SCHOOL OF GRADUATE STUDIES-MBA PROGRAM

CHALLENGE AND OPPORTUNITY OF IMPORT SUBSTITUTION IN LOCAL VEHICLE ASSEMBLING: THE CASE OF SELECTED VECHILE MANUFACTURERS

BY

HELEN YITAFERU GIZAW

ADVISOR: YIBELTAL NIGUSSIE (ASSISTANT PROFESSOR)

JUNE, 2021

ADDIS ABABA, ETHIOPIA

CHALLENGE AND OPPORTUNITY OF IMPORT SUBSTITUTION IN LOCAL VEHICLE ASSEMBLING: THE CASE OF SELECTED VECHILE MANUFACTURERS

BY

HELEN YITAFERU GIZAW

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOOL OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF THEREQUIRMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

ADDIS ABABA, ETHIOPIA

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES FACULITY OF BUSINESS

FACULITY OF BUSINESS

CHALLENGE AND OPPORTUNITY OF IMPORT SUBSTITUTION ON LOCAL VEHICLE ASSEMBLING: THE CASE OF SELECTED VECHILE MANUFACTURERS

BY

HELEN YITAFERU GIZAW

APPROVED BY BOARD OF EXAMINERS

_____	_____
DEAN, GRADUATE STUDIES	**SIGNATURE**
YIBELTAL NIGUSSE ASSI. PRO.	
ADVISOR	**SIGNATURE**
_____	_____
EXTERNAL EXAMINER	**SIGNATURE**
_____	_____
INTERNAL EXAMINER	**SIGNATURE**

DECLARATION

I, the undersigned, declare that this thesis "Local Vehicle Assembling in Ethiopia, Challenge and Opportunity" my original work, prepared under the guidance of my advisor. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Helen Yitaferu _____

Name **Signature**

St. Mary's University, Addis Ababa **June, 2021**

ACKNOWLEDGEMENTS

First and for most, I would like to thanks God for making me reach this moment also My deepest gratitude goes to my advisor, Asst. Prof. Yibeltal Nigusse for his support and follow up, encouragement and has given the insight into the research and showed me the direction to carry it on during the thesis work of this Master's program.

I would like to give a great pleasure to thank my families specially Ato Antenh Kedir (My Husband) for his understanding all the situations during my study for academic life. Which otherwise might not be possible to see this fruitful result of MBA program. And also, the management team and employee of Getu TVS, Horra Trading, Yangfan Motors Plc and Binget Trading, Ministry of Transport, National bank of Ethiopia for their cooperation for the participation and support of interview and questioners.

Last but not least we want to thank you, our friends and families, whose immense support has helped us a great deal in the preparation of this particular manuscript in particular and in the completion of the entire program in general due to your moral and financial support.

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACTS

The study is designed to investigate challenge and opportunity of import substitution in local vehicle assembling: the case of selected vehicle manufacturers in Ethiopia. To this end; the study has the objective to investigate the practice of local vehicle, challenges regarding the sector and what factors significantly affect the import substitution. Primary data was collected through questionnaires. The questionnaire was distributed to 48 sample employees from four local vehicle manufacturing companies who are directly related to the import substitution and 200 sample customers based on Malhotra (2007) sampling determination. Mainly this research used descriptive analysis in order to assess the practice of local vehicle manufacturing sector. Based on the data obtained from the respondents and results of the tests, the study identified that policies, government practical support, financial support from financial institution, customer attitude towards local vehicle and well-trained expert in the sector were the challenges that import substitution faced. On contrary, the research showed that the market demand in the sector is the opportunity that the sector has.

CHAPTER ONE

1. INTRODUCTION

This chapter presents background of the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study, definition of key terms, and organization of the report.

1.1. Background of the Study

Import substitution is a policy of economic development, when developing or emerging economies take a step to relieve their dependence on richer countries and markets (Segal, 2019). That is, developing or emerging countries choose to replace the products and services imported by their more developed trade partners in an effort to become more economically independent. Import substitution implies that states and countries build protectionist policies to support domestic industries and reduce imports (Segal, 2019). They can use different instruments to accomplish this purpose: Ogujiuba, Nwogwugwu, and Dike (2011) list import quotas, tariffs, preferential licensing, and exchange rate controls. Countries may choose to provide subsidies or cheap loans to infant industries (Ogujiuba et al., 2011). In any case, import substitution is a policy of protectionism. That said, states take an extremely active part in import substitution policies and processes.

Since Ethiopia doesn't manufacture automotive, construction machinery and agricultural equipment's locally at present, it imports those from various countries of the world. Automotive importing companies are importing vehicles to the market. The marketing trends of automotive is necessary to clearly see the demand supply gap and for the growth. It is observed that the present stats of automobile industry in Ethiopia, does not meet with the demand of automobile vehicles including their spare parts. In Ethiopia many imported vehicles from different parts of the world are in daily use. Maximum numbers of vehicles are of Toyota. Also, the spare parts are imported spending lot of money and time. (M. Narasimha, R. Rejikumar& K. Sridhar (2013).

The automotive is expected to grow faster and play a more important role in the economy in terms of growth, employment creation, export development, import substitution, and technological accumulation. To achieve such expectations and ambitious targets set in the Second Growth and Transformation Plan, the Government has been exerting to its utmost effort in promoting and encouraging domestic investment and attracting direct foreign investments. The major problems observed in the automotive sector are in the areas of Government regulation, lack of adequate road infrastructure, absence of trained manpower and lack of adequate financing faculties. Pedagopu V. & Mebratu M. (2018). Therefore, this study has tried to investigate both the challenges and opportunities of import substitution in local vehicle assembling in Ethiopia.

1.2. Statement of the Problem

Import substitution has a good promise to promote economic and trade development in Ethiopia, the main lesson from East Asia is that this policy is extremely state-centered. Therefore, the country continues with import substitution industrialization or switch to a different strategy for continuous economic development and more effective development and trade ties. Ethiopia eyes economic reforms to ease forex shortage. The government has designed a "comprehensive reform strategy" to sustain and boost economic growth with a lack of foreign currencies proving to be one of the major hurdles. Gebrehiwot(1995).

Now days automobile for Ethiopian people no more considered as luxury once, it occupies a part of day- to-day life and has become a necessity. Therefore, this study, technical and economic literature discusses the issues of import substitution in local vehicle assembly. The issues of what is the major challenges and opportunity of import substitution in Ethiopia. The researcher also contribute to how to ensure the comprehensiveness of the decisions taken by the federal authorities, regions, business communities; where, at what time and what cost the plans of import substitution will be implemented; In other words, a theory of import substitution in the framework of the science of strategic management is required**.**

Likewise, Ethiopian vehicle manufacturing sector faced with problems while practicing/implementing import substitution. The researcher observes the following major problems at the import substitution sector; there is poor practical support from government and financial sector, the customer attitude toward local vehicles is somewhat negative and inadequate vehicle infrastructure development, which affects the import substitution, which incorporate upper and down streams on local vehicle manufacturing companies in Ethiopia particularly on selected vehicle manufacturing industries.

Therefore, the research addressed what the import substitution practices and challenges of selected local vehicle manufacturing companies.

1.3. Research Questions

Based on the challenges and opportunities of the industry stated in the study, the researcher developed the following research questions

- What is the existing practice of import substitution?
- What are the challenges of Import substitution?
- What are the opportunities of import substitution in case of local vehicle manufacturing?

1.4. Objective of the Study

1.4.1. General Objective

The main objective of this study was to assess the challenges and opportunities of import substitution in Ethiopia, in local vehicles assembling.

1.4.2. Specific objectives of the study

The researcher specifically intended to see the importance and challenge of import substitution; this idea tried to achieve the following specific objectives:

- Assess existing practice of import substitution.
- Describe the country's import substitution challenges for the industry.
- Investigate opportunities of import substitution in case of local vehicle manufacturing.

1.5. Significance of the Study

This Study tried to analyze and show the practice of local vehicles assembling industry in Ethiopia. Therefore, it will contribute significant information on the following issues. This research was thus intending to fill the literature gap related to import substitution. More specifically this study served as preliminary work or a steppingstone for further study on the issue. Depending up on the research also produced the following significant. The finding of this study helped the company as an input to include the import substitution strategy to increase sales volume in relation to other competitive local vehicle manufacturing industry. It was also help any business students who are interested to study similar and related topics. The study also helped other companies to identify and know gaps in import substitution strategy and related practices. Lastly it was helpful the student researcher to implement and analyze theoretical application in real world.

1.6. Delimitation of the Study

Based on geographical coverage the study was delimited on local vehicle manufacturers with cylindrical capacity to500 CC for two and three wheelers and car assembler up to 2000 CC located in Addis Ababa and assembly plants located within 150km radius from Addis Ababa.

The theoretical and concept coverage of the study is delimited to only the import substitution practices and challenges of selected local vehicle manufacturing companies.

The study used mixed method of approach in order to analyze the import substitution practices and challenges of selected local vehicle manufacturing companies. The time frame was limited to January 2019 – May 2021 GC.

1.7. Limitation of the study

Some constraints such as time and lack of sufficient fund hindered the need to include a large sample size that could nearly represent the total population of the study. In order to gets a stronger picture of the issues in the different manufacturing companies. I would have liked to involve a larger number of respondents from both customers and employees. But due to the time frame limitations provided by our study program this was not possible. The shortage of up to date reference materials and research works, specifically to the Ethiopian context, also narrowed the content of the study.

Another barrier the researcher came across in the process of data collection was refusal by management of two vehicle manufacturers to formally permit the distribution of the questionnaire for unconvincing reasons such as lack of time to fill the questionnaire, fear of sensitivity of the questionnaire contents if its results present to public, etc. Although I have a great group of participants who were willing to fill the questionnaire, some customers were not volunteer to be part of the study for unknown reasons. Unfortunately, non-returned questionnaires were also a limitation for this study.

1.8. Organization of the Study

This study consists of five chapters. The first chapter deals with the introduction part, general background of the study, statement of the research problem, objectives of the study, significance of the study, and delimitation of the study. Chapter two deal with reviews of literatures. The research methodology is in chapter three. In the fourth chapter, the results of the study were presented and discuss in detail. Finally, the paper finalizes by drawing conclusions and providing recommendations on collected data.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Theoretical Literature

This chapter presents a brief synthesis of related literature that deals with Import Substitution issues which are relevant to the development of local vehicle assembly. Although an Import substitution is the idea that blocking imports of manufactured goods can help an economy by increasing the demand for domestically produced goods. Ethiopia imports all of its automotive (vehicles and machines) needs. It doesn't manufacture automotive. Some companies only assemble and build bodies. Dr Pedagopu V & Mr Mebratu M (2018).

The idea behind it is that with this protection of imports, the effects will be more investments and greater technical capabilities for the domestic producers. Import protection works as a guarantee that the domestic markets will be profitable to invest in by home-market business owners (Rodrik, 2007). By protecting the domestic production, industrialization would happen faster, since the domestic producers would increase output with greater capacity (Kruger, 1995). Import protection has the great attraction of not requiring additional revenue, since support for investors is provided by domestic consumers of the protected good, which characterized the benefits for producers with low risk (Szirman, Naudé, and Alcorta, 2013).

The reason behind the protection is that the domestic industries cannot compete with international firms that are importing, since they might be inferior in technological progress. With protection, the industries are given time to develop and adapt methods to the same technological level as internationally competing firms. A common measure being used is tariffs or import quotas to protect domestic industry (Krugman and Obstfeld, 2009).

2.1.1. Import Substituting Industrialization

Krugman and Obstfeld (2009) defines ISI as "the strategy of encouraging domestic industry by limiting imports of manufactured goods" (Krugman and Obstfeld, 2009, p.253) Apple yard and Field (2014) note that ISI involves producing a good that it otherwise would have to import had the policy intervention not been put into action. Alavi (1996) states that ISI is adopted for two reasons: to promote industrialization and to cope with external trade imbalances, which occurs in a situation where the value of imports consistently surpasses the value of export (FT, 20155).

Important groundwork before implementing import-substitution is to look at the country's stage of development, the structure of the economy in the country, the size of the market and 28 how the industry that is about to be promoted is important to the country (Pitre, 1979). With a big domestic market, industries have a better chance to experience economies of scale than small countries, big being a country with over 20 million inhabitants in the research of Chenery (1982). This is because among other things that the small countries have lower levels of income. There is easier for a big country to promote local suppliers as well, due to transport cost, which is the cost of transporting products or assets (Chenery, 1982).

Disadvantages with import-substitution are that the formally imported product may have a small, high-income group in the population. In addition, with import-substitution, the markets are too small to lead large-scale production. This is not good for a country, because it may lead to high production costs, high prices and high monopolistic profits. Moreover, eventually there will be concentration of wealth (Melink, 1982). Pazos (1982) defines theoretically as well as real costs that are associated to import-substitution as inefficient allocation of resources, wage drop of the salaries of the employees, price distortions that might affect exports and limitation of growth of an industry due to lack of possibilities.

2.1.2. Import substitution as an Approach to Industrialization

In many developing countries the policy of import substitution has occurred either as a normal process resulting from economic growth or as a deliberate policy to encourage industrialization with considerable government intervention. Historical studies show that at the early stage of development a country's import requirements will grow faster than its export as a result of economic development. Therefore, due to structural imbalances between import demands and supply of foreign exchange, a natural incentive to avoid balance of payment difficulties encourage substituting domestic for imports. Increased taxation of international trade, especially at the low level of development, and taxing consumer goods conform to a development policy to mobilize resource for investment in an attempt to substitute domestic production for imports.

Chenery (1990) in his research concluded that industrial growth has three causes, substitution of domestic production for imports, growth in the final use of industrial products, growth in intermediate demand stemming for the above. He emphasized the effects of market size which is increased by either a rise in income level or population. When there are economies of scale in production, an increase in market size lowers cost of production and permits substitution of domestic products for imports. An increased in the size also affects output indirectly by increasing intermediate demand for other industries which experience import substitution.

Hirschan (2004) describes four different origins for industrial growth. Besides ware which can bring a strong impulse to industrialization, he emphasizes; import substitution in response to growth of domestic market (brought about by rising exports), import substitutions a (forced) result of balance of payment crises brought on by increased spending for development.

Deliberate intervention of the government to import substitution, may be induced by the numerous advantages that appear attractive at the beginning. Import substitution is initially attractive because it meets a demand that is already known and can be measured by existing imports. It offers the possibility of beginning with the easiest, final stage processes until more experience is gained with modern industrial technology. Local production of consumer goods provides visible evidence of self-reliance and can save foreign exchange (if it involves substantial contributions from domestic inputs including labor and capital, as well as raw materials), an additional attraction is that import substitution can be implemented through

policies that protect domestic production and can be seen as a more toward economic independency and political stability.

2.1.3. Theoretical arguments for and against Import Substitution

The main objective of import substitution as a strategy for development are creation of employment opportunity for growing population, a rise in standard of living and improvement of the balance of payment situation. Economic independency, political stability, accelerated the rate of economic growth, minimize inequality in income distribution, increases in public saving and investment are other objectives of import substitution (Hirchan, 2004).

Since the Second World War, foreign exchange earnings of many less developed countries have been greatly reduced because for their part, rich countries import unprocessed raw material and food stuffs from poor countries which are subject to low income elasticity of demand and price. When the income of poor countries rises at higher rates, it will change the terms of trade against less developed countries and lead almost automatically to a problem in their balance of payments. But, import substitution strategy will reduce the demand for imported manufactured goods and is a tactic to reduce foreign exchange needs of less developed countries by developing industries to produce substitutes for imports (Montijory, 1982).

Import substitution is often encouraged through protection measures such as tariffs and quotas to encourage industrial expansion, serving to attract local investment and stimulate domestic employment. The protection is even more complete where both the immediate product and the intermediate inputs used in producing the commodity are isolated from foreign competition. If the domestic market is competitive the domestic resource cost (and price) of protected products may remain substantially below the price of import (in domestic currency).But in small countries with limited markets, economies of scale often occurs only to a single firm and this does not encourage a competitive structure. Cost escalation may occur where single firm industries dominate the domestic economy and intermediate goods produced by monopolies are sold to single firms producing final goods. So the excessive prices of suppliers are reflected in the cost curves of the producers of final goods and services. Therefore, import substitution may be increasingly difficult to pursue under the conditions of domestic cost escalation (Prescott, 1983).Contrary to expectation import substitution industrialization has often increased the

economy's dependence on imported goods. Import substitution depends on at least in the beginning on import of capital goods and inputs in the form of semi-finished materials. This can cause a substantial drain on foreign exchange. On the other hand, failure to secure enough foreign exchange from exports leads to difficulties to import materials and parts for domestic production, and there will be recurring cries of underutilization of capacity and work stoppage. Therefore, a large number of people who leave their land to work in the manufacturing sectors remain unemployed (Hirschan, 2004).

The growth of luxury and semi luxury industries is one of the common features of import substitution which meets the demand of a small high income group and those consumers who previously could afford to by imported goods, and thus gives importance to what is unimportant. So the increased income that could generate saving is spent on non-essential commodities and this slows down the rate of economic growth.

Social problems also increase as a result of import substitution industrialization. When a country imports a large numbers of finished goods, inability of most domestic consumers to pay for them makes these goods unavailable to them and thereby lowers their standard of living. But as Mountijory(1982) argues, when these goods are produced domestically from imported materials and parts, inability to import such materials and parts will disturb the economy by reducing domestic income through work stoppage and cause severe output fluctuations in times of foreign exchange crises. It leaves the economy with a few large and relatively high cost industries.

2.1.4. Import Substitution Industrialization (ISI) in Ethiopia

The recent policy of Ethiopian government focuses on import substitution and export led industrialization. Given the limited size of local markets and the need to generate foreign exchange, there is a clear focus on export industries. Export-led industrialization is also one of the lessons the government has learnt from the successful development of Taiwan and Korea. Again, the main emphasis is on high-value agriculture (horticulture) and agro processing industries (leather products). Export industries benefit from favorable land lease rates, soft loans, tax incentives, subsidies for participation in trade fairs and international missions, and other services. Differential interest rates are offered for different products, e.g. horticulture projects

qualify for soft loans, following an “East Asian” approach, export targets are agreed upon for individual firms.

When it comes to modern industrial policy, governments formulate industrial policies in a participatory process that enables them to elicit information from private stakeholders in order to address specific market failures. This requires both close interaction with these stakeholders (‘embeddedness’) and independence in decision-making (‘autonomy’), in order to avoid serving the interests of particular lobbyists (Evans, 1995).Temporary incentives may be provided if they are necessary to trigger private sector responses that may generate positive externalities; but they should be phased out when there is evidence that the private sector does not respond as expected, or when market development takes off and generates sufficient response. In order to take these decisions, close monitoring gland evaluation of policy performance is needed, and stakeholders should be invited to provide their feedback. Hence good industrial policies build on an evidence-based, participatory and transparent institutional learning process. Moreover, policymakers should make use of private service providers whenever possible, providing incentives if necessary, and encourage competition among service providers, rather than implementing each and every service through government channels. Industrial policymaking in Ethiopia has advanced substantially over the last few years.

Especially the institutional reforms of the Civil Service Reform Program are shifting the industrial policy system in the right direction. Some agencies under public ministries have already been restructured in a way that makes them more flexible and responsive to the need soft the private sector.

- **Investment Incentives**

Despite due focus given to the large, medium, and small-scale manufacturing industries in government development plan, the performance registered so far is unsatisfactory suggesting that the dire need for examining the sector ‘s growth constraining factors that hamper it from playing a leading role. Towards this end, the government has provided attractive incentives packages for investment in the manufacturing sector. Investment Proclamation number 768/2012 has listed duty draw-back, voucher, bonded export factory, manufacturing warehouse and bonded input supply schemes as important tools to promote manufacturing and export. The Ethiopian tax law

allows for a duty-free importation of raw materials and machinery, equipment for manufacturers. However, a significant size of investment has not been flowing into the sector as expected mainly due to the existence of other highly and rapidly rewarding businesses against longer payback periods of investment in industry.

- **Customs and import duties**

Ethiopia is a member of the Customs Cooperation Council. Ethiopia has reduced customs duties on a wide range of imports and duties are levied at rates ranging from 0% to 35%. Rates on category one goods (e.g. raw materials, semi-finished goods, producers' goods, and items imported for public use such as minibuses, buses etc.) range from 0% to 10%. The rates are 20% to 35% for category two goods (consumer or finished goods imported for personal use or for a non-productive purpose). Visitors are allowed to import items up to a specified value duty-free.

Excise tax applies on a variety of goods. All importers and exporters must be registered with the Ministry of Trade and obtain a trading license. The ministry regulates imports. Foreign exchange permits are required for all importers. Highly protective tariffs are applied on certain items such as textile products, leather goods etc., to protect local industries.

Table 2.1. Ethiopia-Tax rate for Vehicles importer (%)

	Customs Duty	Excise Tax	Sur Tax	VAT	Withholding Tax
Cylinder Capacity 1000-1300CC	35	30	10	15	3
Cylinder Capacity 1301-1800CC	35	60	10	15	3
Cylinder Capacity 1801-3000CC	35	100	10	15	3
Cylinder Capacity >3000CC	35	100	10	15	3
Complete Build Up (CBU)	35	0	10	15	3
Semi Knock Down (SKD)	10	0	10	15	3
Complete Knock Down (CKD)	5	5	0	15	3
C-cabin and single cabin, carrying capacity not exceeding 1500kg	35	0	0	15	3
Public transport – seating capacity ≤ 15 Passengers	35	0	0	15	3
Public transport – seating capacity > 15 Passengers	10	0	0	15	3
Truck	10	0	0	15	3

Source: Ethiopia Revenue and Customs Authority; Fitch Solutions, 2019.

Ethiopia has a growing middle class. This will see the demand for motor vehicles growing in the coming years. Although value chain participation is limited and no targeted policies have been put in place yet, the government has recognized the significance of attracting vehicle assembling multinational corporations in the industry and is creating a sustainable platform for long-term foreign investment. The country's under develop market should be identified as a long-term opportunity for first movers who seek to position themselves in the East African and broader African automotive market.

2.1.5. Ethiopian Manufacturing Sector

Manufacturing is a wealth-creating sector of an economy, and closely connected with engineering and industrial design and provides important material support for national infrastructure. It involves the mechanical or chemical transformation of materials or substances into new products. It makes products from raw materials by the use of manual labor or machines and is usually carried out systematically with a division of labor. In a more limited sense, manufacturing is the fabrication or assembly of components into finished products on a fairly large scale (CSA, 2012).

The government of Ethiopia liberalized the economy since 1991. The government has designed and adopted Agricultural Development Led Industrialization (ADLI) strategy to eradicate poverty. The Industry Development Strategy of the country 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. As clearly stated in the country's industrial development strategy, value adding private sector is considered the engine of the sectors' growth. In five year Growth and Transformation Plan (GTP) implementation of the country, the industry sector received utmost emphasis by way of encouraging export based and import substituting industries. Vertical and horizontal linkages between agriculture and industrial sector have been promoted. This also stress the commercialization and agro-industrialization of the agriculture sector and value chain approach.

Despite the tremendous efforts made and the economic growth achieved, the Ethiopian economy remains beleaguered by structural problems. The manufacturing sector in Ethiopia is still at its infancy. In comparison with the agriculture and service sectors, the manufacturing sector, for example, has a limited share in terms of production, employment, and exports. Thus, the Ethiopian economy needs a more dynamic growth so that it can reduce its dependence on the fragile, rainfall dependent, and climate change vulnerable agricultural sector. (An overview of Ethiopian manufacturing sector), (2014).

2.1.8. Global Automotive Industry

A global new auto sale is about 100 million per year, growing 1% to 5% annually (depending on year). China contributed most to this growth, but its market slowed down recently. The global firms with full technical capability to lead and innovate are less than 20. They are from Japan, Germany, France, US and Korea. They compete fiercely for global market and new technology.

Technology is changing significantly with e-cars, auto-drive, AI, car sharing, etc. Global giants are seeking mutual alliance to share huge R&D costs. New players (Tesla, Google, etc.) are emerging. How effectively China can join this race remains to be seen. Other auto producing nations (India, Mexico, Brazil, Indonesia, Thailand, Vietnam, South Africa, etc.) are outside the global frontline race. They mainly rely on technology of global giants. Their attempts to link with giants, supply components domestically, train engineers, and even create national cars met with moderate success in some countries but dismal failure in others.

2.1.6. Vehicle assembling project in Ethiopia

The Ethiopian Investment Commission (EIC) reports that 31 foreign vehicle investment projects (largely Chinese projects but also some involvement of European companies) and 73 domestic vehicle assembly investment projects have been licensed since 1998. This means that a total of v104 companies have been licensed for vehicle assembly in the country over the past two decades.

However, only a few of these are operational, with the vast majority licensed at the pre implementation stage. (Domestic assemblers, 2015 In-market interviews and company websites,2016).While actual production numbers are not available, a number of assemblers indicated that plants were not operating at full capacity due to the current limited market size and in adequate access to foreign exchange to cover imports of Semi Knocked-Down (SKD) kits. During the past decade, a number of leading international automotive companies have carried out market scoping exercises to assess the viability of Ethiopia as an assembly hub. However, due to the limited market size, large-scale investments by these automotive firms have not yet materialized.

While SKD production currently takes place, companies such as BAI are looking to move to Complete Knocked-Down (CKD) kits and possibly the full production of vehicles within the next five years. BAI dominates the local production market, with a number of private sector players perceiving it to be difficult to compete against the state-supported assemblers in the current environment. BAI also benefits greatly from local government patronage of its products, especially buses used for public transport schemes in Addis Ababa. Although a number of assemblers source some components such as tires locally, Ethiopia has no defined local content requirement. A number of assemblers indicated that they are instructed that local content should be approximately 30% in order to qualify for the 30% tax incentive associated with all local manufacturing, but that no written agreement exists between assemblers and the state. Due to Ethiopia's tax system, which subjects vehicles to tax depending on their engine size rather than age or origin, it is often cheaper to import a second-hand vehicle with a smaller engine size than it is to assemble a vehicle locally, despite import taxes on these vehicles. Ethiopia is subject to foreign exchange controls and exporters are given preferential access to foreign exchange. Insufficient availability of foreign exchange causes inefficiencies and planning challenges for importers of SKD kits, Fully Built-Up (FBU) units and parts (for assembly or repair) and inhibits the growth of the assembly and retail market.

About CBU, SKD, CKD & Supporting Industry

• Complete Build Up (CBU) means import of finished vehicles.

• Semi Knock Down (SKD C) and Complete Knock Down (CKD) mean import of component sets and semi-assembled parts (assy's) to produce finished vehicles.

• SKD is simpler and uses more ready components than CKD. Official definitions vary across countries. CKD normally involves welding and painting while SKD is just putting parts together by screwing and bolting.

• There are other Knock Down types but they are not used for policy purposes in Ethiopia:-

• Supporting Industry (susonosangyo) is a Japanese term for domestic producers of mechanical components (not imported parts) that are supplied to assemblers operating domestically. It is also called ancillary industry (India), industrial verticals (Singapore), subsidiary firms, etc.

• SKD/CKD is the very first step (entry stage) in automotive production. Most Asian nations have graduated from this stage and now strive to create strong supporting industry for technology learning, domestic value creation and joining global value chains. But this requires sufficient industry volume, serious HR training and proper policy support.

2.1.7. Challenge and Opportunities of Import Substation of Automobile Industry

Ethiopia is also tinkering to some extent with import substitution. Xinhua (2017) reports that Ethiopia is saving billions of dollars manufacturing local goods and producing services to substitute imports. Between 2012 and 2017, nearly $2.3 billion was saved due to import substitution. Some of the key substituted products included vehicles, vehicle spare parts, elevators, and steel products (Xinhua, 2017). All these products come from resource- and labor-intensive industries. Xinhua (2017) writes that the Ethiopian government expects that local companies will substitute imported cement, textile, vehicles, sugar, and heavy-duty trucks. This policy has its advantages, but it also has drawbacks.

East Asian countries teach a lesson of success in import substitution. Countries that adopted the policy were able to create a robust industrial base and a comprehensive manufacturing infrastructure. Both serve as a foundation for continued economic growth and sustain countries' competitive advantage in the global market. With more local manufacturers involved in industrial and economic processes, countries will be less vulnerable to external market volatility, relying on internal resources and providers instead. At the same time, Ethiopia should not forget that import substitution industrialization is a state-centered and state-oriented policy. It can thus limit the true functioning market forces. Furthermore, Ethiopia cannot cut its ties with the global world; nor can it substitute all products and industries.

The pros and cons of import substitution and its implications for the Ethiopian economy should be clearly evaluated and analyzed. Significant savings certainly create a promising and positive climate, but everything is good when it is balanced and moderate. Import substitution should also follow this rule. Ethiopia may want to substitute imports in the most competitive industries, leaving the most resource-intensive products to more experienced foreign traders. The country may also want to look more thoroughly into the failures or negative legacy of import substitution

in East Asian countries. In any case, short-term savings should not blind Ethiopian authorities in its striving to acquire and retain a strong manufacturing advantage. The Ethiopian government must think several steps ahead to realize the advantages and disadvantages of import substitution industrialization in the long run.

Therefore, the country should decide if it is willing to continue with import substitution industrialization or switch to a different strategy for continuous economic development and more effective development and trade ties.

The Government's broad economic and industry specific policies are designed to increase the growth potential and international competitiveness.

2.1.8. Factors Affecting the Vehicle Assemblers in Ethiopia

Ethiopia in particular and Africa in general are recognized as a new frontier and growing market. Ethiopia is a potentially large automotive market within Africa. However, a number of entry barriers exist;

- Tax and tariff structure
- Severe foreign currency shortage (unique to Ethiopia)
- Lack of adequate bank finance
- Problems with incentive structure
- Used vehicles and parallel imports
- Fluctuating demand (seasonality of the demand)
- Tough terrain (road condition)
- Lack of capacity in repair and maintenance

2.2. Empirical Literature

Eskinder Desta, (2007) examined the development of the automotive industry in Ethiopia and its contribution to the overall economy in general. The researcher concluded that the development level of automotive industry is low in comparison to other developing countries. The result from the research also shows that, the contribution of the sector for the national economy and its employment creation is big compared with the investment outlay to the sector.

Dereje Mengesha, (2018) assed the local car assembling industry opportunities, challenges and trend in Ethiopia. The following main points were found as the most challenging area for Ethiopian car assembly industry on the subject of the government finance, customs duty and customs tax, Supply and Logistics service, procurement procedure and Problem of the Supply of Infrastructure policies and procedures are primarily examined and concluded from the research findings. So that if all these identified challenges could not get special consideration and solution as well as the given opportunities are properly unutilized the industry members will go to withdraw from their operation gradually in the near future.

Melkamu Tamrie, (2019) assess the opportunities and challenges of import substitution in Ethiopia. The concluded that there is a lack of attention in industry policy making that tolerate raw material production in the country and the Ethiopian import substitution policy commonly involves attempts to restore, upgrade, and build missing production elements of the national economy rather than to achieve real import substitution industrialization. Additionally, Bureaucratic red tape, the difficulty to get well trained labor, technological inferiority and lack of infrastructures are also challenges of import substitution industrialization. Despite its short comings the government has taken the initiative to encourage local investors to manufacture imported products and it also has tried to attract foreign investment aggressively through its industrial parks and other similar measures. The study recommends that the government should implement quality control, address the lack of skilled manpower, reduce dependency on imported raw materials, and enhance access to finance, improve infrastructures, and curtail bureaucratic red tapes and corruption.

Milion Kiros, (2019) analyzed the role and challenges of locally vehicle assembled in Ethiopia, the case of Bishoftu Automotive Industry. It stated that the contribution of vehicle assembly industry is highly importance for the national economy, job opportunity, and technology transfer and employment creation as compared to the investment outlay of the sector. Therefore, attention to local vehicle assembler in strengthening automotive industry is must. Upgrading the capacity in maintenance and after sales servicing of automotive is important. The finding indicates that, the vehicle assembly has a vital role in regard to profit, economic role, employment opportunity, and technology transfer. Thus, vehicle assembly industry is still shown a high potential for the future as the economy is at growth stage. The reason for all major challenges on locally assembled vehicles is brokers, attitude of the society towards Second hand imported vehicle and Lack of skilled specialized manpower though some of the challenges that should be solved in the long run perspectives.

Abraham Birahanu, (2018) assessed the economic contributions, challenges and prospects of Automobile Manufacturing Companies in Ethiopia by taking Belayab Motors PLC as a case study organization. It stated the development level of automobile industry in the country is low but has high potential. The main challenges are lack of access to finance, lack of skilled manpower access to information, and lack of availability of raw material, high tax rate and corruption. Political stability, social stability, macroeconomic stability, cheap labor, tax incentives and cheap electricity are stated as opportunities.

2.3. Conceptual framework

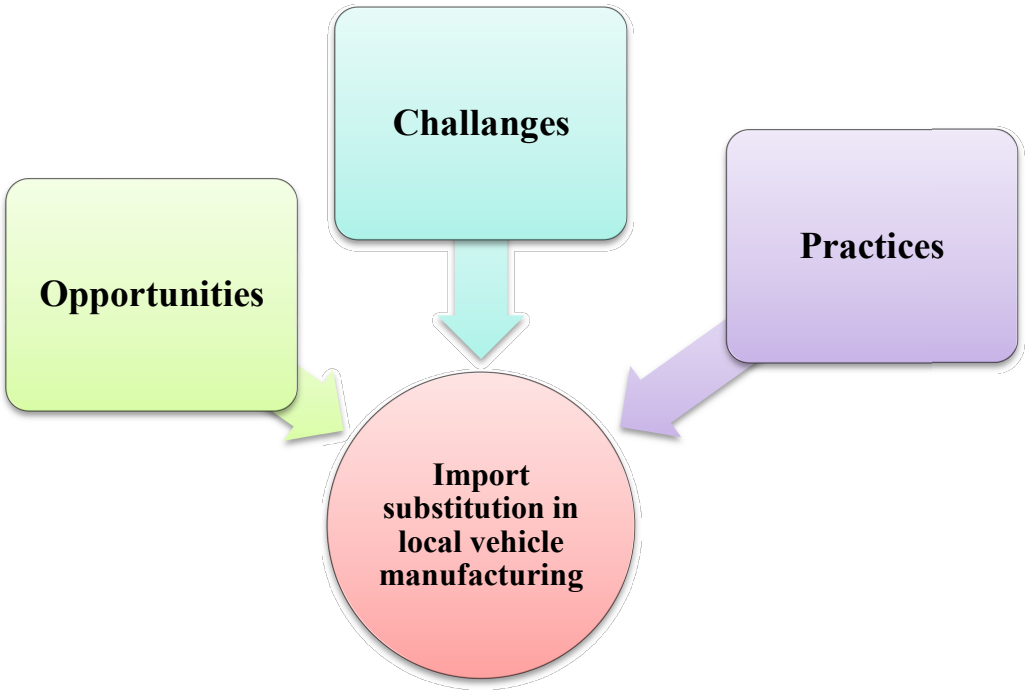

Fig 1: Conceptual framework

Source Researcher constructs (2021)

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

This chapter present the overall research approach adapt and design, the data sources use, the data gathering techniques employee, the sampling frame, the data collection procedures, and the data analysis & presentation approach use in planning and carrying out this research.

3.1. Research Approach

The research approach used mixed method research approach with descriptive design, which allow both qualitative and quantitative methods used to analyze for data collected from customers and employees. The reason behind using descriptive study design is that the researcher is interested in describing the existing situation under study. This study used descriptive analysis that describes the factors that lead to import substitution.

3.2. Research Design

The study used descriptive research design in order to asses challenge and opportunity of import substitution on local vehicle assembling. A descriptive research design was used to undertake the current study. The method is preferred as it permits gathering of data from the respondents in natural settings.

3.3. Target population

The target populations of the study were the Employees and customers of the four vehicle manufacturers in Addis Ababa. And respondents selected for the study were taken from local assembler in Ethiopia that assembling two-wheel, three-wheeler and car cylinder capacity within 500cc up to 2000cc and public servants and customers of those companies.

3.4. Sampling Techniques

A purposive sampling technique and convenience sampling techniques were used to determine the employee and customer respondents respectively from each of four vehicle assemblers.

The following are selected employees who have direct relation to vehicle assembly from each of four vehicle assembler and a total of 48 employees and management staffs were selected.

In order to sample customer respondents, the study used Malhotra (2007), a sample of 200 customers had been selected from the area of the study.

3.5. Data Types and Sources

Both Primary and secondary data were used in order to assess the stated objectives. Primary data were collected from employees and customers.

Secondary data were collected form books;, journals, company records, and others published materials.

3.6. Data collection method

Primary data were collected from the respondents using two separate questionnaires for employees and customers. The questionnaires consisted of two sections; Section one consists of relating to the profile of the respondents while section two consists of items referring to the area of study.

Once completed, the researcher personally collected the questionnaires. This gave the student the opportunity to clarify certain issues arising from the various responses.

3.7. Data analysis techniques

For purposes of this study, the data were analyzed by employing descriptive statistics such as percentages, and tabulation. Descriptive statistics were used to present quantitative descriptions and aided in simplifying large amount of data. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually very quantitative analysis of data. Finally, the data that were obtained through a questionnaire is then analyzed manually by using statements, tables, percentage frequency, mean and standard deviation.

3.8. Validity & Reliability

3.8.1. Validity

The researcher has selected participants randomly so that characteristics had the probability of being equally distributed and recruits large sample to account or compare these outcomes. The researcher used the same instrument for pre-test and post-test measures. The content validity of the instrument for the present study was ensured as the import substitution factors and items are identified from the literature and were reviewed by professionals and academicians. Pilot tests were then conducted with customers and employees who were seen as similar to the population for the study. The purpose of the pre-testing was to refine the questionnaire and to assess the validity of measures in Ethiopian context.

3.8.2. Reliability test result

Alpha reliability is regarded as a measure of internal consistency of the mean of the items at the time of administration of the questionnaire. Cronbach□s alpha is a reliability coefficient that indicates how well the items in a set are positively related to one another. It is computed in terms of the average inter correlations among the items measuring the concept.

Reliability is calculated in such a way that it represents the reliability of the mean of the items, not the reliability of any single item. Therefore, the alpha reliability of 4 items is higher than that of 5 similar items. This coefficient can hold a value of 0 to1. The result of 0.7 and above implies an acceptable level of internal reliability. The result of reliability test for the questionnaire is shown in the following table. As it is indicated in the table, the test result is between 0.86 and 0.92. Therefore, based on the test, the results for the items are reliable and acceptable.

Table 3.1 Reliability test result for the questionnaire

Item	Number of Item	Cronbach's Alpha
Import substitution practice of Local vehicle assembly	4	.926
Country's opportunities of local vehicles assembly	5	.882
Country's challenges of local vehicles assembly	5	.865

Source: Researcher constructs (2021)

3.6. Ethical Issues

The researcher addressed ethical considerations of confidentiality and privacy. I used a rigorous and conscious effort at all times to sustain this promise. A guarantee was given to the respondents that their names should not be revealed in the questionnaire and research report. Moreover, participants received a verbal and written description of the study, and informed consent was obtained before the survey. Participation in the study was voluntary, and all participant responses were confidential. Finally, a copy of the final report could be given to the respective manufacturing company if necessary.

CHAPTER FOUR

4. DATA PRESENTATION, INTERPRETATION, AND ANALYSIS

This chapter presents data interpretation and data analysis of the study. The data presentation is presented using tables, figures, and graphs. The data interpretation and analysis comprise of the analysis and interpretation of the data collected by using instruments open-ended and close ended questionnaires. The research implements non-probability sampling method in selecting the research participants. Using the non-probability, also referred to as convenient sampling and purposive sampling, enabled the researcher to locate and distribute questionnaires to customers and employees respectively.

In this study, from a total of 200 customer participants, 186 participants provided valid responses to the questionnaire, which sets the accuracy of the response rate at 93%. This is due to 14 responses were rejected for several reasons. And 48 employees selected from 4 of the case local vehicle manufacturing companies as target population who are directly related to import and local vehicle manufacturing sector.

4.1. Background of Respondents

Table 4.1 Demographic background of employee respondents

	Employee					
Items	**Questions**	**Responses**	**Freq**	**Percent**	**Valid percent**	**Cumulative percent**
1.	Gender	Male	20	41.7	41.7	41.7
		Female	28	58.3	58.3	100
		Total	**48**	**100.0**	**100.0**	
2.	Age	18-26	-	-	-	-
		28-37	28	58.3	58.3	58.3
		38-47	12	25.0	25.0	83.3
		48-57	8	16.7	16.7	100.0
		Above 57	-	-	-	-
		Total	**48**	**100.0**	**100.0**	
3.	Educational Level	Certificate	-	-	-	-
		Diploma	4	8.3	8.3	100.0
		Degree	28	58.3	58.3	91.7
		Above 1st degree	16	33.3	33.3	33.3
		Total	**48**	**100.0**	**100.0**	

As depicted in the above table 4.1. Gender frequency of the respondents shows that the numbers of male respondents have almost equal proportion to female respondents. This is 20 (41.7%) of the respondents were male, while 28(58.3%) were female respondents.

In the above table Item number 2 indicated the results of respondents' age and demonstrates that 25(58.3%) % of the respondents age is between 28-37, 12(25%) of respondents age is 38-47 and 8(16.7%) respondents age is between 48-57.

As shown in the table item number 3 (8.3%) of respondents hold diploma, 28(58.3%) hold a first degree. In the other way, 16 (33.3%) were above 1st degree holder. This indicates respondents which were contacted for this study can understand the subject issue.

Table 4.2 Demographic background of Customers respondents

	Customers					
	Items	Questions	Responses	Freq	Valid Percent	Cumulative percent
1.	Gender	Male	147	79.0%	79.0%	79.0
		Female	39	21.0%	21.0%	100
		Total	**186**	**100%**	**100%**	
2.	Age	20 – 30	20	10.8%	10.8%	10.8
		31 – 41	51	27.4%	27.4%	47.2
		42 – 52	81	43.5%	43.5%	83.3
		Above 53	34	18.3%	18.3%	100
		Total	**186**	**100%**	**100%**	
3.	Educational Level	Diploma	4	2.2%	2.2%	2.2
		First Degree	115	61.8%	61.8%	97.8
		Master's Degree	53	28.5%	28.5%	36
		Above	14	7.5%	7.5%	100
		Total	**186**	**100%**	**100%**	

As it is depicted in item 1 of table 4.2, concerning gender distribution 147 (79.0%) of the participants are male, and the rest 39 (21.0%) of the participants are female. This implies that the majority of the respondents are male.

With respect to age category as shows in item 2 of the same table the highest number of respondents is registered in the age group consisting of 42 to 52 years, with 81 participants, which accounts for 43.5% of the study sample population.

From the above table number 4.2. Item number 3 the second and third highest age groups are the age group consisting of 31 – 41 years, with 51 participants (27.4%), and participants who are above 53 years, with 34 participants (18.3%) of the sample population. The age group consisting

of 20 – 30 years, with 20 participants (10.8%), has the least number of participants. Therefore, the finding from the age profile of the respondents indicates that the majority of the respondents, constituting more than half of the total population, are above the age of 42.

Item 3 in the same table above, clarifies the educational status of respondents: out of the total respondents 4 (2.2%) are diploma holders, whereas 115 (61.8%) are first degree holders, and 53 (28.5%) has master's degree, and 14 (7.5%) of the participants are above master's degree. Based on the source of the above data, the educational background of the respondents shows that the respondents have attempted the questions, with an understanding.

4.2. Practice of Import substitution in local vehicle manufacturing

Table 4.3. Employee opinion on policies, rules, and regulations of import substitution

	Policies, rules, and regulations of import substitution	N	Min	Max	Mean	Std. Dev.
1	The investment incentives given for local vehicle manufacturing is encouraging	43	3	5	3.13	.655
2	The government support local manufacturing vehicles	43	3	5	2.55	.486
3	There is clear rules and regulation that govern local vehicle manufacturing	43	2	5	2.98	.495
4	There is suitable policy that support local vehicle manufacturing	43	3	5	2.95	.491

From the table above no 4.3.Import substitution practices have been adapted to moderate extent (mean lies between 2.55 and 5) the investment incentives given for local vehicle manufacturing is encouraging (mean 3.13), the government support local manufacturing vehicles (mean, 2.55), there is clear rules and regulation that govern local vehicle manufacturing (mean 2.98), There is suitable policy that support local vehicle manufacturing (mean 2.95).

Based on the above result the existing practice import substitution in import substitution is moderate with a group mean value 2.974. This also implies that the current import substitution has problem with policies, rules, and regulations of import substitution.

According to Kuzmin (2016) The modern, largely forced trend of import substitution is aimed at the maintenance of the food and national security while increasing the competitiveness of the economy The policy of import substitution is not new to the world community: a number of countries from Latin America to East Asia and Europe have circumvented several stages of its implementation. The positive results achieved by them were the growth of employment and the reduction of unemployment, the more complete utilization of the national resources, the stimulation of the scientific and technological progress, the improvement of the living standards and the competitiveness of the countries.

Table 4.4. Customers attitude toward local vehicles

No	Customer attitude	N	Min	Max	Mean	Std. Dev.
1.	I have a positive feeling towards local manufactured vehicles	43	3	5	3.44	.502
2.	I would prefer to buy from local manufactured vehicles other than other vehicles manufactured abroad	43	3	5	2.30	.408
3.	There are local vehicles which suits my style	43	3	5	3.16	.688
4.	I recommend others to use imported vehicles than local vehicles	43	2	5	2.28	.401

As depicted in the above table 4.4 I have a positive feeling towards local manufactured vehicles(mean 3.44), I would prefer to buy from local manufactured vehicles other than other vehicles manufactured abroad(mean 2.30), There are local vehicles which suits my style(mean 3.16), I recommend others to use imported vehicles than local vehicles(mean 2.28).

According to the finding of the research it has been clearly seen that customers attitude towards local vehicles is poor with a group mean value of 2.792. From this it is possible to deduce that the company customer relationship is poor.

Table 4.5. Customer's attitude toward imported vehicles

No	Customers attitude toward imported vehicles	N	Min	Max	Mean	Std. Dev.
1.	I would prefer to buy from imported vehicles other than local vehicles	43	2	5	3.30	.416
2.	I believe that imported vehicles have superior quality that local vehicles	43	3	5	4.01	.732
3.	There is range of variety of imported vehicles than local vehicles	42	1	6	3.69	.250
4.	I recommend others to use imported vehicles than local vehicles	43	2	6	3.91	.321

As it is revealed in table 4.5 I would prefer to buy from imported vehicles other than local vehicles(mean 3.3), I believe that imported vehicles have superior quality that local vehicles is moderate (mean 4.01) , There is range of variety of imported vehicles than local vehicles (mean 3.69), I recommend others to use imported vehicles than local vehicles is poor with mean value of 3.91,This implies that the customers have good perceptions towards imported vehicles and given their opinion that they prefer to purchase imported vehicles. The finding also indicates that the overall customers attitude towards imported is higher with a group mean value

According to Fox all and Goldsmith (1994) it is believed that attitudes are the crucial link between what consumers think about products and what they buy in the marketplace. In terms of the international marketplace, Darling and Puetz (2002) argue that consumer behavior is strongly influenced by consumer attitudes towards products, as well as by the marketing practices associated with those products. Darling and Puetz (2002) also argue that an important influence on the development of consumer attitudes towards products is the country of origin of these products. As the manufacture of products and the search for suppliers become increasingly global activities, an understanding of the attitudes and behavior of buyers in terms of global products is an aspect that is achieving increased importance (Ahmed, d'Astous& El Adraoui, 1994 and Nijssen & Douglas, 2004).

4.3. Country's Opportunities of Local Vehicles Assembly

Table 4.6. Employee opinion on country's opportunities of local vehicles assembly

No	Country's Opportunities of Local Vehicles Assembly	N	Min	Max	Mean	Std. Dev.
1.	There are well trained experts to manufacture local vehicles	43	2	5	2.70	.989
2.	There are suitable conditions to manufacture local vehicles	43	2	5	3.02	.854
3.	There is enough market to manufacture local vehicles	43	2	5	4.0	.832
4.	Financial institution provides the financial support to manufacture local vehicles	43	2	5	2.67	.265
5.	Local vehicles will support balance of payment	43	2	5	3.17	.751
6.	Local vehicles will eliminate the problem in foreign exchange	43	2	5	3.18	.793
7.	Local vehicles have fair price than imported vehicles	43	3	6	3.05	.688
8.	Local vehicles will provide better payment options	43	2	7	2.7	.209

As shown in the above table there are well trained experts to manufacture local vehicles is poor (mean 2.70), There are suitable conditions to manufacture local vehicles is moderate (mean 3.02), there is enough market to manufacture local vehicles is high (mean 3.0), financial institution provides the financial support to manufacture local vehicles is poor (mean 2.67), local vehicles will support balance of payment (mean 3.17).local vehicles will eliminate the problem in foreign exchange is moderate (mean 3.18), local vehicles have fair price than imported vehicles (mean 3.05), local vehicles will provide better payment options is poor (mean 2.7).

From the above presented data, the researcher can conclude that the country import substitution opportunity in regard to local vehicle manufacturing as moderate level and have market demand as an opportunity. This is based on the mean value obtained with respect to opportunity of import substitution in regard to local vehicle manufacturing which scored 3.06.

Therefore, based on the analysis, empirical study and the current (21th) century real practice and importance of import substitution, even if the group mean value shows moderate mean value, with respect to these stated issues the result is not sufficient to create effectiveness and efficiency in import substitution activities.

However, according Litman (2002) local vehicles assembly directly benefits vehicle users: favorable pricing, investment, facility design, parking and land use practices make driving relatively fast, convenient and affordable. It also allows businesses to use more centralized distribution systems and Just-In-Time production, and to access a wider range of possible employees and customers, which can cause certain types of agglomeration efficiencies, such as large retail centers. These savings and efficiencies can increase economic development if they increase the productivity of local industries. These productivity benefits are separate and in addition to consumer benefits from increased mobility.

4.4. Challenges of local vehicle assembly as import substitution

Table 4.7. Employee opinion on challenges of local vehicle assembly as import substitution

No	Challenges of local vehicle assembly as import substitution	N	Min	Max	Mean	Std. Dev.
1.	There is shortage of foreign currency for automotive manufacturing sector in Ethiopia.	43	3	5	2.51	.592
2.	There is low tariff protection for automotive manufacturing sector in Ethiopia	43	2	5	3.19	.541
3	The automotive manufacturing sector in Ethiopia has lack of access to market	43	3	6	3.75	.688
4	There is shortage of skilled manpower for automotive manufacturing sector in Ethiopia.	43	2	7	2.7	.209
5	There is infrastructure development problem in Ethiopian automotive manufacturing sector.	43	3	5	3.44	.502

As it is depicted in the above table 4.7. respondent's perception in regard to challenges of local vehicle assembly as import substitution; there is shortage of foreign currency for automotive manufacturing sector in Ethiopia.(mean 2.51),There is low tariff protection for automotive manufacturing sector in Ethiopia. (mean 3.19), The automotive manufacturing sector in Ethiopia has lack of access to market(mean 3.75),There is shortage of skilled manpower for automotive manufacturing sector in Ethiopia. (mean 2.7). There is infrastructure development problem in Ethiopian automotive manufacturing sector. (mean 3.44). this implies that local vehicle manufacturing sector as import substitution face challenges on getting foreign currency to purchase and skilled manpower.

According to the finding of the research it has been clearly seen that the bank rewards isn't satisfactory for its employees with a group mean value of 2.79. From this it is possible to deduce that the bank employees weren't satisfied with the reward the bank provides to them. This means the bank fails to evaluate the effectiveness of compensation and benefit packages on regular basis.

The personal observation of the researcher itself conformed that as the foreign currency shortage worsened the National bank of Ethiopia introduced foreign currency allocation requirements to direct foreign currency with the ambition of encouraging more exporters and limit the amount of exchange given for importers.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the last part of this study which deals with summary of major findings, conclusions and recommendations.

5.1. Summary

The information gathered from the data analysis and the findings of this research is summarized in this section of the research.

Accordingly, the finding indicates the practice of import substitution of local vehicle manufacturing had some problem even if the investment incentives given for local vehicle manufacturing and it is found that the government support local manufacturing vehicles.

And an interesting finding is that there is lack of clear rules and regulation that govern local vehicle manufacturing which can backward the sector. Another finding is that the local vehicle manufacturing sector lacks suitable policy as majority of respondents disagree to the statement.

Regarding opportunities of local vehicles assembly, the result from the research finding indicated that the vehicle manufacturing sector lacks well trained experts to manufacture local vehicles. On contrary an encouraging research finding indicates that there is enough market to manufacture local vehicles. In addition, the research finding indicated that the vehicle manufacturing sector isn't getting the support from financial institution. And also,

Regarding to customers attitude towards local manufactured vehicles, the research finding indicates that customer had relatively poor attitude towards local vehicles with customers even if majority of respondents have a positive feeling towards local manufactured vehicles, a large number of respondents would prefer to buy imported vehicles than from local manufactured vehicles.

Furthermore, the findings of the study identified that customers have a positive attitude to imported vehicles with majority of customers prefer to buy from imported vehicles other than local vehicles and believe that imported vehicles have superior quality that local vehicles.

5.2. Conclusion

The existing practice of import substitution in local vehicle manufacturing indicates that having clear rule, regulation and suitable policy that govern local vehicle manufacturing and customers have positive attitude towards imported vehicles than those locally manufactured vehicles which is homework for those companies to work on the attitude and perception of customers since attitude are the driver forces for customers purchasing behavior toward any products.

The major challenge that can be explained is that the sector is getting well trained and experts and also the government support in regard to local vehicle support is also another challenge for the sector which has to be improved. Besides infrastructure development problem in Ethiopian automotive manufacturing sector is poor which negatively affect the local vehicle manufacturing sector. In addition, the research also indicated that the local vehicle manufacturing sector has financial problems such as getting foreign currency in order to import vehicle inputs.

Regarding to the opportunity the local vehicles have, the research finding indicates the local vehicle manufacturing sector has enough market which can increase companies increase supply chain efficiency and insure adequate cash flow. Moreover, the tariff protection for automotive manufacturing sector in Ethiopia is good and encouraging as companies and also the tax protection for local vehicle manufacturing sector benefit companies who enter to the sector by freeing from tax companies who are based in Addis Ababa for three years and for five years companies based outside of Addis Ababa.

5.3. Recommendations

Based on the major finding the following recommendations are suggested by the researcher;

In regard to existing practice of import substitution in local vehicle manufacturing, government should make suitable policies that create conducive local vehicle manufacturing environment. In addition, government should work on financial institutions in order to provide the necessary support for the sector as the sector is an input for the improvement of financial institution through balance of payment. Furthermore, customer attitude towards local vehicles it is recommended that companies should work on their product quality, customer more importantly making research on customers' preference and demand vehicle styles.

In order to improve the sector opportunity and utilize the exiting local vehicle manufacturing opportunities companies should focus on properly utilizing the existing opportunity such as ample market demand for local vehicle products. Local vehicle manufacturing companies should also change challenges to opportunity such as training experts and educated manpower in the sector can overcome the challenge and also be an opportunity for creativity and innovation int the vehicle manufacturing sector as well trained and educated experts bring new ideas and creativity to the companies.

Regarding to the challenges in the local vehicle manufacturing sector, local vehicle manufacturing companies can overcome these challenges one by pushing the government by forming cooperative vehicle manufacturing association. Another solution can be technology transfer from foreign vehicle manufacturers on how to manufacturer vehicle inputs locally can solve the foreign exchange problem faced by them.

REFERENCE

1. *Abdul, R.K., Mokhlis, S. and Othman, M.N. (2002). Ethnocentrism Orientation and Choice Decisions for Malaysian Consumers: The effects of Socio-Cultural and Demographic Factors, Asia Pacific Management Review, 7(4), pp. 553-572.*
2. *Alexander M. Zobov , Ekaterina A. (2017) Comparative Analysis of the Best Practices in the Economic Policy of Import Substitution, European Research Studies Journal Volume XX, Issue 2A,*
3. *Altenburg T (2010), Industrial policy in Ethiopia, Available at http://www.die-gdi. De /CMSHomepage*
4. *Batra, R., Ramaswamy, V., Alden, D., Steenkamp, J., and Ramachander, S., (2000), Effects of brand local and non-local origin on consumer attitudes in developing countries, Journal of Consumer Psychology, Vol. 9, pp: 83-95.*
5. *Brendon J. Cannnon& Ash Rossiter (2017), "Ethiopia, Berbera Port and the Shifting Balance of Power in the Horn of Africa". Khalifa University of Science & Technology. UAE,*
6. *Cronbach, L.J. (1951). Coefficient alpha and the internal structure of tests. Psychometrika, 16(3):297–334. Hair (Jr.), J.F., Anderson, R.E., Tatham, R.L. & Black, W.C. (1998). Multivariate data analysis, 5th Ed. New*
7. *Dr PedagopuViswa Mohan & Mr Mebratu Markos Woldegiorgis (2018). "The current scenario of Automotive industry in Ethiopia", Faculty, Department of Mechanical Engineering, WolaitaSodo University, SNNP Region, Sodo City Ethiopia. Vol. 8 Issue 1.*
8. *Evans, P. (1995): Embedded autonomy: States and industrial transformation, Princeton, NJ.: Princeton Univ. Press.*
9. *GebrehiwotBaykedagn (1886-1919). The State and Economy in Early 20th Century Ethiopia by. Translated by TenkirBonger 2020.*
10. *Gebreeyesus, M. (2008): Firm turnover and productivity differentials in Ethiopian manufacturing, in: Journal of Productivity Analysis.*
11. *Gebrehiwot, Baykedagn. (1995) The State and Economy in Early 20th Century Ethiopia*
12. *Kenichi Ohno (2019), "International Comparison of Automotive Assembly Policies".*

13. *James Lloyd and Bisrat Teshome (2018) Foreign Exchange Allocation and Access for Businesses in Ethiopia (Redacted version) Business Environment Reform Facility, UKAid*
14. *Javalgi, R.G., Khare, V.P., Gross, A.C. & Scherer, R.F. 2005. An application of the consumer ethnocentrism model to French consumers. International Business Review, 14(3):325–344.*
15. *Johansson Johnny K, P Douglas Susan, Nonaka Ikujiro (1985). Assessing the impact of country of origin on product evaluations: A new methodological perspective, JMR, Journal of Marketing Research 22, (4),pp.388-397.*
16. *M. Narasimha, R. Rejikumar& K. Sridhar (2013), Need For Strengthening Automobile Industry in Ethiopia. International Journal of Modern Engineering Research, 1-5.*
17. *Maznah Ghazali, Products and Country of Origin Effects: The Malaysian Consumers' Perception International Review of Business Research Papers Vol. 4 No.2 March 2008 Pp.91-102.*
18. *Mohamad, Osman, et al. (2000). Does 'Made In…' Matter to Consumers? A Malaysian Study of Country of Origin Effect. Multinational Business Review, Vol. 8, No.2 (Fall); ABI/INFORM Global.*
19. *MuluGebreeyesus (2012) Industrial policy and development in Ethiopia: Evolution and present experimentation.*
20. *National Bank of Ethiopia (NBE) (2018/19). Annual reports. Available at: www.nbe.gov. et/publications/annualreport.html.*
21. *PedagopuViswa Mohan & Mr Mebratu Markos Woldegiorgis (2018). "The current scenario of Automotive industry in Ethiopia", Faculty, Department of Mechanical Engineering, WolaitaSodo University, SNNP Region, Sodo City Ethiopia. Vol. 8 Issue 1.*
22. *Todd Litman and Felix Laube (2002) Automobile Dependency and Economic Development. Institute for Science and Technology Policy.*
23. *https://www.worldbank.org/en/country/Ethiopia/overview.*
24. *https://www.reuters.com/article/ethiopia-autos. 2018.*

APPENDICES

St,Mary's University

SCHOOL OF GRADUATE STUDIES-MBA PROGRAM

QUESTIONNAIRE FILLED BY EMPLOYEES

Dear Respondent,

I would like to express my sincere appreciation for your time, honest and prompt responses.

This questionnaire is designed to collect data for examining the challenges and opportunities of import substitution in local vehicle assembly. The information that you offer me with this questionnaire will be use as a primary data in which I am conducting as a partial requirement of Master of Business Administration. Hence, this research is believed to be evaluated in terms of its contribution towards investigating the challenges and opportunities of import substitution along with its contribution to improvements in the manufacturing industry of Ethiopia

Thank you for your cooperation in advance!

General Instructions;

- There is no need of writing your name.
- Please try to honestly describe your responses on the space provided.

Part –I: Demographicprofile

1. Gender Male ☐ Female ☐

2. Age: - 18-27 ☐ 28-37 ☐ 38-47 ☐ 48-57 ☐

58 and above ☐

3. Educational level <Grade 12 ☐ Certificate ☐ Diploma ☐ Degree ☐ Above 1st degree ☐

Part Two: Questions directly related to the study

Instruction:

Indicate your answer by ticking the number of your choice corresponding to the choices provided below.

5= Strongly Agree 4= Agree 3= Neutral 2= Disagree 1= Strongly Disagree

No.	Description	1	2	3	4	5
	Practice of import substitution in local vehicle manufacturing					
1	The investment incentives given for local vehicle manufacturing is encouraging					
2	The government support local manufacturing vehicles					
3	There is clear rules and regulation that govern local vehicle manufacturing					
4	There is suitable policy that support local vehicle manufacturing					
	Country's opportunities of local vehicles assembly					
5	There are well trained experts to manufacture local vehicles					
6	There are suitable conditions to manufacture local vehicles					
7	There is enough market to manufacture local vehicles					

8	Financial institution provides the financial support to manufacture local vehicles					
9	The demand for local manufactured vehicles is increasing					
10	Local vehicles will support balance of payment					
11	Local vehicles will eliminate the problem in foreign exchange					
12	Local vehicles have fair price than imported vehicles					
13	Local vehicles will provide many payment options					
	Challenges of local vehicle assembly as import substitution					
14	There is shortage of foreign currency for automotive manufacturing sector in Ethiopia.					
15	There is low tariff protection for automotive manufacturing sector in Ethiopia					
16	The automotive manufacturing sector in Ethiopia has lack of access to market					
17	There is shortage of skilled man power for automotive manufacturing sector in Ethiopia.					
18	There is infrastructure development problem in Ethiopian automotive manufacturing sector.					

19. Finally if you would like to give additional suggestions, please

_____

_____

_____

Your response is greatly appreciated!

Thank you for your time and assistance!

St, Mary's University

SCHOOL OF GRADUATE STUDIES-MBA PROGRAM

QUESTIONNAIRE FILLED BY CUSTOMERS

Dear Respondent,

I would like to express my sincere appreciation for your time, honest and prompt responses.

This questionnaire is designed to collect data for examining the challenges and opportunities of import substitution in local vehicle assembly. The information that you offer me with this questionnaire will be use as a primary data in which I am conducting as a partial requirement of Master of Business Administration. Hence, this research is believed to be evaluated in terms of its contribution towards investigating the challenges and opportunities of import substitution along with its contribution to improvements in the manufacturing industry of Ethiopia

Thank you for your cooperation in advance!

General Instructions;

- There is no need of writing your name.
- Please try to honestly describe your responses on the space provided.

Part –I: Demographic profile

2. Gender Male ☐ Female ☐

2. Age: - 18-27 ☐ 28-37 ☐ 38-47 ☐ 48-57 ☐

58 and above ☐

3. Educational level <Grade 12 ☐ Certificate ☐ Diploma ☐ Degree ☐
Above 1st degree ☐

Part Two: Questions directly related to the study

Instruction:

Indicate your answer by ticking the number of your choice corresponding to the choices provided below.

5= Strongly Agree 4= Agree 3= Neutral 2= Disagree 1= Strongly Disagree

	Customers attitude toward local vehicles					
1	I have a positive feeling towards local manufactured vehicles					
2	I would prefer to buy from local manufactured vehicles other than other vehicles manufactured abroad					
3	There are local vehicles which suits my style					
4	I recommend others to use local vehicles than imported vehicles					
5	I believe local vehicles have quality that I needs					
	Customers attitude toward imported vehicles					
6	I would prefer to buy from imported vehicles other than local vehicles					
7	I believe that imported vehicles have superior quality that local vehicles					
8	There is range of variety of imported vehicles than local vehicles					

9	I recommend others to use imported vehicles than local vehicles					

10. Finally if you would like to give additional suggestions, please

_____

_____

_____

_____

Thank you!

Local Assembling