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The Potential Market Benefits and Challenges of accession of World Trade Organization Ethiopia – the case of Leather Industry in Ethiopia

By SisayTesema

A Thesis Submitted to St Marry University for the Partial Fulfillment of the Requirement of Masters of Business Administration in Project Management

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Addis Ababa, Ethiopia

DECLARATION

I, SisayTesema, the under signed declare that this thesis entitled; '**The Potential Market Benefits and Challenges of World Trade Organization accession of Ethiopia – the case of Leather Industry in Ethiopia**' my original Work. I have undertaken the research work independently with the guidance and support of my advisor Dr.Shiferaw Mitiku. this study has not been submitted for any degree or diploma program in this or any other institutions and the all sources of materials used for the thesis has been duly acknowledged.

_____	_____	_____
Name of Student	Signature	Date

Certificate

This Is To Certify That The Thesis Entitled ‘**The Potential Market Benefits and Challenges of World Trade Organization accession of Ethiopia – the case of Leather Industry in Ethiopia**’ submitted in partial fulfillment of the requirements for the degree of Masters of Business Administration in Project Management of the post graduate studies ,St. Marry University college and is a record of original research carried out By Sisay Tesema Id No “SGS/0684/2012A”, under my supervision, and no part of the thesis has been submitted for any other degree or diploma .The assistance and help received during the course of this investigation have been duly acknowledged. There for I recommend it to be accepted as fulfilling the thesis requirements.

Name of supervisor

Signature

Date

Board of Examiners Approval

This is to certify that the thesis prepared By Sisay Tesema, entitled ‘**The Potential Market Benefits and Challenges of World Trade Organization accession of Ethiopia – the case of Leather Industry in Ethiopia** and submitted in partial fulfillment of the requirements Masters of Business Administration in Project Management with regulation of the university and meets the accepted standards with respect to originality and quality.

Signature of board examiner’s

External examiner	signature	date
Internal examiner	signature	date
Advisor	signature	date
Dean, SGS	signature	date

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The Researcher

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Abstract

Ethiopia is one of the eight least developed countries (LDCs) that are currently in the process of accession to the WTO. Despite pursuing WTO membership for the past eighteen years, the country is joining the global trade body in near future. Progress in the accession process is held back by a series of issues including Ethiopia's reluctance to open some sectors, which are deemed to be of vital importance for the country's economic development, and the protracted nature of WTO accession negotiations. The adoption of the 2012 WTO Accession Guidelines for LDCs has raised hopes that it will give an easy ride to acceding LDCs like Ethiopia.

The objective of this paper is to examine the benefits and challenges for the Ethiopian Leather Industry in joining to World Trade Organization. To identify the benefits and the major perceived challenges for the Ethiopian leather industry in joining World Trade Organization, then to analyze Ethiopia's WTO accession process, including its institutional capacity and how the various domestic political aims, structures and constraints affect the accession process. WTO accession involves a complex and lengthy process, especially for LDCs that aim to implement industrial policies in terms of supplying credit, foreign exchange allocation, import tariffs, export subsidy, etc. Such industrial policies require autonomous policy space, which sometimes run counter to WTO principle and agreements. Ethiopia is a case in point. Ethiopia has been reviewed the foreign trade regime of Ethiopia on the basis of an updated version, which was issued in December 2019 ahead of the Working Party meeting.

Ethiopia plays a major role in the Horn of Africa region, which has the highest concentration of WTO accession activities. "Therefore, the resumption of the accession of Ethiopia is expected to give positive impetus to other African accessions, as well as regional integration efforts in the African continent, such as the African Continental Free Trade Area.

The combination of its desire to practice industrial policy and thus its need to have a policy space and the availability of favorable access to international markets suggests that joining the WTO that, the Government of Ethiopia headed by 2019 Nobel Peace Prize winner Prime Minister Abiy Ahmed is committed to using the WTO accession process as an anchor for its Homegrown Economic Reform Plan and has set the goal of achieving WTO membership by end-2021.

In this thesis an attempt is made to analyze the implication of WTO for the Leather Industry sector and draw possible lessons and best practices for Ethiopia. As was indicated in the literature review trade liberalization was achieved through a long and complicated process of negotiations. Hence, this study paper is designed to facilitate this situation to reap the benefits through WTO accession and to show the tangible benefits of joining the World Trade Organization in leather products Export and leather Industrial Sectors.

ACRONYMS

CAWEE	Center for Accelerated Women's Economic Empowerment,
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CSA	Central Statistical Agency
DBE	Development Bank of Ethiopia
ELIA	Ethiopian Leather Industries Association
ERCA	Ethiopian Revenue and Customs Authority
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
IDS	Industry Development Strategy
ITC	International Trade Center
LDC	Least Developed Country
LIDI	Leather Industry Development Institute
LLP	Leather and Leather Product
MoFED	Ministry of Finance and Economic Development
MoI	Ministry of
MoT&I	Ministry of Trade and Industry
NBE	National Bank of Ethiopia
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VOC	Volatile Organic Compounds
WTO	World Trade Organization

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

The World Trade Organization (WTO) was established in 1995 as the successor to the 1947 General Agreement on Trade and Tariffs (GATT). The WTO is the umbrella international organization responsible for the administration of global rules of trade among nations. It provides the principal contractual obligations determining how governments frame and implement domestic trade laws and regulations. Additionally, the WTO provides members with a platform whereby they can engage one another in serious negotiations on trade matters, on a continuous basis, through periodic negotiation meetings known as 'rounds'.

The year 2020 marks a turning point in Ethiopia's accession process which is currently in its 18th year. After an 8-year break, Ethiopia's accession negotiation process officially resumed on 30 January 2020 with its 4th Working Party meeting. The Government headed by 2019 Nobel Peace Prize winner Prime Minister Abiy Ahmed is committed to using the WTO accession process as an anchor for its Homegrown Economic Reform Plan and has set the goal of achieving WTO membership by end-2021. (4th Working Party on accession of Ethiopia 30 January 2020)

The resumption of Ethiopia's to WTO membership negotiations at the 4th meeting of the Working Party on the country's accession, held on 30 January 2020. It was the first meeting of the working party in almost eight years. Ethiopia is ready to work jointly with members to advance and, hopefully, conclude, the accession process by the end of 2021. (4th Working Party on accession of Ethiopia 30 January 2020)

Ethiopia plays a major role in the Horn of Africa region, which has the highest concentration of WTO accession activities. "Therefore, the resumption of the accession of Ethiopia is expected to give positive impetus to other African accessions, as well as regional integration efforts in the African continent, such as the African Continental Free Trade Area. (4th Working Party on accession of Ethiopia 30 January 2020)

These days more than half of the countries entering the World Trade Organization have benefited and organized; And actions: Looking at the potential challenges in Ethiopia: It is believed that if Ethiopia meet the requirements and become a member of the World Trade Organization, the country was reap many benefits. The main objective of this study is to promote the benefits of global trade and expand market access by reducing and eliminating trade barriers specifically on Leather Industry sector. (4th Working Party on accession of Ethiopia 30January 2020)

As if, more than half of the world's countries are known to be members of the World Trade Organization, and WTO's main goal is to promote international trade and expand market access, reduce and eliminate trade barriers. It also has business value: With the growing number of countries that have adopted a multifaceted trade system, many countries, including Ethiopia, are in the process of joining this new trade. (WTO-MDG 2015)

Even though, Ethiopia is in the process of joining the World Trade Organization. Ethiopia can learn important lessons and best practices from the challenges and opportunities of developing countries that have previously accepted the rules of the WTO. The relevant issues of active participation in the WTO can be very important. Another purpose of this research is to assess whether Ethiopian products and services meet the standards set by WTO member countries and what they need to do to meet challenges with in the respect of Leather and Lather products industries specifically in the capital city of Addis Ababa, Ethiopia.(Tewachew,January15,2020)

The World Trade Organization (WTO) is not only a place of business in the current world, but also a platform for resolving disputes. This forum includes strategies for resolving disputes. Decides on the support or opposition of the Complainant by arranging the conditions under which the Complainant may consult and reach an agreement. (Tavika September 2015)

Ethiopia has been reviewed the foreign trade regime of Ethiopia on the basis of an updated version, which was issued in December 2019 ahead of the Working Party meeting.

1.2 STATEMENT OF THE PROBLEM

Negotiations to join the World Trade Organization (WTO) have officially begun after Ethiopia's eight-year break. It was recalled that Ethiopia announced on January 30, 2020 with the 4th Labor Party meeting. The government of Ethiopia led by the Prime Minister Abiy Ahmed, who won the Nobel Peace Prize, is committed to using the World Trade Organization (WTO) and the Indigenous Economic Reform (Home Grown Economic Reform) Plan as an anchor. The goal of achieving WTO membership by the end of 2021 is a testament to the country's commitment. (WTO Accession NO 98 January/February 2020)

Although there are various studies showing that there have been experiments between 1997 and 2000 and for various reasons it has not been possible to join the WTO.

Hence, there are few studies that provided in-depth analysis of the impact of the WTO (Cordelala and Ismael, (2005), Tedele, (2005), Yusuf, (2008), Constantinos, (2014), Dorrel, and Mengesha (2005) accession process. This research is intended to examine the rationality of this statement or in some other way and to add to the current situation, thus contributing to the challenges and prospects of accession to WTO. (M Larch, 2019)

Ethiopia's willingness to join the WTO is in line with WTO rules, regulations, and administrative procedures — especially those applicable to trade. The impact of WTO membership was depending on Ethiopia's ability to take full advantage of the opportunities created. (S Gashu, 2010)

Promoting trade independence and managing changes in WTO membership; Understanding Ethiopia's economic realities, including its wealth, plays an important role in assessing the impact, foreign trade, and economic-policy characteristics on WTO membership in Ethiopia. Domestic Competitiveness and Transparency are the true effective exchange rate index, which measures the value of a country's commodities. (S Gashu, 2010)

It was strengthen the competitiveness of local industries and increase the export capacity of its products. To this end, building the capacity of existing producers is crucial in an effort to improve their efficiency and productivity. Relatively speaking, it involves the imposition of high-level strategic tariffs; manufacturing of leather and leather products, was enable the government to increase productivity and enable it to take action to increase the competitiveness of the Leather Industry Sectors. Therefore, it is important to carefully consider whether WTO agreements, can be used effectively in negotiation of various variables. (UNCTAD/ITE/TEB2005/1)

Although the Ethiopian leather industry has been involved for more than 80 years, it has been

supplying to the local and foreign markets for the processing and production of hides and skins. Even though the country which is one of the largest in the world in terms of livestock production; In fact, Ethiopia has not been able to reap the benefits as the World Trade Organization (WTO) like other member countries. It is imperative that this large-scale livestock industry not only depend on the country's leather industry development but also join the international trade by adding different values. (UNCTAD/DITC/TED/2018/2)

However, while the potential of the animals is still declining, the role of the Ethiopian leather development industry is to accelerate the country's economy by providing effective and efficient supply of raw hides and skins. It is therefore, this study paper a designed to facilitate this situation to reap the benefits through WTO accession and to show the tangible benefits of joining the World Trade Organization in leather products Export and leather Industrial Sectors.(T Kuma, 2013)

1.3. RESEARCH QUESTIONS

1. What are the benefits of Ethiopian leather industry in joining the World Trade Organization
2. What are the challenges of the Ethiopian leather industry in joining the World Trade Organization

It is believed that the above-mentioned questions are be prepared in the Ethiopian context and have high dimensions. It is well known that Ethiopia is in the process of joining the World Trade Organization by the end of 2021, just as it has been negotiating as part of the WTO's integration with the world economy for years. However, negotiating and deciding to join was certainly not an easy task for Ethiopia. It is expected that the country was reap many benefits if it meets the requirements and conditions for joining the WTO. (4th Working Party on accession of Ethiopia 30January 2020)

1.4 RESEARCH OBJECTIVES

General Objective

1. To examine the benefits and challenges for the Ethiopian Leather Industry in joining to World Trade Organization.

Specific Objective

1. To identify the benefits of the Ethiopian leather industry in joining World Trade Organization
2. To identify the major perceived challenges for the Ethiopian leather industry in joining World Trade Organization

1.5. SIGNIFICANCE OF THE RESEARCH

The study benefits towards the Ethiopian leather industry on joining the World Trade Organization through identifying the major perceived challenges to be able and cope up and also compute the PESTEL factors affecting and impacting them. The benefits related with Academia is to provide and draw the benefits of the leather sector to gain in the international market of joining the World Trade Organization. This study will benefit and help future researchers as their guide and reference as well as open more forum of study in the topic and broaden ideas on the problem in the question. Moreover, the study findings and conclusion used as a valuable input for policy makers. Furthermore, the study widens and identifies the core challenges existing body knowledge of the leather sector of joining the WTO.

1.6. SCOPE OF THE STUDY

Due to this limited time and space, access to this research may not be possible due to the implications of the World Trade Organization's involvement in the leather industry. It is also expected that this research paper plan was not extend into product analysis or make it difficult to calculate the costs and benefits. Therefore, in light of the major rules of the World Trade Organization, which regulate the trade and market of the leather industry, it is expected that only the overall implications for its presence was determined.

CHAPTER TWO

RELATED LITERATURE REVIEW

2.1. THEORETICAL LITERATURE REVIEW

This section will look at theoretical literatures about the WTO accession as well as the theoretical foundation of international trade. The first section of the literature review will provide explanation or reasons why trade takes place between countries and general trade theory concepts of new trade theory. The second part will deal with the rationality of trade in developing countries and the issue of using industrial policy to advance development objective against WTO rules and regulations.

2.1.1. New Trade Theory

According to the traditional trade theories (Comparative advantage and H-O models), trade takes place due to existing comparative advantage among countries (technology, factor endowment difference). However, significant amount of trade occurs between similar countries, countries with similar technology and similar factor endowments. With small difference to make use of, these countries should have little to gain from free trade, yet seem to have prospered from trading with each other. Given this perplexing portion of trade, trade theorists began to look for another reasons for trade, reasons where trade could occur between similar countries and surrender sizable benefits from trade. (Krugman, 2008).

The new trade theory recognized that countries producing similar goods and services maintain to engage in trade with one another, despite the fact that they don't have anything to gain according to standard theories of international trade. This theory wanted to explain why such transactions happen between countries with similar economic setting. Ultimately, new trade theory concluded that absolute and comparative advantage does not just appear from natural dissimilarities in resources or climate; rather, economies of scale and network effects that occur in key industries are also important determinants of international trade patterns (Krugman, 2008).

New Trade Theory is the descriptive term for theories that assume imperfect competition and increasing returns to scale in order to explain international trade. In contrast, old trade theories, such as the Ricardian or the Heckscher-Ohlin model, assume constant returns to scale and perfect competition, and attribute the emergence of international trade to cross-country opportunity cost differences (i.e., comparative cost advantage) caused by either differences in production technology or factor endowments (Matschke, 2009).

New trade theory also helps to explain globalization and the costs of economies of scale for developing nations. Early entrants into a given industry have a natural advantage as they have first mover advantage and more time to attain economies of scale, making it tricky for new entrants to compete. Thus, emerging industries in developing countries may have a difficult time ever becoming established in the existing global market, as the developed world has already created economies of scale and often dominate the market. (Krugman, 2008).

This theory suggests that governments might have a great responsibility in promoting new industries. New trade theory recognized that because comparative advantage could be attributed not only to naturally occurring factors, but also market and government created factors as well, it is often in the interests of countries to protect infant industries. Domestic subsidization or tariff reduction would allow industries in developing countries to ultimately exploit economies of scale and be competitive in the global market. (Krugman, 2008).

2.1.2. Rational for Trade Liberalization and Industrialization

The momentum for international liberalization draws its rationale from the standard economic theory, which claims that free trade is greater to all other trade theories. As an extension of this basic principle, free trade among countries will advance the welfare of the member countries so long as the agreement leads to a net trade creation in a general sense (Geda and Kibret, 2002).

The assumption behind trade liberalization is that trade can help advance development agenda and decrease poverty by means of generating growth through increased investment and commercial opportunities, in addition to widening the productive base through private sector development. As such, trade liberalization has been seen as an important step in achieving economic development. International trade permits countries to specialize in producing commodities where they have a comparative advantage and this is assumed to enable a net gain in economic welfare. (LA Winters,2004)

For many developing countries trade liberalization was introduced in the early 1980s, when they encountered serious economic problems following the debt crisis, the advice for trade liberalization instead become a precondition (Chang, 2006). This was done through the Structural Adjustment Programs (SAPs) with conditions attached to loans and aid, as well as prerequisite for membership in international trade agreements (Peet, 2003). Since then, developing countries has been making significant progress toward opening up their

economy and has notably improved their trade policy regime. More specifically, the implemented trade reform resulted in a major slash in import tariff rates, a cut of the tariff dispersion and diminishes in the level of applied rates. (G Okyere,2013)

Nevertheless, trade liberalizations may be damaging for developing economies that came late to the playing field and cannot compete against free trade (Chang, 2007). Because free markets simply meant deadly competition from well-developed foreign firms, before local enterprises had enough experience to compete at international prices. The infant industry argument advocate that trade protection is necessary to help developing economies to diversify and develop new industries. In history, most economies had a period of trade protectionism. It seems unfair to insist that developing countries cannot apply some tariff protectionism. As result of this argument, it is possible to say that trade liberalization mostly benefits developed economies more than developing nations. (M Cruz,2008)

Chang in his “Bad Samaritans the Myth of Free Trade and the Secret History of Capitalism” book, argued that, contrary to the mainstream economics take on history with its emphasis on free trade and comparative advantage, protectionism, especially of infant industries, rather than free trade, has been the main strategy for successful industrial development (Chang,2007).

It might be true that, by liberalizing trade and capitalising on areas of comparative advantage, countries may gain economic benefit. But, at market prices, many poor countries had no comparative advantage at all (Serra, and Stiglitz, 2008). Because these countries enter the market without enough experience to produce efficiently, to expand production at low cost, and to invent new products, the law of comparative advantage was violated. And also, the late industrialisers (LIs) faced tough entry barriers into world markets. (JL Gallardo,2005)

The economic circumstances in today’s world are different. Particularly, today’s developing economies are behind the game and, as LIs, face very different external and internal conditions from those Adam Smith and Divide Ricardo referenced. LIs have tough competition from the first industrialisers that control the technology frontier. Capital is also being more mobile than in the time of Adam Smith, and trade is not just in final goods (Seguino, 2014).

WTO was established in 1995 with overriding purpose removing trade obstacles to help

trade flow as freely as possible so long as there are no undesirable side effects. The WTO is the only international body that deals with the global rules of trade among countries by assisting trade flow as freely, smoothly, and predictably as possible. The prime objective is to provide a level playing field for member countries by encouraging non-discriminatory treatment in international trade regardless of their stages of development and the decrease and possible removal of trade barriers (Yusuf, 2008).

2.1.3. Industrial Policy and the WTO

Industrial policy has generated considerable controversy and is vaguely defined, being frequently endowed with different meanings depending on context and the person who defines it. The World Bank has provided a working definition of industrial policy as “government efforts to alter industrial structure to promote productivity-based growth” (World Bank, 1992, pp. 293).

UNCTAD conversely defines industrial policy as a concerted, focused, conscious effort on the part of government to promote and encourage a specific industry or sector with an array of policy tools (UNCTAD, 1998). According to Pack and Saggi industrial policy is defined as “any type of selective intervention or government policy that aimed at altering the structure of production toward sectors that are expected to offer better prospects for growth than would occur in the absence of intervention, i.e., in the market equilibrium” (Pack, and Saggi, 2006, pp.2). Rodrik on the other hand, associated industrial policy with any form of selective intervention not just that favoring manufacturing which broaden the concept further (Rodrik, 2007).

The current WTO rules were written in the late 1980s and early 1990s when government interventionism was disregarded and discarded. Consequently, industrial policy is largely considered as illegal or at least undesirable in the WTO. The existing WTO rules which were established in the Uruguay Round when the global policy-making community was dominated by the orthodox neoliberal economics. The general aim of these rules was to restrict the use of industrial policy instruments. (K Stiles, 1996)

Opponents of industrial policy argue that it has rarely worked, as it can be captured by vested interests, or because it is not simply possible for civil servants to 'pick winners'. In spite of the well-built theoretical case against activist industrial policy, it is still commonly followed in a number of countries (Lall, 1994; Singh, 1996; Asian Development Bank, 1999). It is used by both developing and developed countries with multiple objectives

including, employment, structural change, increased output, and enhancing technological capacity and better distribution. (A Oqubay, 2018)

Emerging countries are determined to ensure that their industries are competitive by means of industrial policy to promote particular sectors (UNTACD, 2000).

Industrial policy as a policy instruments remains controversial in terms of its rationality. There have been countless successes, but also many failures. Nonetheless, although not all countries pursuing industry policy are successful, almost all prosperous countries have carried out some forms of industrial policy in their journey to industrialization. Chang argue that it is extremely difficult for industrially backward countries to develop without trade protection and subsidies (Chang, 2006).

Industrial policy covers a wide range of instruments, such as export promotion, import protection, performance requirements for FDI, investment incentives and subsidies, the current WTO rules have restricted their applicability to a large extent. Other old-fashioned industrial policy tools like high tariffs, quantitative restrictions, export subsidy, are basically prohibited by WTO. As a result, Xinquan and Guijun debate that the currently used industrial policy tools are largely less trade distorting domestic policy rather than trade policy (Xinquan, and Guijun, 2011).

The main purpose of using industrial policy tools such as tariff protection in developing countries is the promotion of infant industries. Developing nation governments need to support their infant industries until they get through a period of “learning” and be able to compete with the producers from the more advanced countries. Kemp (1964) noted learning processes such as employee learning by doing as the source of cost saving and important between learning processes that are external to the firm and internal to the firm. New Trade Theory supports similar claim, suggesting that comparative advantages are generated from scale of economics and from the first mover advantage in production. Clearly showing for developing countries to reach to the level of economics scale where the developed countries are today, it is imperative to support their infant industries.

Instruments such as tariffs or output-based subsidies or export subsidies to industries has been the focus as a way of remedying alleged market failures due to externalities, missing markets or other failures (Lall, 1994). Traditionally, trade tariffs were seen as an advantage by states as they were an important source of state revenue and a way of protecting

domestic producers from foreign competition. The types of instruments employed by developing economies have changed, as of 1980 owing to increased restrictions on their use through regional and multilateral agreements, in addition to domestic regulatory alterations began through structural adjustment program or domestic efforts to restructure their economies.

2.1.4. Why WTO Accession?

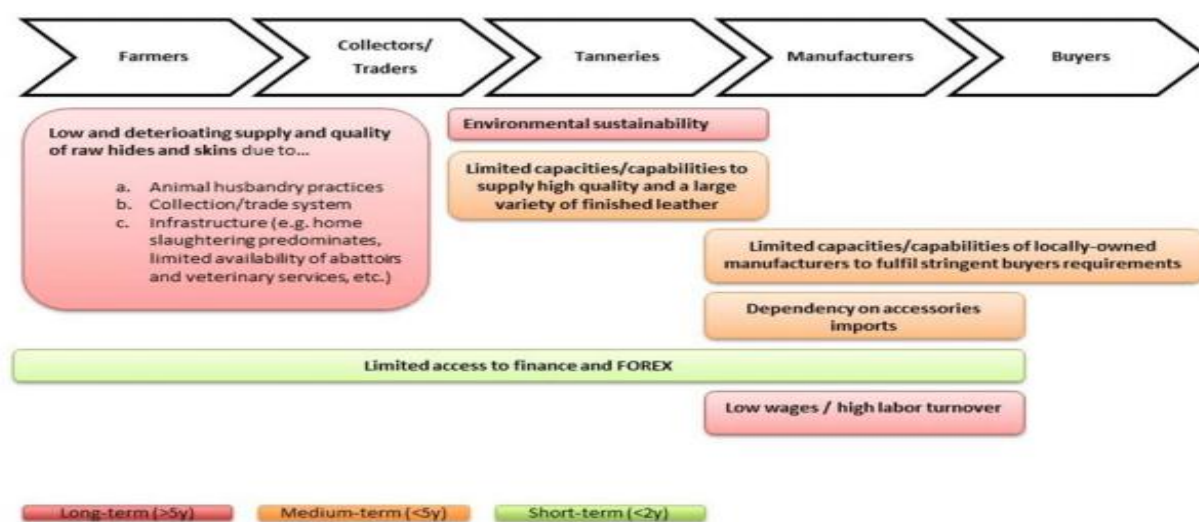
Analyst from countries seeking to join the WTO gives a variety of economic and political reasons for joining the WTO. For some, the underlying principle is to increase integrating their economy into the world economy. The other common benefit of WTO membership is predictability of foreign markets, which will result in higher exports. Another economic rationale is to attract more FDI and, in general, to use WTO accession as a seal of approval recognized by the international business community. Countries also join WTO to gain market access which will allow entering new market and export diversification. It is also possible; however, that many countries join the WTO for political motives. Transition economies, for example, often see WTO accession as a way to indicate their commitment to joining the international community of market-based economies. Briefly, many see WTO membership as facilitating both political and economic reform processes within their countries (Simon and Carlos, 2005).

However, there is believed to be some overlap among these stated rationales and the possible benefits of WTO accession recognized in economic research, mainly in relation to boosting exports and foreign direct investment inflows. Economists also indicate the benefits that flow from better foreign access to the acceding country's markets, particularly in terms of cheaper prices for and a better variety of imports. By setting national tariffs, committing to remove quotas on imports, and restructuring other state measures, the credibility of an acceding nation's policies can be improved and the private sector faces little uncertainty. In principle, then, WTO membership can advance main components of the domestic business environment which, in turn, has sizeable national payoffs (Simon and Carlos, 2005).

Leather and leather products are among the most widely traded products worldwide, and they are based on a renewable and readily available resource. It is estimated that the international trade exceeds US\$ 80 billion annually, and it is expected to continue growing alongside the increase in population and urbanization of developing and emerging countries. (UNIDO, 2020)

Production and supply have gradually moved from industrialized to developing countries and emerging economies, which are now becoming major players in the trade. In fact, developing and emerging economies can now manage the whole supply chain on their own and are fast becoming the most important suppliers of value-added finished products. About 45% of footwear, for example, is made in China. The supply chain is global and a great deal of trade is nowadays South-South and South-North. (UNIDO,2020)

According Jan Grumiller and Werner Raza, 2019 Ethiopian LLP sector is quite extensive and the government provides services and incentives on various levels to support its growth, but many bottlenecks and challenges remain (Figure2.1). In the following chapter, we differentiate between systemic challenges, sustainability issues and export-related challenges. Systemic challenges and sustainability issues not only affect exports, but the sector as a whole, including exports. The Ethiopian leather sector key challenges were shown below in the following figure. (Jan Grumiller and Werner Raza, 2019)



Source: Own elaboration.

Figure 2.1 Overview of Ethiopian Leather and Leather Products challenges

As per the above research report the leather challenges were categorized as **Systemic challenges, Sustainability issues** and **Export-related challenges**

i. Systemic Challenges

➤ **Limited quality and supply of raw hides and skins**

The key bottleneck in the Ethiopian LLP sector is the lack of quality and supply of raw hides and skins from the livestock sector, with important implications for the whole value chain. The low, and currently also deteriorating, quality of raw hides and skins supply is a result of parasitic skin diseases as well as the prevalent animal husbandry (flaying, branding, curing) and post-mortem management practices (backyard slaughtering and sub-

standard collection, storage and transportation) in the context of a limited availability of infrastructure and services (abattoirs, veterinary services, etc.). The underlying issue is the low commercial value of hides and skins, which limits the interest of farmers to improve current practices. The seasonality of supply due to the three festival seasons in January, September and May adds to the challenge of tanneries to source hides and skins for further processing. As a result, (i) tanneries are operating at low capacity utilization rates; (ii) global buyers to some extent stopped or reduced imports of finished leather from Ethiopia, in particular since global demand for different colors increased in recent years (black tanned leather might cover defects); (iii) leather manufacturers have difficulties to locally source quality leather for export markets. (Jan Grumiller and Werner Raza, 2019)

➤ **Limited access to finance**

Despite the developments in the private financial sector and the efforts of Ethiopian government and the DBE to provide various financial facilities for investment and working capital in the LLP sector, many locally-owned companies, in particular smaller companies and actors in the upstream segments of the chain (smallholders, collectors, traders, etc.), suffer from limited access to finance due to a lack of collateral and/or high interest rates. A decade ago, tanneries used to be the main sources of supplier's finance and provided finance to the big raw hides and skins traders, which in turn advanced loans to their respective suppliers. Tanneries also supply finished leather to leather manufacturers on a consignment basis, financing the downstream industry. However, with the introduction of the export tax on semi-processed leather exports, the latter being a very profitable business, tanneries lost their financial strength. In addition, as a consequence of upgrading into finishing, tanneries' working capital requirements grew over threefold for keeping buffer stocks in the form of raw materials, intermediary inputs, goods in process and finished goods in the prolonged production process. The financial sector was not flexible enough to respond to these new business requirements in a timely manner. Over time, the financial problems accumulated and contributed to low capacity utilization rates, foregone economies of scale, low productivity growth and lack of price competitiveness. (Jan Grumiller and Werner Raza, 2019)

➤ **Limited access to foreign exchange**

The limited and/or often timely delayed access to foreign currency is a general challenge for locally-owned companies, and in particular for exporting companies due to prolonged lead

times. Exporting companies get preferential access to foreign exchange, but many companies argue that the current system is not sufficient (i.e. foreign exchange income is automatically exchanged to Ethiopian Birr after only one month). (Jan Grumiller and Werner Raza, 2019).

➤ ***Dependence on imported inputs***

Another key bottleneck is the dependence on imported inputs (e.g. chemicals, soles, zippers, etc.), which increases costs, lead times, stock and working capital capacities as well as the need for foreign exchange access. The lack of a local accessories sector that supplies quality inputs is particularly challenging for manufacturers; while tanneries suffer from the limited local availability of chemicals and other inputs. Industrial policies seek to mitigate this problem in various ways, but they cannot make up for the lack of local production. (Jan Grumiller and Werner Raza, 2019)

➤ ***Limited availability of skilled workers***

The educational programs to train the necessary workforce for the Ethiopian LLP sector have improved significantly, but access to skilled labor continues to be a major challenge. The main bottlenecks are designers and marketing managers that are able to target export markets. (Jan Grumiller and Werner Raza, 2019)

➤ ***Increasing competition on the local market***

Another challenge for Ethiopian leather manufacturers, in particular footwear, is the increasing competition due to increasing production capacities of locally-owned firms and imports. Despite a 35% tariff on footwear, imports from China, India and Turkey are flooding the Ethiopian market, limiting opportunities of locally-owned companies to diversify to the local non-leather footwear market. Imports of leather footwear has also increased in the last decade, further increasing the pressure on Ethiopian companies. Many company-owners tend to dismiss the threat of Chinese imports of leather footwear due to low quality imports and increasing awareness of consumers. (Jan Grumiller and Werner Raza, 2019)

ii. **Sustainability issues**

➤ ***Minor importance of hides and skins for smallholders***

The Ethiopian LLP value chains comprises different actors with different vested interests. The LLP value chain differs from many other agro-chains in which smallholders, women, children

and elderly are often in the weakest position. The LLP value chain, in contrast, is of relatively minor importance for smallholders due to the low commercial value of hides and skins, which are considered a byproduct, and explains the big difficulty to improve animal husbandry practices. (Jan Grumiller and Werner Raza, 2019)

➤ ***Relatively low wages affecting mostly women***

The LLP sector is characterized by relatively low wages, which contributes to high labor turnover rates and increases training costs for companies. The low wage level is particularly problematic for women, considering that 70% to 80% of employees in the LLP industry, in particular in the manufacturing segment, are women. The main reason for the relatively low wages is the weak bargaining power of workers in the context of high unemployment rates and fierce international competition. Companies that pay more than the minimum wage often have lower turnover rates and are able to build long-term relationships with their most productive employees. (Jan Grumiller and Werner Raza, 2019)

➤ ***Limited environmental sustainability of and workers protection the tanning industry***

The key sustainability challenge in the LLP sector is the limited environmental sustainability of the tanning industry. The tanning process is characterized by the production of different kinds of wastes that are often discharged into the environment. The intensity of the problem has been growing since many tanneries are now located in urban areas (in particular Addis Ababa), instead of its outskirts, due to the cities' rising population and territorial expansion. Ethiopia has relatively tight regulatory standards, which are however often not enforced. In recent years, increasing pressure of the government has spurred costly investments of tanneries in wastewater treatment plants, but the problems arising from pollution are far from being solved. The limited environmental sustainability also limits demand from environmentally conscious buyers. An additional challenge is the limited protection and safety of workers in tanneries. In the shoe industry, workers are also exposed to volatile organic compounds (VOC) arising from adhesives. (Jan Grumiller and Werner Raza, 2019)

iii. **Export-related challenges**

➤ ***Sluggish global demand development***

Global trade development has been sluggish and has even decreased in recent years. Ethiopia could nonetheless increase its market share in the context of shifting GVC dynamics and the decreasing global supply of China. (Jan Grumiller and Werner Raza, 2019)

➤ ***Limited supply of export quality leather to local manufacturers***

Key bottlenecks in the Ethiopian LLP sector are the limited capacities and capabilities of tanneries, in particular locally-owned tanneries, to produce export quality of different types of

finished leather and the limited supply of export quality leather on the local market. The introduction of the export tax has furthered functional upgrading of Ethiopian tanneries, but many tanneries continue to struggle to find new buyers in new end-markets. Furthermore, many tanneries have only invested to a finishing stage that makes the product eligible for exports ('semi-finishing'), limiting the availability of different types of finished leather to local buyers. FDI tanneries generally produce finished leather in export quality, but they are often vertically integrated and tend to export to their mother company. In addition, all tanneries generally prefer to export directly instead of supplying local manufacturers with export quality finished leather. Tanneries would not have to pay duties on imports when selling to local manufacturers in case the latter export the manufactured product, otherwise selling to locals would not help tanneries in getting access to much needed foreign exchange. As a result, (i) many tanneries struggle to export and are operating at low capacity utilization rates; (ii) the value of leather exports by value stagnated in recent years; (iii) local manufacturers struggle to source export quality finished leather; (iv) tanneries tend to supply non-export quality finished leather to local manufacturers; and (v) companies, in particular FDI firms, started to import leather for manufacturing and exports since the early 2010s, from insignificant levels in the early 2000s to an average of USD 18 million between 2013 and 2016 (mostly from Sudan, Mali, China and India) (UN Comtrade 2018).

➤ ***Limited capabilities and capacities of locally-owned manufacturers to access key global consumption markets***

The manufacturing sector focuses – with the exception of FDI companies – on the local market due to its higher margins and the limited capabilities and capacities of many locally owned manufacturers to export and access foreign markets. The low share of exports and limited access to foreign markets are the result of (i) low margins for global exports in the context of strong international competition and the reliance on intermediaries to access export markets; and (ii) often inadequate price-quality ratios. Prices are often too high because manufacturers price their products higher than the going market price in order to compensate for the loss of low capacity utilization rates and a lack of export pricing strategy. The quality of products differs widely among manufacturers, but many manufacturers in the different sub-sectors have the capability and capacity to manufacture export-quality products. The product quality, however, often suffers due to the (ii) limited local supply of the necessary export-quality finished leather demanded by buyers. The leather is often also not supplied in the necessary consistency. Another challenge is that (iii) lead times are too long to enter specific value chains due to the need to import inputs and the difficulty of locally sourcing the requisite type and quality of finished leather. Importing inputs is hindered by the limited access to foreign exchange. Ethiopia is, in addition, a land-locked country that relies on the 'distant' port of

Djibouti for sea freight. There are also ongoing negotiations to facilitate access to the Eritrean ports in the near future. Many manufacturers also have (iv) only limited manufacturing capacities and are thus not able to link to specific GVCs that demand higher volumes. Many locally-owned manufacturers also (v) lack management capabilities/capacities to access foreign markets (i.e. time and resources; knowledge about buyer requirements) and, for example, do not have the necessary communication skills to manage orders of global buyers (i.e. quickly answer to buyers' requests, English skills) and lack marketing capacities/capabilities, such as export pricing or market differentiation strategies to enter global markets. (vi) Some companies also do not fulfill buyer requirements in terms of working conditions and environmental sustainability, but differences across buyer requirements and/or companies standards are high. (Jan Grumiller and Werner Raza, 2019)

➤ ***Limited horizontal cooperation between companies***

Despite the existence of a business association (ELIA), horizontal cooperation among companies in the Ethiopian LLP sector is limited. As such, there is no common sector strategy that could improve market access (e.g. develop a market access strategy and Ethiopia as a brand, share large orders, facilitate learning across firms, etc.). The main problem is that, on the horizontal level, most companies perceive each other as competitors and not as potential partners. Exceptions exist for example between members of clusters (e.g. EIFCOOS) and some organizations (e.g. the Center for Accelerated Women's Economic Empowerment, CAWEE). (Jan Grumiller and Werner Raza, 2019)

2.1.5. Benefit/ Key opportunities of World Trade Organization accession

➤ ***High growth potential due to key advantages and diverse market opportunities***

The shifting GVC dynamics and China's decreasing global supply of leather products opened a window of opportunity to link to GVCs and increase exports for low cost countries such as Ethiopia. Even though global trade development has been sluggish, Ethiopia could increase its market share if the sector's competitiveness can be increased. Ethiopia has, in addition, not only market opportunities in key consumption markets due to duty-free quota-free market access, but also in the regional markets with high growth potential and the relatively large local market. The Ethiopian LLP sector has a high growth potential, despite the challenges and bottlenecks discussed in the previous chapter. The key strengths of the Ethiopian LLP sector include (i) one of the world's largest livestock sector; (ii) the availability of high quality and internationally renowned sheep leather; (iii) relatively low production costs (wages, electricity); and (iv) an institutional regime that is committed to support the Ethiopian LLP sector and improve its

performance through industrial policy. In addition, Ethiopia has market opportunities on the local, regional and global markets due to (v) duty-free and quota-free market access to key consumption markets¹³; (vi) a relatively large local market; (vii) and a regional market with high growth potential and market access (Common Market for Eastern and Southern Africa, COMESA). (Jan Grumiller and Werner Raza, 2019)

➤ ***Foster integration into GVCs and increase global exports***

The current shift away from China as the key global supplier of leather products opens a window of opportunity for low-cost countries such as Ethiopia. It is important, however, to study the implications of this trend in terms of production organization. A number of experts interviewed for this report highlighted that one of the weaknesses of China in the industry is high fixed costs associated with the large scale production model in the country. If Chinese factories cannot secure large orders, their economic survival was at risk because of these high fixed costs. New entrants to the market should be cautious when considering whether to replicate the Chinese model as the market demand is shifting toward more flexibility. As such, it is important to design a production model that benefits from economies of scale but also maintains a degree of flexibility. New producers can work with industrial organization experts in the leather industry to achieve these objectives. For Ethiopia, it is important to consider how to develop such business models especially for small and medium enterprises. (Jan Grumiller and Werner Raza, 2019)

➤ ***Increase exports of locally-owned footwear and handbag manufacturers to the EU***

Promoting companies, foreign or locally-owned, that are embedded in the local economy is important since they are more likely to create linkages and support a country's industrialization process. In the following, in particular the opportunities to increase exports of locally-owned manufacturers to the EU are discussed in more detail. The most promising Ethiopian leather products for exports to the EU are handbags, footwear and gloves given the structure of the Ethiopian LLP sector (Chapter 3) and the EU's market development (Chapter 4). The most competitive locally-owned companies in the Ethiopian LLP sector are producing footwear and handbags, even though many of them struggle to increase exports. Gloves are currently almost exclusively produced by FDI companies. Garments (mostly jackets) are mostly produced for the local market. Many manufacturers also produce other products such as belts and pocket-goods, mainly for the local market and often only to add value to leather waste. (Jan Grumiller and Werner Raza, 2019)

➤ **Benefit from the large local and regional market**

Local and regional markets are an important source for learning, in particular with regard to design and brand development. Ethiopia has the benefit of a relatively large local market and increasing consumption levels. The local leather product market is characterized by relatively high margins and lower quality requirements. For this reason, many leather manufacturers (in particular in footwear) focus on the local market and market their own designs and brands. Against the background of increasing competition due to imports and increasing local capacities, learning processes might even grow in the future. (Jan Grumiller and Werner Raza, 2019)

2.1.6. Best Practice of leather industry

According to national green export review of Ethiopia leather sector best practices of the leather sector that enable the sector to be competitive were: -

- **The effect of incentive schemes (Enabling Policy Environment)**

Ethiopia is known in the international leather market for its sovereign qualities of sheep skins that are acknowledged as being the best in the world by many. Ethiopian sheep skins are sought for high quality glove leather and the goat skins are equally acknowledged to be the finest for making suede garments and footwear. (UNCTD, 2018)

Cognizant of the potentials that this renewable resource has for the development of the country, the Government of Ethiopia puts developing the leather sector among its top priorities. Its initial step towards fostering the development in this sector is to create a business environment conducive for the private sector. This involved the deregulation and liberalization of the goods and factor markets, maintaining a stable and predictable macro-economic environment, revision of the investment code to widen the scope and areas of investment, additional incentive schemes that add to the profitability of private investments, etc. (UNCTD, 2018)

The streamlining of administrative procedures has also been effected: licensing and business registrations in Ethiopia are matters that can be done in one or two hours; the acquisition of land for constructing a factory requires only a week or two, etc. Investors in the sector are accorded with duty free and tax free privileges while importing the required machinery and equipment, tax holidays for up to seven years, loss carry forward for half of the tax holiday period if new investments incur losses, income tax exemption for expatriate employees for two years, a foreign currency retention scheme for exporting companies, etc. (UNCTD, 2018)

A growing industry

Tanning industry: Backed by considerable support, the Ethiopian leather industry has gained momentum over the past several years. While the number of tanning factories was only handful ten years ago, they now number 33. (GirumAbebe* and Florian Schaefer, 2013)

Footwear industry: The footwear sub-sector has also grown considerably fast. The daily output of export-standard footwear has now reached more than ten thousand pairs per day from a very modest size of less than two thousand only five years ago. Encouraged by the improvement of the industry, world known footwear companies from China, Italy and the United Kingdom have shifted their production facilities to Ethiopia from where they have previously been engaged in South East Asia. . (UNCTD, 2018)

Leather goods industry: The leather goods industry has also gathered momentum spurred by the various support initiatives facilitating its growth. The number of industries engaged in the production of high quality leather garments and accessories has been on the increase so much so that a production line able to lure the sophisticated tastes and trends of the highest market segment in the western world is now possible. (UNCTD, 2018)

Enormous market opportunities: The production of leather and leather goods has great potential in Ethiopia not only because of the steady increase in demand for leather products around the world but also because of the unique marketing opportunities the country itself offers. Increasing leather product consumption levels of its 90 million citizens and immense opportunities that can be exploited through the bilateral and multilateral arrangements, and preferential treatment in trade and commerce provided to Ethiopia by many countries are all factors that make production in the country particularly attractive for foreign investors. (UNCTD, 2018)

- **All-rounded institutional support**

There are several organizations working in Ethiopia to support business and investment initiatives in leather and other sectors. All of them have specialized personnel that can advise investors to expedite their take off. The following are some of the most important institutions that can be contacted; (UNCTD, 2018)

The Ministry of Industry: supports businesses to establish themselves; helping them to obtain land for the construction of factory buildings, etc. These institutions also construct and recommend investment options with various incentives that help new entrants achieve their business plans. (UNCTD, 2018)

The Ministry of Livestock and Fishery: provides extension support, inputs and regulates product quality in collaboration with regional agricultural bureaus.

The Ministry of Trade: provides trade registration and licensing services and regulates the quality of leather and leather products exports to ensure nationally set standards for exports are met.

The Ethiopian Investment Commission: registers new investments, ascertaining and certifying the incentives they qualify for; helps in acquisition of land for project sites; provides information on investment opportunities and regulatory conditions affecting investments in the country, etc. Acquisition of an investment license usually takes less than one hour provided the applicant fulfils and comes with the necessary documentation. (UNCTD, 2018)

The Leather Industry Development Institute (LIDI): Another milestone in the Government's effort to promote the leather sector is the setting up of the Leather and Leather Products Technology Institute (LLPTI) in 1998. In 2010, the mandate of LLPTI was significantly expanded and it was made the most important institute responsible for the development of the leather industry under the MoI, and hence, was renamed as the Leather Industry Development Institute (LIDI). (UNCTD, 2018)

The Ethiopian Leather Industries Association (ELIA): is a sectorial association of the leather industry. It serves as a bridge between the private sector and the Government by addressing issues through policy dialogue. As part of its service, it organizes and coordinates the international trade shows so as to link the members of the association to the world market. It also provides information on the potential, opportunities and challenges of the industry and remains a very important partner for investors in the Ethiopian leather sector. (UNCTD, 2018)

International development partners: There are many international development partners 14 supporting the emergence of the Ethiopian leather industry through various technical cooperation activities. (UNCTD, 2018)

2.1.7. Impact of World Trade Organization Accession

The impact of the Ethiopian Leather increasing the export of the leather and leather products in to the global market and to gain foreign currency. In addition, by expanding, attracting and increasing the productivity of the companies it was create employment opportunity for the leather and other professionals of the nation. Moreover, attracting the Foreign direct investment it enables the sector to gain more market share and access in the international market. (WTO Summary Report, 2019)

Other developing countries - and especially many least developed countries (LDCs) - because of their large livestock, have a remarkable growth potential, but this remains largely untapped. This is mostly due to weaknesses in technical know-how, access to information, visibility, quality management, marketing, investments and international industrial alliances. It is in this area that most of the International Trade Centre's (ITC) efforts are deployed, and LDCs are the forefront as ITC's partners. One of the major challenges of the technical cooperation is enabling suppliers from these countries to become part of the global networks. ITC efforts focus not only on industries, but also on artisanal communities that risk to be wiped out by the competition of imported mass-made products that could have potentially devastating socio-economic consequences. (WTO Summary Report, 2019)

ITC interventions in the leather sector are focused on those materials that are the by-products of the meat industry. Fashion furs, from wild or farmed animals, are not covered and exotic skins are only considered where development and improvement of trade are concerned in compliance and collaboration with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), non-governmental organizations and governmental protocols for the protection of endangered species, as well as animal welfare legislation. (WTO Summary Report, 2019)

2.2. EMPIRICAL LITERATURE

2.2.1. Challenge of World Trade Organization accession towards leather industry

According to High Hopes and Limited Successes: Experimenting with Industrial Policies in the Leather Industry in Ethiopia by Girum Abebe and Florian Schaefer 2013 indicated that the challenges of the leather sector were shown in below in detail.

- **Market problems in the hides and skins trade**

The hides and skins trading sector thus far attracted limited research and policy interest. While information on the mechanisms employed to collect hides and skins is glaringly lacking, we also have limited knowledge concerning how prices are formed and inventories are kept as well as how skins and hides are distributed to tanneries. The difficulty associated with gathering systematic data partly explains the paucity of research in this area. At the same time, the traditional way of hides and skins collection, storage and distribution is hardly amenable to analytical treatment. Further, the common stereotypical attitude towards traders as mere middlemen, who simply capture surplus rather than add

value, has removed policy interest from understanding how the trading sector operates. This is surprising given that about 60% of working capital of tanneries is spent on the procurement of hides and skins and price rises have often been translated directly into higher prices for finished leather. Our interviews with tanneries suggest that they have been facing acute shortages of raw hides and skins. As the result, most are utilizing far less than their full production capacity. A possible reason cited for these shortages is the high levels of soaking capacity of tanneries compared to the input supply of skins and hides. On the other hand, upon talking to hide and skin traders we learned that their major complaint is the lack of a market for raw hides and skins.(GirumAbebe* and Florian Schaefer, 2013)

- **Working capital and liquidity problem in tanneries**

One of the biggest crises affecting the sector, or more precisely the Ethiopian owned companies in the sector, at present is the severe lack of working capital brought on by the lack of available finance. This lack is rooted in two problems, one driven by supply and the other by demand. On the supply side, as in many low income economies, access to credit is generally constrained in Ethiopia. Commercial banks seem to have limited understanding of the inner workings of the leather sector and still evaluate loan requests based on outdated input cost models. Moreover private banks, lacking experience in the sector, are often unaware of the long lead times (on average 1.5 months from hide to finished leather) and the high upfront costs (for inputs) leather manufacturing entails, and are therefore unwilling to lend against what banks then consider inappropriate credit requests, as they still base their assessment on the production of pickle and wet-blue leather. These are technically much less demanding and are faster to produce and easy to sell. Even when banks do approve loans they can take months to release the funds. These are delays which clients, especially in international markets, are not willing to tolerate. Against this background, the demand for loans has greatly increased in the face of the aforementioned price rises in the industry that have driven up input costs. In addition to the leather prices, the prices for preservative agents including salt and chemical inputs, which are almost entirely imported, have also doubled in recent years. The cumulative effect has been an inability to secure the required working capital which has the potential to “cripple the industry”, with large parts of it operating at less than 30% capacity, particularly in the tannery sub-sector. The long payment lags in export market also impacts stocks of working capital. This is because payment against Letter of Credit is usually with either 60 or 90 days delay. In the meantime producers face chemical and other costs. In addition producers face selection costs on raw

hides and skins, as only fractions of the purchased skins and hides are suitable for the trade at hand, and the remainder have to be sold elsewhere.(GirumAbebe* and Florian Schaefer, 2013)

- **Limited regulatory and enforcement capacity**

We sensed that investors in the LLPI are generally welcoming of the wide-ranging incentives that are put in place. However, some regarded the bureaucracy involved in accessing these incentives difficult to navigate and highly risky as a result. According to sector actors, this compares badly to the relatively un-bureaucratic incentive systems found for instance in India and Nigeria, where exporters simply receive a voucher for a certain percentage of their exports. Implementation of existing rules and regulations is also a problem. For example, traders feel that the ‘Raw Hide and Skin Marketing System Proclamation No. 457/2005’, which was put in place to create a “modern” skin and hide marketing system, has not been fully implemented in practice²⁵. Similarly legal provisions that reserved the lower rungs of the leather supply chain to local producers are allegedly violated through the continuous engagement of foreign companies in hides and skins soaking and the production of dry-blue and crust leather. These companies purportedly furnish supply of raw materials to their parent companies overseas. To promote value addition and militate against such types of abuses, the government levied the aforementioned 150% tax on semi-processed leather. However this tax appears to have only been partially effective in halting exports of semi-processed leather as the policies are not being implemented consistently. It is alleged that foreign companies continue to export semi-processed leather, even at prices that are under the raw material price. If these allegations are true, it would imply serious cross-subsidizing of foreign-based leather processing companies’ engaged in processing of leather at the higher rungs of the leather value chain. This in turn shows how little value addition occurs at the early stages of production. As a result the domestic industry would continue to miss out on foreign exchange, value addition and technology transfer. The weak export performance is partially an artifact of fraudulent practices and in particular under-invoicing by some exporters. For instance the average selling price for one of the local tannery we visited is around USD1.65/sqft, while the average price of all exports from Ethiopia is USD 0.85/sqft. These are raw material prices, meaning that exports are underinvoiced to artificially and illegally increase the profits of exporting companies with the effect of preventing much-needed hard currency flowing to Ethiopia. Especially foreign companies apparently use such practices to “feed” mother companies abroad. This is possible due to lax controls in exporting. LIDI

gives export certificates against samples delivered to LIDI premises rather than performing checks directly at the companies involved. Customs then do not check actual consignments due to seemingly misplaced trust in the LIDI certificates.(GirumAbebe* and Florian Schaefer, 2013)

- **Limited processing capacity**

They argued that many of the tanneries and leather finishing enterprises are operating at significantly less than full capacity due to shortages of raw hides and skins and semi-processed leather. This section presents the argument that, even with the existing capacity utilization, the industry is plagued by low levels of technical efficiency, production quantity and quality. To its credit, LIDI has done extensive work in the provision of quality and capacity enhancing services to the LLPI, ranging from the point of entry to the industry to assisting in product market search and reach (discussed in detail in section 4.3). Yet the current leather processing capacity of the sector still remains far below its potential. Beyond formal support by LIDI, the acquisition of knowledge and technology transfer appears to happen mostly through two avenues. On the one hand foreign companies, who sign contracts to have their goods produced in Ethiopia, send over production engineers to assist the Ethiopian companies in producing to the required specifications. On the other hand, input suppliers are often keen to support local producers. Machine suppliers send over technicians to train local production workers and engineers, albeit only for short periods of time. More valuable is the training provided by chemical suppliers, who of course have a vested interest in their clients reaching and remaining at the technological frontier so that they are order the chemicals that the latest production techniques require. To this end chemical suppliers maintain sizeable research capacities to stay ahead of changing fashions and environmental regulation. They then train their customers in product development. In general, however, many Ethiopian companies, especially in the finished goods sector, are shackled by low production capacity, sub-standard facilities and bad management. The latter, for example, implies that supply chain and inventory management, labor and finance and international marketing practices are not up to international standards. Some of the local tanneries, for example, were set up by former skin and hides traders with limited experience in running a modern manufacturing plant. Such companies are mostly small with low skills and low levels of production technology. They therefore cannot compete in international markets, which have the adverse effects of not exposing them to such markets, which in turn may put off upgrading of their practices. This is especially true for leather garments and glove makers. (GirumAbebe* and Florian Schaefer,

2013)

- **Constraints on international market penetration and competitiveness**

The Ethiopian LLPI continues to suffer from an image problem in international markets due to its long association with raw material and semi-processed leather supplies. Image problems, whether based on real or perceived underlying issues, are real problems faced by many low income economies and tend to lower or even preclude the flow of new investments in the production and marketing of high value-added products for the global market. For this reason, the Ethiopian leather processing enterprises are at a disadvantage when it comes to marketing, as Ethiopia is generally still regarded as a provider of raw and semi-processed materials rather than high quality finished leather and leather goods, a perception that is changing only slowly. For instance, a few years ago Italian tanneries tried to preclude Ethiopian finished leather producers from exhibiting at the leather industry trade show in Italy, the most important market globally, as they saw Ethiopian producers as invading a market that they had no place in, wishing instead to confine them to their “proper” role of being simply intermediate goods suppliers.. Poor trade logistics also impose additional costs on the competitiveness of the leather industry in Ethiopia (e.g., Dinhet al., 2012).

In this regard, the biggest challenge is the long lead time in imports. Timely imports of chemicals and other inputs are vital to the smooth running of the production process. A key respondent in the tannery sector stated that imports coming from Italy to Ethiopia, for example, can take one to two months. To overcome these types of problems, the recent export promotion regulation has allowed foreign-based chemical and other input producers to utilize the Bonded Supply Warehouse Scheme. This is predicated on the provision that FDI firms utilizing these schemes would set up production facilities in Ethiopia in five years time. This certainly is an appropriate inducement to promote the local production of chemicals and accessories. Working out the practical details to harmonize the investor’s interest with that of the intricate rules governing the operation of the bonded supply warehouses and the objectives and administrative capability of main players, such as ERCA, would largely determine to what extent such forms of interventions would be successful. Along with the limited supply of complementary inputs, the low and unpredictable quality of hides and skins constrain producers in competing effectively for large contracts in international markets. This is because sales in the international market generally go to established brands that are able to capture a huge amount of total value

added through their branding activities. Even when products are internationally marketed, buyers are keen to push prices down, narrowing the profit margin accruing to value addition by Ethiopian producers. Moreover, given supply problems of finished leather, a few companies use significant quantity of imported leather, which is heavily taxed, thereby eroding their international competitiveness. (GirumAbebe* and Florian Schaefer, 2013)

The more important threat to leather product producers is from substitute shoe upper products. This threat is expected to be high since leather can easily be substituted by synthetic leather, plastic, and textile materials to reduce production costs and decouple production outputs from higher cost, limited supply finished leather inputs. Footwear and other products made from non-leather materials have surpassed leather products with regard to production and trade volume. The sports footwear industry used to consume large quantity of leather, especially split leather. Recently, however, the sports footwear industry is using higher performance non-leather materials developed through research and development. Other leather products, like hand bags and travel bags are also made from non-leather materials in large volume. The threat from substitute products is, therefore, high in the case of finished leather production industry. As manufacturers shift to using substitute materials, the negotiation power of finished leather production industry was lower, and buyers may negotiate for lower prices.(GirumAbebe* and Florian Schaefer, 2013)

2.2.2. Benefit World Trade Organization accession towards leather industry

According national green export review of Ethiopian leather sector benefits/opportunity 2018 were shown below: - (United Nations Conference on Trade and Development export review report, 2018); Value addition and diversification, Investment incentives, Increased foreign exchange earnings, Strong foreign demand for these production, Export led strategy is now a Government priority, Increasing worldwide demand, Multiple markets and uses, Unexploited global markets such as Republic of Korea, Turkey and Taiwan, Province of China, Further opportunities in China, Large potential for expanding production, Improve farm income by improving quality, Possibility of domestically hulling, grinding or pressing for oil export-related activities and Increase foreign exchange earnings.

Market structure of the leather sector

Michael Porter's five forces: the relative power of suppliers, the relative power of buyers,

the level of rivalry among existing firms, the level of threat from new entrants, and the level of threat from substitute products are used for the analysis of the market environment. In the tanning and finishing industry, there is growing power of suppliers, both globally and locally.

Suppliers of raw hides and skins are demanding higher prices. In some countries suppliers had started to process the raw material to the semi-processed wet blue level (allowing hides and skins to be stored rather than being sold immediately to tanners for processing). This enabled supplier to overcome the pressure from tanneries by enhancing their negotiation power (i.e., suppliers could wait and sell their inventory at a later date and to a higher bidder). When governments in some countries banned the export of leather prepared at the semi-processed wet blue level, this reduced the suppliers' power while increasing the negotiation power of tanners in those countries (tanners knew that eventually local suppliers would lower prices since their products could no longer be exported to foreign tanners wishing to pay higher prices). This suggests that if the bargaining power of suppliers' is high, it may be difficult for an industry to be competitive, due to higher upstream prices.

The relative power of buyers is high in the finished leather market. Buyers usually demand a price reduction and supply of various types of finishing in terms of color and product characteristics. Therefore, tanneries should make themselves ready to meet the orders they receive from buyers by strengthening their capacity in terms of employees' skill, technology and overall business management.

The other force to consider is the level of rivalry among existing firms. As the export business is sought by firms from many countries, competition is expected to be high. However, leather is a scarce resource and rivalry cannot indefinitely lower prices since leather costs cannot be undercut. Rivalry would rather take the form of product differentiation and order processing flexibility.

The leather industry in general and finished leather industry in particular has some level of impediment; namely that it is not that attractive for new entrants. The finished leather industry may be built if tanners opt for forward integration, if leather product manufacturers opt for backward integration, or if firms or individuals join the industry by allocating resources in the form of joint ventures. However, new entrants are not likely to represent a significant threat to a mature finished leather production industry.

2.2.3. Best Practice of World Trade Organization Accession

According national green export review of Ethiopian leather sector 2018 best practices was shown below: - (United Nations Conference on Trade and Development export review report, 2018); Recognition as supplier of leather, Stable economic and political environment, Low wages and cheap utility costs, Leather has good natural quality, Presence of training institutions, Presence of accreditation and testing facilities, High investment on infrastructure development, Presence of strong air cargo and sea transportation links.

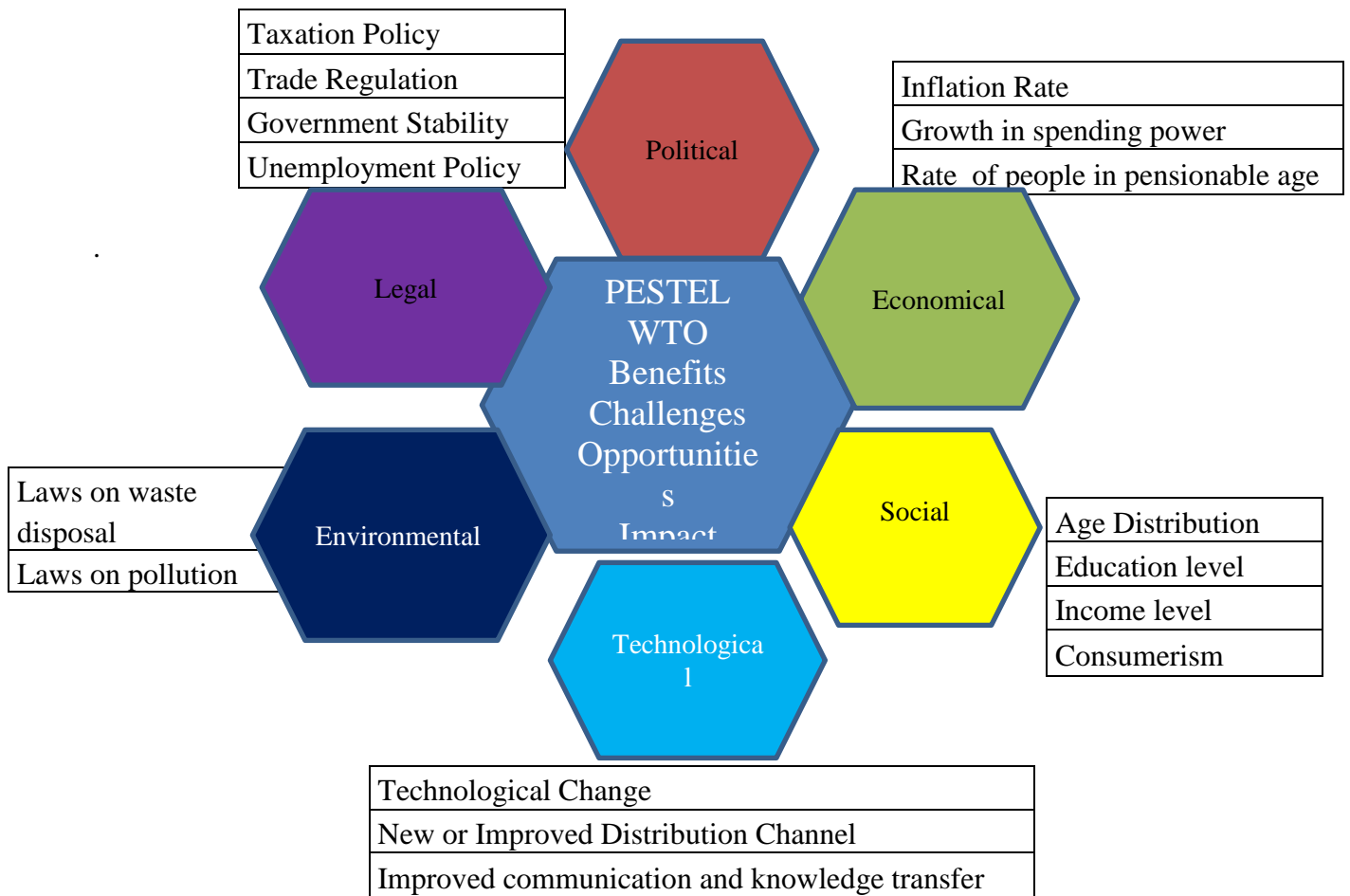
2.2.4. Impact of World Trade Organization accession towards leather industry

About 80 per cent of all hides and skins entering the formal market are from rural areas where they are collected by private traders. The remaining 20 per cent are derived from slaughtering facilities in major towns and cities. The Ethiopian leather sector is composed of raw hides and skins traders; leather tanneries, which source their supply mostly from the local market; and footwear producers, who use both local and international markets for raw material supplies. The most important source of raw material for leather tanneries are hides and skins that are procured from skin collectors and traders. (GTP-2,2010)

Value added finished leather products are produced under private Ethiopian labels, in particular for shoes. Additionally, many factories sell directly to overseas importers/wholesalers, or to direct buyers, who facilitate the production and export of footwear and other finished leather products under the private labels of department stores, boutiques, shoe retail chains and mail-order houses, as well as internationally well-known brands under contract.

According to the GTP-II, regarding leather products there are about 26 medium and above sized manufacturing companies and 448 small and micro manufacturers in the country. Thus the number of manufacturers/suppliers is large enough and they produce differentiated¹² or similar products where the main differences relate to the quality of the products they produce

2.3. CONCEPTUAL FRAME WORK



PESTEL: A Framework for considering benefit, challenges, and opportunities World Trade Organization accession towards leather industry. The PESTEL conceptual framework highlights six critical factors for World Trade Organization accession towards leather industry.

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1. RESEARCH DESIGN

The study was conducted by using mixed research approach. The rationale for combining both quantitative and qualitative data is important to better understand a research problem by combining both numeric values from quantitative research and the details of qualitative research in order to neutralize limitations of applying any of a single approach.

3.2. POPULATION AND SAMPLING DESIGN

3.2.1. Target Population

Population refers to all the members of a real or hypothetical set of people, events or objects to which the researcher wish to generalize the results of the research while a collection of observations representing only a portion of the population is called a sample (Sekaran, 2001). The target population of this study consisted of 50 employees in the Ministry of trade and industry, Leather Industry Development and other institution under the Ministry. The number respondents decreased due to the time constrain.

3.2.2. Sampling Frame & Sampling Location

The sampling frame sets of source materials from which the sample is selected and its purpose is to provide a means for choosing the particular members of the target population that are to be included in the survey (Anthony 2003). However, sampling location is a place where a research is conducted. In this research, source of materials consisted of all professional staff of MoTI and LIDI and other institution under the Ministry located in Addis Ababa.

Population and sampling:

- Ministry of Trade and Industry(MOT&I)
- LIDI (various departments from technical, production, marketing, leadership)

3.3. SAMPLE TECHNIQUES

Regarding sample techniques, the probability sample may or may not be sampled, which was depending on the information available for use; primary data. It is intended to be used in the process to determine which type of sample to use and which is not a particular type or coincidence. It is believed that in each case the use of techniques should be proven theoretically and practically. In addition, the number of studies or the initial number; the sample frame and sample size was be discussed openly.

3.4. RESEARCH DESIGN

There are three research approaches: Quantitative, Qualitative and Mixed, where one of them is not better than the others, all of this depends on how the researcher wants to do a research (Ghauri&Kjell, 2005). To achieve the aforementioned objectives, the study adopts a purely quantitative research approach, where it can use a questionnaire provided predominantly descriptive and qualified data. Quantitative method of research approach is study involving analysis of data and information that are descriptive in nature and qualified (Sekaran, 2001).

3.4.1 DATA COLLECTION TECHNIQUES AND PROCEDURES

It can be primary and secondary data about the use of a source of information. Data collection tools can be used to discuss employees. Based on the combination of the open ended and close ended questionnaires were distributed to collect the data from respondents. FGD and In-depth Interview were used. In addition, both theoretical and empirical justification was be provided and applied. Considers that concrete verification must be determined, using concrete tools and techniques as well.

3.4.2 DATA ANALYSIS METHODS

Before processing the data, the completed close ended questionnaires were sorted, checked and edited for completeness and consistency. For the quantitative analysis of the open ended questions, the data were then coded to enable the responses to be grouped into various categories. The data processing was completed in two consecutive phases: First data cleanup in which the collected raw data were edited to detect errors and omissions in response and for checking that the questions are answered accurately and uniformly. The next phase is the process of assigning numerical values was followed i.e., for strongly agree 1 for strongly no opinion or don't care 6.

In this section we were discuss what kind of data analysis techniques should be used, using a variety of descriptive techniques such as mean, percent, frequency and SD. It uses non-logical, logical, ordered, and various other forms of rehabilitation. The decision to use data analysis techniques depends on which level of measurement is used. For example, in order to assess the impact of the WTO's merger and its impact on the market, it is important to evaluate the potential benefits of the sector for the Ethiopian leather industry, especially in the domestic market and by accumulating capital through the export trade. It was use ideas as input.

CHAPTER FOUR

DATA DISCUSSIONS AND ANALYSES

4.1 Introduction

This chapter presents the analysis of data collected for the study. For the purpose of responding to the objectives of this study, the sample size of this research for the quantitative and qualitative technique and selects 50 respondents and totally 50 respondents was used. The study identifies various factors that determine employee engagement in the Ministry of trade and industry, Leather Industry Development and other institution under the Ministry. The researcher uses different techniques to analyze the data as the researcher uses descriptive statistics (frequency and percentage) to describe and analyze the demographics of the research. Secondly, the researcher uses descriptive statistics (mean and standard deviation) to describe the opinion of the respondents on different variables.

The data obtained from the respondents were summarized using frequency distribution by using SPSS version 20.

4.2 Demographic Information of the Respondents

The introductory part of the questionnaire consists of the demographic information of the participants. This part of the questionnaire requested some information related to personal and demographic characteristics of respondents. Accordingly, the following variables about the respondents were summarized and described in the table below. These variables includes: Characteristics of respondents by age, Gender, position, maritalstatus, educational level and years of service.

Table 4.2.1. Age Group

		Frequency	Percent
Valid	Below 25	3	3.2
	25-34	19	20.2
	35-44	9	9.6
	45-54	4	4.3
	55-64	7	7.4
	above 65	8	8.5
	Total	50	53.2

Source: Researcher's survey findings (2021)

The above table (Table 4.2.1) also illustrates the frequency and percentage distribution of age of the respondents of this research. Firstly respondents aged 25-34 represents 20.2% of the total sample. Secondly, the largest group of respondents falls into the age group of 35-44 years. It represents 9.6 % of the total sample of this research. Thirdly, the respondents aged above 65 years represent 8.5% of the total sample. The rest 55-64,45-54 and below 25 age groups the percentage occurrence 7.4%,4.3% and 3.2%.

Table 4.2.2. Gender

		Frequency	Percent
Valid	Male	25	26.6
	Female	25	26.6
	Total	50	53.2

Source: Researcher's survey findings (2021)

The above table (Table 4.2.2) illustrates the frequency and percentage distribution of gender of the respondents of this research. Out of the valid 50 respondents surveyed in this research, 50% were female respondents and 50% of the respondents were male.

Table 4.2.3 Marital Status

	Frequency	Percent
Married	13	26.0
Single	20	40.0
Valid Divorced	11	22.0
Widowed	6	12.0
Total	50	100.0

Source: Researcher's survey findings (2021)

It can be seen from Table 4.2.3 out of the total respondents 13% were married whereas the rest 20%, 11% and 6% of the respondents were single, divorced and widowed respectively.

Table 4.2.4 Educational Status

	Frequency	Percent
Undergraduate	13	26.0
Valid Graduate(MBA)	24	48.0
Graduate(other)	13	26.0
Total	50	100.0

Source: Researcher's survey findings (2021)

The above table (Table 4.2.4) also illustrates the frequency and percentage distribution of the education level of the respondents of this research. 26% of the respondents hold first a degree and 48% of the respondents hold MBA second degree and 26% other second degree holders.

Table 4.2.5 Years of Service

	Frequency	Percent
0-4	12	24.0
5-9	15	30.0
Valid 10-14	9	18.0
15-19	6	12.0
over 20 years	8	16.0
Total	50	100.0

Source: Researcher's survey findings (2021)

The above table (Table 4.2.5) illustrates the frequency and percentage distribution of work experience of respondents of this research. Out of the valid 50 respondents surveyed in this research, 24% were 0-4 years of service, 30% of the respondent have 5-9 year of year of service. Moreover, 18%, 12%, 16% of the respondents have 10-14, 15-19 and over 20 years of experience.

4.3. Descriptive Statistics Analysis

In this section of the analysis, the employee's response was used to assess the Leather sectors challenges, leather value chain and key export factors. According to Al-Sayaad, Rabea, and Samrah (2006) the calculated mean score of an item were classified in ranges to fit the fivescaled Likert's measure of responses (strongly agree, somewhat agree, neutral(neither agree nor disagree), somewhat disagree, and strongly disagree) as shown in the Table 4.4.1 below. Hence, its calculated mean score result and the classification presented in following table. Thus, the mean indicates to what extent the sample group averagely agrees or disagrees with the different statements. The lower the mean, the more the respondents agree with the statements. The higher the mean, the more the respondents disagree with the statement. On the other hand, standard deviation shows the variability of an observed response from a single sample Marczyk, Dematteo and Festinger (2005).

4.4. Challenges of the Ethiopian leather industry in joining the World Trade Organization

4.4.1 The major perceived challenges for the Ethiopian leather industry in joining World Trade Organization

The Manufacturing key challenges were assessed eight parameters in this research. The results were shown below.

Table 4.4.1: Key challenges of World Trade Organization accession towards leather industry

Descriptive Statistics			
A. Key challenges	N	Mean	Std. Deviation
Outdated Production Technologies	50	2.9000	1.21638
Shortage of Experienced Professionals	50	2.8200	1.27279
Low level Technical and Physical Infrastructure	50	3.4600	1.16426
Dependency on Imported inputs	50	2.8200	1.38048
Cultural Organizational Challenges	50	2.4000	1.10657
Poor information for technology application	50	3.2800	1.38564
Supply Chain Relationship Issues	50	3.4400	1.43086
Limited Resources	50	2.9600	1.08722
Valid N (list wise)	50		

Source: Researcher's survey finding (2021)

As shown in Table 4.4.1 above, key challenges were assessed by eight measurement items. According to the mean score of the items that describes, the mean score was attained by the items included “Outdated Production Technologies”, “Shortage of Experienced Professionals”, “Dependency on Imported inputs”, “Cultural Organizational Challenges” and “Limited Resources” the mean score range are from 2.00 to less than 3.00 as per the scale. This indicates that most of the respondents agree the five items that assess the key leather sector challenges. Thus, the production technology, experienced professionals, imported inputs, organizational cultures and limited resources were found to be the binding constrain for emerging manufacturing hubs.

4.5. The challenges and benefits of joining the WTO for the leather industry

The challenges of joining WTO for leather industry might be Weaken the local investors, dumping of raw hides and skins from developed countries, inefficient utilization of local raw materials and rendering producers in developing countries uncompetitive with highly subsidized goods from developed countries.

The benefits/advantages of joining WTO might be facilitating competition and hence increases productivity, boost the export revenue for the sector, creates additional employment opportunity, facilitate technology transfer and innovation and open wider market destination.

4.6. The benefits of Ethiopian leather industry in joining the World Trade Organization

4.6.1 Key Export Factor

The total export of Ethiopian leather and leather products Key Export Factors were assessed six parameters in this research. The results were shown in the following descriptive statistics table.

Table 4.6.1 Key Export Factors

Descriptive Statistics			
Key Export Factors	N	Mean	Std. Deviation
Existence of free trade agreements	50	3.3400	1.00224
WTO Agreement	50	2.7200	1.45742
Infrastructure Projects in Export Clusters	50	3.5400	1.19881
Strong Institutional support	50	3.8000	1.14286
Integrated Incentive System	50	2.4200	.73095
Rise of R & D projects	50	3.9600	1.12413

Valid N (listwise)	50		
Grand Mean		3.3	

(Source: Researcher’s survey finding, 2021)

As shown in Table 4.6.1 above, key export factor was assessed by six measurement items. According to the mean score of the items that describes, the mean score was attained by the items included “WTO agreement” and “Integrated Incentive system” the mean score range fails are from 2.00 to less than 3.00 as per the scale. This indicates that most of the respondents agree the WTO agreement and integrated incentive system items that assess the key leather sector export factors. Thus, the WTO agreement and integrated incentive system were found to be the dominate export factors that have high potential to boom export performance of the leather sector in joining WTO.

4.6.2 Impact of joining the International Trade System for Ethiopian leather industry Products

For a country like Ethiopia being WTO member has both positive and negative impact. But in relation to leather industry since Ethiopian leather industry has built with both local and foreign investors and the country has long years’ experience in leather business compared to other African countries, Ethiopia will be benefited from the leather sector especially by increasing the employment opportunity, market penetration, market access and market share. In addition to this Ethiopia has huge raw hide and skin potential and affordable and easily trainable labor compared with other African countries. All this enable the country to have comparative and competitive advantage in relation to the leather sector.

4.6.3 Opportunities gaining leather industry sector joining the WTO

The country has poor performance so if the country joins the WTO there will be the following opportunities for the leather sector as per the respondents. The opportunities were Since some of the business sectors such as telecom, banks and etc will be open for the international market and hence the efficiency of such services will be improved, technology transfer and innovation will be improved, creates additional job opportunities for citizens and Industrialization will be promoted.

4.6.4 The basic measures to join the World Trade Organization

The basic measures to join WTO are Improve the productivity of leather and leather product industries by creating the incentive schemes that minimizes the financial shortage, Devise the appropriate polices that promote the productivity and quality, the government, together with

other LDCs, should further negotiate trade preference with those trading partners who are giving domestic and export subsidy for leather and leather products and establish free entrance system by removing trade barriers with African countries.

4.6.5 Benefits of the country to join WTO in Leather sector

The benefits for the country that meet potential challenges to join WTO specifically related with Leather Industry Sectors were: -High growth potential due to key advantages and diverse market opportunities, Market opportunities on the local, regional and global markets, Gaining of foreign currency and helps increase of the leather sector export performance, Getting potential customers that capable of giving large number of export order, capabilities and capacities of locally-owned manufacturers to access key global consumption markets and Increasing of market share, market and business growth, market penetration, number of employment absorption.

4.6.6 Best practices and lessons Ethiopia can learn from developing countries in WTO

The best practices Ethiopia can learn are: - Stable Market in the Globe, increased export, growth of GDP due to increase domestic leather and leather products manufacturing, increment of employment opportunity and accessing and gaining of potential buyers and multinational companies in the Globe.

This result indicates that majority of the respondents agree that Affects consumer's buying behavior and the firm production process indicator itemseffectively the dominant challenges in the Ecological environment. Hence, the consumer's buying behavior and the firm production process were found to be the dominate challenges of Ecological environment of the Ethiopian leather sector.

CHAPTER FIVE SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In this thesis an attempt is made to analyze the implication of WTO for the Leather Industry sector and draw possible lessons for Ethiopia. As was indicated in the literature review trade liberalization was achieved through a long and complicated process of negotiations. The resumption of Ethiopia's to WTO membership negotiations at the 4th meeting of the Working Party on the country's accession, held on 30 January 2020. It was the first meeting of the working party in almost eight years. Ethiopia is ready to work jointly with members to advance and, hopefully, conclude, the accession process by the end of 2021.

It has been discussed so far that there are various internal and external factors that hinder and minimize the benefit of membership in the WTO. Although application to membership could be seen as a positive step towards integrating the LDCs into the world trading system and a better step to enhance economic growth, yet the leather industries pose serious challenges because in countries where there is no well-developed system, infrastructure, surplus production, sufficient capital and diversification of exports, the benefit accrued from membership to leather and leather product sector could be minimal. In addition to these internal factors, there are other external factors such as tariff and non-tariff barriers, domestic supports, and export subsidies in developed countries, which affect the benefit of membership in the WTO. As a result, what is observed generally from those experiences is that WTO membership has its own implication for the leather sector of selected LDCs. Hence, Ethiopia which is under the category of LDCs should consider those experiences.

5.2. Conclusions

The purpose of this study was to examine the impact of joining WTO in the Ethiopian Leather Industry. The analysis was conducted from the responses provided by those 50 respondents. Hence, the following are the conclusion that has been made based on the major findings.

The conclusions brought out from the findings of the study shows that the majority of respondent indicates that most of the respondents agree the five items that assess the key leather sector challenges. According to the mean score of the items that describes, the mean score was attained by the items included “Outdated Production Technologies”, “Shortage of Experienced Professionals”, “Dependency on Imported inputs”, “Cultural Organizational Challenges” and “Limited Resources” the mean score range are from 2.00 to less than 3.00 as per the scale Thus, the production technology, experienced professionals, imported inputs, organizational cultures and limited resources were found to be the binding constrain for emerging manufacturing hubs. Thus, to overcome the above challenges it important of joining the WTO will helps improving the manufacturing sector.

In addition, the majority of respondents indicate that most of the respondents agree the item joining WTO will increase the export performance by attracting new customers. Moreover, that most of the respondents agree the WTO agreement and integrated incentive system items that assess the key leather sector export factors. Therefore, the WTO agreement and integrated incentive system were found to be the dominate export factors that have high potential to the export performance of the leather sector.

Therefore, a lot of works have to be done to curve the above challenging elements of the leather and leather products to boom the international market.

The conclusions brought out from the findings of the explanatory research study shows the challenges, benefits/advantages, measures and best practices analysis result will forward the joining WTO will helpsholistic growth of the leathersector.

To sum up, from quantitate and qualitative analysis collectively concludes that there is a positive impact of joining WTO of the Ethiopian Leather sector were economic, social, technological and environmental. Therefore, overwhelm the challenges and growth the Ethiopian leather sector and gaining economic benefits it is vital and solely option to join the WTO.

5.3. Recommendations

Based on the summary of findings and conclusions of the study the following recommendations were forwarded:

- The government it may give attention in supporting the financial, technological and economic challenges of the industries so as to enhance the productivity and capacity utilization of the local industries for better competitiveness.
- There may be attractive incentive schemes for the leather industries by considering the nature and complexity of the industries.
- The government may establish efficient and effective service providing facilities along the leather value chain as well as for inbound and outbound logistics
- There may be independent national conformity assessment facilities such quality testing, calibration and inspection in order to assure the quality of export products to meet international as well as buyer requirements
- The production technology, experienced professionals, imported inputs, organizational cultures and limited resources were found to be the binding constrain for emerging manufacturing hubs. Therefore, it is recommended joining WTO will come up new technology and cultural that helps to minimize the challenges.
- The majority of respondents indicatethe export performance was found to be the experience factor on the hide and skin production and management. Hence, it is recommended that joining WTO will increase the export performance by attracting new customers and increasing the market destination.
- The challenges of Ethiopian leather sector will be curve if the nation enters WTO. Hence, it may join the WTO will alleviate the Leather market and technological challenges.
- The impact of joining WTO of the Ethiopian leather sector positive, beneficial and holistic growth in economic, technological, social, environmental and ecological aspects. Therefore, it is recommended that the countryto join WTO enhance the export performance, technology transfer, promote new investments, creates additional employment opportunities, improves resource utilization efficiency and open new market destinations provided that there should be technologically advanced service sectors such as banks, custom, telecom, power and etc.

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