

Similarly, A survey conducted by Tanzanian Investment center and UNIDO (2014) in Tanzania, displayed the most important factors that lure investors to invest in the United Republic of Tanzania as follow; Political stability, economic stability, local market, transparency of business regulations and legal framework, cost of raw materials, labour costs, availability of skill labour, quality of life, availability of local suppliers, incentive packages, bilateral agreements and double taxation treaties and export market.

Ethiopia has a bilateral agreement investment promotion and protection with following countries; Algeria, Austria, Belgium & Luxemburg, China, Denmark, Egypt, Equatorial guinea, Finland, France, Germany, India, Iran, Israel, Italy, Republic of Djibouti, Qatar, Kuwait, Libya, Malaysia, Netherlands, Russian federation, South Africa, Spain, Sudan, Sweden, Switzerland, Tunisia, Turkey, UK, USA and Yemen. In addition, the country has signed double taxation avoidance treaties with; Czech Republic, France, Israel, Italy, Kuwait, Romania, Russia, South Africa,, Tunisia, Turkey, and Yemen (MOFA, 2017).

4.5. Obstacles investing in Ethiopia

The motives to invest in Ethiopia are dampened mainly by *the following principal obstacles* that foreign enterprises face in Ethiopia:

Trade regulation and customs clearance efficiency.

Due to the lack of local supply network, foreign firms in Ethiopia heavily rely on imported supplies and materials. But current regulations are not designed to facilitate fast customs clearance of imported materials. As a result, trade and customs regulation is regarded the main issue impeding FDI in Ethiopia.

Perceived foreign exchange rate risks deter investment.

Restrictions on foreign currency transaction and conversion, in combination with perceived uncertainty over the foreign exchange rate path, deters new investment and discourages existing invested firms from increasing investments. As light manufacturing/labor intensive firms rely more heavily on imported supplies, they are specifically concerned about foreign exchange risks.

Tax administration inconsistency and inefficiency.

Many foreign firms claim to suffer from inconsistency of tax law explanation and frequent law amendments. More than 70 percent of the surveyed firms find the inconsistency of tax law explanation and the frequent law amendment a major obstacle to doing business.

Insufficient local access to finance.

Only a fraction of surveyed companies got loans from Ethiopian Banks over the course of the past year. A number of firms, especially small and medium enterprises (SMEs), suggest that they did not even try to get loans because they felt it is impossible to get approval for them. Others claim that they do not need extra funding locally.

Openness of business

Ethiopia is known by nationalizing lucrative business. For example, telecommunication, airlines, shipping, hydropower plants belong to the government and foreign investors not allowed to possess these businesses. Additionally, the financial sector is open only for Ethiopians.

The other problem face foreign investors is culture of the community. Recently, Chinese firm was opened a donkey abattoir (which is culturally and religiously unacceptable) but has been banned promptly due confrontation from the community.

Other obstacles were corruption, infrastructure,

5. Conclusion and Recommendation

From the above result and discussion, the researcher concluded FDI in Ethiopia as follow. The dominant foreign investor country in Ethiopia is China followed by India and Turkey. Thus, South East Asian countries are leading by engaging in the country's economy. Most of the investors are preferred to invest in Textile and apparel, construction and agro industry.

Ethiopia relatively stable in macro economy, secure and safe in the horn of Africa, and strategic geographic location, inexpensive and sufficiently available of labour, local market, government incentives, and consistent economic growth. These factors are playing a crucial role on luring foreign investors.

The major obstacles or challenges face foreign firms are trade regulation and custom clearance, shortage of foreign exchange, tax administration inconsistency and inefficiency, insufficient local access to finance, openness of business and culture.

To improve on the inflow of foreign direct investment (FDI), Government should therefore invest more in infrastructure (like power, communication, transportation and energy) which ease access to ports and ensure the availability of other needed facilities that can attract and boost the productive capacity of direct foreign investors, so that more investors can come into the country since effective productivity of present direct investors will attract more foreign investors.

Improving policy and regulatory environment, tax reforms, investors tax friendly tax and legal systems, removal of capital controls are essential to FDI attraction and contribution to growth in the economy.

Loans acquired both internal and external must be use for the purpose for which they are acquired, for example, developmental projects. There is also need to weight the interest rate attached to the loan and the benefits that may likely go with the conditions/requirements, so as to see if it actually favors the recipient country rather than the donor. Finally, investors should be learned about the culture of the community before invest their resources.

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