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   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

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ONLINE RESOURCES

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WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

DETERMINANTS AND PROSPECTS OF ECONOMIC GROWTH IN ETHIOPIA

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ABSTRACT

Economic growth is an important factor in the development of the livelihood of an individual and the overall society. Ethiopia has been showing very high economic growth for the consecutive five year. However the distribution of income from the growth has been inequitable. The majority of the people are excluded from the growth system but also those who are include in the growth process gain from the growth process very less amount .And large share of income goes to the few people. Hence unknowingly the growth process empowers a few people. The government should rethink or review to bring inclusive growth basically broad based growth, shared growth and pro poor growth. It decreases the rapid growth rate of poverty and increase involvement of people into the growth process of the country.

KEYWORDS
economic growth, Ethiopia.

1. INTRODUCTION

Economic growth is the basic for the development of any nation it implies an increase in the net national production in a given period say a year. In other word economic growth means the transformation of an economy from the state of under development to a state of development from agrarian to a highly industrialized society from a low save to high a predominately urbanized society. The Ethiopian attempt to build a developmental state in the current form dates back to the early 1990s when an interim regime of the Ethiopian People's Revolutionary Democratic Front (EPRDF) was established by ousting the previous socialist dictatorship by military force. With the coming of the Interim Government in July 1991, Ethiopia abandoned economic planning and adopted a market-oriented economic system. During the transition period from 1991 to 1995, important policies were adopted and incorporated into key policy documents. The policy thrust of the Interim Government was proclaimed in Economic Policy for the Transitional Period in 1992, which contained a shift toward market orientation, removal of most restrictions on private sector activities, and liberalization and reforms in sectoral, investment, and public enterprise laws. Meanwhile, the Interim Government retained some features of the previous regime such as the state ownership of land and development centered on agriculture and rural areas. The idea of ADLI took concrete shape as an overarching economic strategy between 1992 and 1994, and An Economic Development Strategy for Ethiopian February 1994 highlighted the concept of ADLI to define its strategic direction. On the political front, the Charter of the Interim Government in July 1991 upheld peace and democracy as guiding principles, and introduced federalism based on ethnic autonomy. The Communist Military Junta (Derg) of the previous regime was replaced by a multi-party political system.

In September 2010 Minstar of finance and economic development (MOFED) introduce a new document which describes Ethiopia's growth and transformation plan (GTP).

This document describes Ethiopia's Growth and Transformation Plan (GTP), a medium term strategic framework for the five-year period (2010/11-2014/15). As the GTP is in the preparation process, it has been passing through an extensive process of consultation with citizens, the private sector, and civil society including women and youth organizations, religious institutions, the academia including professional associations both at regional and federal levels.

Ethiopia launches 150 billion USD green growth strategy in November 19 2012 .whose implantation requires 150 billion over 20 year dubbed climate resilient green economy(CRGE) ,the initiative sets out the dual objective of lifting Ethiopian to middle income economy by 2025 while keeping green gas emissions constant.

2. LITERATURE REVIEW

I. TRADITIONAL THEORY OF GROWTH

Classical economists, such as Adam Smith (1776), David Ricardo (1817) and Thomas Malthus (1798), and much later, Frank Ramsey (1928), Allyn Young (1928), Franknight (1944) and Joseph Schumpeter (1934), provided many of the basic ingredients that appear in modern theories of economic growth (Barro & Sala-i-Martin(2004), 2nd edition Economic growth,(p.16) .

The classical school consists of famous Adam Smith, analyst David Ricardo and the wise T.R.Malthus. These writers have expressed similar views on economic matters, through not exactly the same thing on all points. These economists were more concerned with the problems of can economy as a whole. This approach to economic development was macro in character, in comparison to the neo-classicals' approach which was essentially Micro in nature.

They made important contribution to study of economic development by focusing their attention as to "how does the growth of an economy occur?''*(M.LTaneja, R.M. Myer (2011) economic development & planning, 12th modified Edition , p.93)*

According to Smith, in a developing economy, both income level and capital stock rise. In addition to this, the rate of capital accumulation also shows a tendency to increase. This leads to increase in the capital stock in successive periods as investment keeps on increasing. Another important factor which contributes to the progress of an economy is the successive decline in the incremental capital output ratio due to the influence of capital on the productivity of labor. These factors reinforce each other and accelerate the pace of development of the economy. This development continues until a point where the economy's capital grows large enough to eliminate any change of profits. At this stage the economy has reached its stationary state.

In Adam Smith's system the stationary state is distinctly different form the state of underdevelopment. Having reached the stationery state, the common characteristics of the economy becomes unchanged population, constant income, subsistence wages, complete elimination of profits, and absence of net investment. According to Smith an economy which reaches a stationery state in its growth process has reached the highest level of propensity consistent with its present natural resources.

Adam Smith has identified the rate of profit as a vital and strategic factor in the economic growth process. He stressed on the point that the rate of economic progress would only rise if the rate of investment rose. However, the savings and investment rates were primarily dependent on the excess of the market rate of profit over the minimum compensation for bearing risk. Since these factors depended mainly on the socio-economic framework in the country, Institutions where his solution to the problem of economic growth. Adam Smith was firmly in favors of the policy of free trade and did not approve of any sort of government intervention. He is opposed to any kind of planning for economic development.

According to Ricardo, and Economy which has reached the stationary state, is characterized by wages at the subsistence level, maximum possible population, profits which are merely enough to compensate the risk, constant capital, Stock and a fixed quantity product. Ricardo didn't visualize any economy reaching the stationery state anytime in the near future. In Ricardo countries required a more rapid growth of capital stock. This same remedy couldn't be applied to countries with dense population, as rapid increase in capital stock would promote more population growth, and this would make matter worse for the country. Ricardo, thus suggested that the only remedy for these densely populated countries was a population control, by a change in the consciousness of the working class.

Malthus also gave light on three main factors which he thought sometimes arrest economic growth. Firstly, he refers to a backward sloping curve of effort for both Workers and managers, meaning that the incentive to do hard work was missing on account of many factors such as market size etc. He suggested the a remedy to the problem of small size of markets was in the promotion of international trade and by improving the transport and communication at a domestic level. Secondly, inability of an economy, to structurally transform itself into an industry based economy, may lead to economic retardation. Technological progress generates employment in the industrial sector by allowing providing jobs to people from the agricultural sector. Where technology fails, income tends to fall and there is a rise in unemployment. The introduction of land reform, so as to provide the ownership of the land to the actual land tillers so as to generate an incentive to raise output, was the solution provided by Malthus, but he himself stated that this was only temporary. Thirdly, intersect oral analysis of Malthus suggested that technological progress in a country had to be rapid enough to permit large investment in the industrial sector, whereby the impact of diminishing returns to increased employment on the land can be neutralized. Often such progress could not be accomplished in industries while diminishing returns in agriculture put a break on its development.

Malthus contended that the development of the industrial sector in a background economy is limited by under development of the agricultural sectors in the economy.

To sum up the general view of Malthus, the limited effective demand in less developed countries prevent development in both the agriculture and industrial sectors.

Labor intensive techniques of production in the agricultural sector does not permit the absorption of most of the countries, labor force, but it doesn't generate high enough income / wages of the laborers, and therefore it does not lead to an increase in the effective demand of the economy, nor to an increase in the rate of economic growth.

II. NEOCLASSICAL THEORY OF GROWTH

HARROD – DOMER MODEL

The neo-classical growth theorists of the late 1950s' and 1960s recognized this modeling deficiency and usually patched it up by assuming that technological progress occurred in an exogenous manner.

This device can reconcile the theory with a positive, possibly constant per capital growth rate in the long run, while retaining the prediction of conditional convergence. The obvious shortcoming, however, is that the long –run per capital growth rate is determined entirely by an element the rate of technological progress – that is outside of the model.

The long-run growth rate of the level of output also depends on the growth rate of population on other element that is exogenous in the standard theory. Thus we end up with a model of growth that explain everything but long-run growth, on obvious unsatisfactory situations. (Barro & Sala-i-Martin(2004), economic growth ,2nd edition p.16).

Harrod and Domar are interested in discovering the rate of income growth necessarily for the smooth and uninterrupted working of the economy through their models differ in detail ,yet they arrive at similar conlusion.Harrod and Domar assigned key role in investment in the economic growth.(M.L. Jhingan(2004),Macroeconomics theory ,11th edition and Enlarged).

Domar's growth model is one ,which can be used for finding out the dynamic conditions for the stability relevant to the growth process of underdeveloped economy. The main modification to be introduced in Domar's model is to shift the emphasis from the demand sufficiency to supply sufficiency .This shift in emphasis becomes necessary ,because in the developed economy,the balance is likely to be disturbed by the efficiency or deficiency of the effective demand ,while in underdeveloped economy, the balance is likely to be disturbed by the inefficiency of the supply or deficiency of capital. With this shift emphasis ,the Domar's analysis can be used for constructing a model of growth with stability for the underdeveloped economy(M.L.Taneja,R.M.Myer(2011) :Economic of development and Planning :Domar Model P.226.).

The Solow neo-classical growth model, for which Rober M.SoloW of the Massa chusetts institute of Technology received the Nobel Prize in economists, is probably the best known model of economic growth.

Solow growth model is expanded on the Harrod Domar formulation by adding a second factor, labour and introducing a third independent variable technology to the growth equation.

Technological progressive become the residual factor explaining long-term growth and its level was assumed by Solow to determined exogenously, that is, independent of all other factor. Because the hate of technical progress is given exogenously the Solow neo-classical model is sometimes called an "exogenous" growth model.

The developing countries have broadly focused on two strategies of developed "balanced growth" and "unbalanced growth". Albert Hirschman has propounded the theory of unbalanced growth theory has been supported by H.W.Singer, C.P. Kindle Berger, Faul Streeten and W.W. Rostow. But the credit goes to Hirschman for propounding the doctrine of unbalanced growth in a systematic manner.

He is of the opinion that the best way to accelerate economic development is to create deliberate imbalances in the economy.

On the other hand western economists like Ragnar Nurskey. Arthur Lewis, Anyn Young, Rosen Stein Road have advocated the strategy of balanced growth for underdeveloped countries.

Prof.D.K.Shukla has constructed theoretical model of growth for underdeveloped economy. The theoretical model was the topic of his paper "A theoretical model and its application for economic growth in India". Read at the Indian economic conference at Madras (Chennai)in 1967.This model is the modified version of Domar's Model. Underdeveloped countries wish to achieve their objective of growth with stability may be considered the prime objectives that less developed countries would attempt to achieve. There can be a difference of opinion about the degree of "reasonable price stability". But there were can not be opinion about the objective to be realized by the underdeveloped countries .

III. MODERN VIEW ON ECONOMY GROWTH

Joseph Stiglitz ,Who won the 2001 novel prize delivered his suggestions on the Indian growth and inflation and he preferred growth is more important than inflation. He said; "In a trade-off between growth and moderate inflation, I would plump for growth."That clearly is a cut for the reserve bank of Indian ,from Novel prize winning economist Joseph Stiglitz. "The rate agency are the one that need credibility, not the notations or other entities they rate," he said, although he is quick to add there are still same out their in the financial markets who perversely take this agencies seriously ,meaning that the rating are not completely beside the point .But Joseph Stiglitz doesn't know waffle when he gave his opinion.

Prof.S.Indrakant from Osmania University and reserve bank of India(RBI) Chair Professor, councilor for social development said that "Inflation has not been significantly affecting the rich because the growth process compensates them. They get higher income through the growth processes, whereas the poor have been negatively affected due to the low income."

K.Chandramouli,I.A.S.Commossioner, APARAD, government of Andra Pradesh gave emphasis with his topic inclusive growths and social welfare in India.He said " we are happy on one side about our country's GDP growth rate , but are equal worried on the other because any rapid growth like this always bring along new challenges and new questions about the spread of the benefits of this growth across the different segment of our varied socio-economic ,religious ,political, ethic and cultural group. Moreover as war clearly warned by the UNDP the market driven technological Innovation tends to miss out on the goal of equity,povery eradication and enhanced human security.

Prof.R.G.Desai,Chairman department of Economics ,CACEE, BanguloreUniveristy again gave emphasis in the topic inclusive growth under a neo-liberal policy frame work key note address at the UGC national seminar. Inclusive growth term is defined differently by different scholars and organizations. The United Nation development program(UNDP) has defined in inclusive growth as "the process and the outcome where all group of people have participate in the organization of growth and have benefited equitably from it." (UNDP2008)In other words , inclusive growth should include all section as the beneficiaries as well as partners in growth and that inclusion of excluded should be embedded in the growth process .Basely etal (2007), has defined inclusive growth as the " growth that has high ,elasticity of poverty reductions ",i.e.it should have higher reduction in poverty per unit of growth. There is

now enough evidence to show that the extent to which economic growth translates into poverty reduction and to human development depends on what happened to inequality during the process of growth (UNDP .2010; Suryanarayan.2008)

It was as though the Prime Minister Dr. Man Mohan Singh was endorsing the concerns raised by the greens within the state congress in the run up to the Emerging Kerala meet. Inaugurating the Emerging Kerala 2012 investors meet here on Wednesday, Prime Minister Dr. Man Mohan Singh said that the development initiatives of the state of should be "sustainable and mindful of environmental concerns." He added, "We would like the state to embark on a path of people-focused inclusive growth driven by knowledge and innovation and mindful of environmental concerns."

JagdishBhagwati and ArvinddPanayariya are university professors of economics at Colombia University argue that growth can reduce poverty and that slow economic growth will hurt social development. In a joint response to question from Economic Times (ET), the authors dwell in the message in their book, revive Kerala model Vs Gujarat debate and attack economists such as Nobel laureate AmartyaSen for his "anti-growth assertions." The message in their book growth is the single most important instrument of poverty reduction; and India needs both accelerate growth and make it more inclusive through track I reforms and make its redistribution programmers more effective through track II reforms.

As for our rivalry, it is with the practitioners of bad economics who are continuously at work to drive out good economics. It is interesting that, in evidence riposte to the recent anti-growth assertions of Prof. Sen, and taking a leaf from our extensive arguments in defense of the growth strategy, the prime minister of India the growth has asserted forcefully that growth is a matter of both economic policy and sustainable development policy.

The continued inclusive economic growth needed by developing countries to reduce poverty and improve well being; and improved environmental management needed to tackle resource scarcities and climate change. (Green Growth and Developing Countries; A Summary for Policy Makers P.S June, 2012)

GREEN GROWTH OUTCOMES:

ECONOMIC

1. Increase and more equitably distributed GDP-Production of Conventional goods and services.
2. Increase production of un priced ecosystem services (or their reduction prevented)
3. Economic diversification, i.e. improved management of economic risks
4. Innovation; access and up take of green technologies i.e. improved market confidence environmental
5. Increased productivity and efficiency of natural resource use
6. Natural capital used within ecological limits.

IV. EMPIRICAL LITERATURE REVIEW

Agriculture as an engine of growth: GDP growth rate was calculated for the three regimes to measure the performance of the overall economy and also to evaluate agriculture's role in GDP changes. It declined by 1.82 percentage points in the socialist era compared to the monarch's period and grew by 3.09 percentage points in the current period compared to its level in the socialist period. Further disaggregation of GDP into the different sectors reveals that decline in GDP growth rates in the socialist era was on aggregate caused by sharp declines in the service and manufacturing sectors.

TABLE 2.1: AVERAGE GROWTH RATES AND SECTORAL SHARES

Year	AGR		MAN		SER		GDP GR
	GR	SH	GR	SH	GR	SH	
1963-1974	0.9	68	7	5	7	25	3.5
1975-1991	1.3	55	1.2	6.5	2.6	34	17
1992-1998	2	50	7	6.4	8	39	4.8

Source: author's calculation based on MEDaC data. GR stands for growth rate and SH for share.

GDP grew by 3.09 percentage points in the current period (1992-1998) compared to its growth rate in the socialist period. This is attributed to increased performance in the manufacturing and service sectors than the agricultural sector. *"Improved availability of inputs and spare parts to the highly incapacitated manufacturing sector made possible by the intensive emergency recovery and rehabilitation effort and the accompanied economic reform program which helped rectify factor and product market distortions, are the major factors behind the profound growth registered in the industrial sector".* (MEDaC, 1999). Growth in the agricultural sector, estimated at 0.62 percentage points in the same period, is the lowest compared to the 5.38 and 5.78 percentage points growth rates registered in the manufacturing and service sectors, respectively.

TABLE 2.2 GROWTH DECOMPOSITION BY SECTOR IN ETHIOPIA ECONOMY FROM THE PERIOD 2000/01 – 2004/05 AND 2005/06 – 2009/10 GIVEN AS FOLLOWS

	2000/01-2004/05	2005/06-2009/10
	Share in total GDP	Share in total GDP
Agriculture	41.5	33.2
Industry	17.1	11.7
Service	41.4	55.2

Source: EEA/EEPRI Computation data

The agricultural sector which had a significant contribution to growth with a magnitude equivalent to that of the service sector in terms of its share in growth. Its contribution to growth has decline from about 42% during SDRP to 33% during the last five years. This was not, however, because value added in the Agriculture Sector decelerated during the period of PASDEP over the SDPRP. In fact value added in this sector has accelerated from 5.6 percent during SDPRP to 8.4% during PASDEP. The reason for the decline in its share in the overall GDP growth was due to the extraordinary high rise of the value added in the service sector. The growth in the service sector has more than doubled from 6.7% to 14.3% during the last five years compared to the preceding five years.

3. IMPORTANCE OF THE STUDY

The study of economic growth has a tremendous effect for change of livelihood of the poor people. Ethiopia has registered very high economics growth for the last few years and the study of the growth system of the Ethiopia is very essential to ensure for betterment of Ethiopia economic growth. Holding this truth to make sure does this system benefit the whole society? In fact, it doesn't but there is a growth it needs careful analysis to bring up equitable distribution of income and to included all the society group in the growth system.

4. STATEMENT OF THE PROBLEM

Economic growth is the basic and crucial issue in the development of one country. Ethiopia is one of fastest growing economies in the world and the non- oil export country in the east of Africa.

Basically, Ethiopia economy is dependent on the the agricultural production and the share of agriculture sector in the economy is around 33.2% in this share the people, who are engaged in the agriculture is 85% of the total population. Thus agriculture in Ethiopia is the dominant sector in the of economic development .The contribution of the other sector for the economic growth of Ethiopia from the service sector 55.2 % and the industrial sector 11.7% (EEA/EEPRI(2011) computations using data from MoFED,P. 5-10.).

Every one agree Ethiopia had been registering fast economic growth since 2005/04 – 2009/10 .However ,There is a problem ,the first and the most one question where is the growth ? if there is a growth why the people livelihood of the poor society didn't change ? This question come from different side .But everybody should hold the truth GDP isn't the good measurement and it is an indicator of the presence of growth. Moreover, GDP is calculated as the value of good and service produce with in a country without adjustments for any change in environment assets or citizens well-being . The second

problem , the growth system empower a few people the majority of the society aren't included in the growth process .There should be some adjustment to bring the fair distribution of income throughout the poor.

5. OBJECTIVE

Identifying the main problems and constraints in the growth process of Ethiopia economy and providing opportunities to bring preferable options.

SPECIFIC OBJECTIVE ARE

- To test how the growth process going on
- To see some theoretical and practical situation regarding the growth process.
- To come up with some possible conclusion and recommendations.

6. HYPOTHESIS

The majority of the people of Ethiopia believe that the growth process of the country is not bring the change on the society living standard so there is no growth.

On the other hand the other group said there is a growth in Ethiopia but the process doesn't included the majority of the society. According to the above idea there is need of clarification and constrictive definition of growth. Hence in the project work very briefly defined the determinates and prospect of economics growth process of Ethiopia.

7. RESEARCH METHODOLOGY

In my project work I used secondary data from different well established institutions and ministries such as WB,IMF,EEA……etc. The project work also includes annual report, conference proceedings quarterly bulletins, statistical abstract journal and books. The institution like IMF, WB and EEA are the main sources of the secondary time series data. The sample size taken for the project work 30 years of data in order to obtain the optimum results and possible estimates of the analysis. Finally the method employed in developing the project paper is description analysis by using tables, ratio, percentage, and graph.

8. DATA ANALYSIS PRESENTATION

I. DETERMINATE OF ECONOMIC GROWTH

In theoretical terms, analyzing influence of fundamental economic variables on the economic growth and development is base on the basic macroeconomic relation. This relation represents expenditure base approach for calculating gross domestic production in one country.

Y= G+ C+I+ X-M……. (1)

Here y is gross domestic product I- investments
G- Budget consumption X- Exports
C- Private expenditure M- Imports

Identify (I) represent equilibrium between aggregate supply and aggregate demand in open economy. It is also used for examining functional dependant of some macroeconomic variable, variables, measure of economic activity, and polygon for implementation adequate mix of economic policy (monetary policy, fiscal policy, balance of payment ……e.t.c)

At the same times it clearly shows connection between internal (real and monetary) sector and external section in an economy. Macroeconomic variables which are including in the growth equation (1) represent the basic indicator of economic activity in any country. But it doesn't mean that only the traditional theories used these variables in their analysis growth development of the countries. Modern theories of growth (theory of endogenous growth, of theory of location, supply side economies,.e.t.c) use these determinates of growth too, but less then they use component of human capital (ideas ,acknowledge, trainings ,learning by doing….e.t.c).

Much attention is given to day to derived determinates of growth such as composite indicators, distance of equator, the birth rate…….e.t.c

Let us start the empirical analysis with the fundamental macroeconomic identity, i.e the growth equation(1).

On principle, the economics analysis is positioned to analyze the influence of fundamental macroeconomics variables on economic growth and development.

Starting from the key macroeconomic relation, with an aim to consider the impact that relevant economic variable have on economic growth and development, the equation (1) was enlarged by the influence of inflation rate, direct foreign investments, the real national interest rate (r) and real exchange, per capital GDP, Government consumption, investment ratio, terms of trade, international openness.

Y= IR +GRC+ INF+ OPN+ TOT+ER……equation (2)

IR - investment ratio INF- inflation rate TOT- terms of trade
GRC- Government ER – Exchange rate

II. GROWTH DOMESTIC PRODUCT (GDP)

Gross domestic product (GDP) is the market value of an officially recognized final goods and services produced within a country in a given period of time. That is, GDP is the total market value of a country's output produced within a given period. There are two most popular approaches of computing GDP: The expenditure approach and the income approach.

The functional relationship between the growth and its main determinate can be found using the expenditure approach method.

Y=C+I+(X-IM) + G

Growth determining variables can be exogenous variable or endogenous variables.

The endogenous variables are consumption, investment……. etc. some of the exogenous variable which determine the growth process are such as rule of law, democracy, education, fertility…… etc.

GDP can also be measured with other measurement.

1. Nominal or current dollar, GDP and
2. Real or constant dollar, GDP.

TABLE 4.1 NOMINAL GROWTH RATE (NGDP) % OF THE 3 DECADE

1st Ten Year Growth (GDP)		2nd Ten Year Growth (GDP)				3rd Ten Year Growth (GDP)		
Date	NGDP	ΔGDP	Date	NGDP	ΔGDP	Date	NGDP	ΔGDP
1982	0.916	-	1992	-8.673	-1.536	2002	1.515	-6.786
1983	8.235	7.319	1993	13.143	21.816	2003	-2.161	-3.676
1984	-2.843	-11.083	1994	3.19	-9.953	2004	13.572	15.733
1985	-11.144	-8.296	1995	6.128	2.938	2005	11.819	-1.753
1986	9.661	20.805	1996	12.426	6.298	2006	10.835	-0.984
1987	13.86	4.199	1997	3.134	-9.292	2007	11.456	0.621
1988	0.503	-13.357	1998	-3.458	-6.592	2008	10.789	-0.667
1989	-0.361	-0.864	1999	5.162	8.62	2009	8.502	-1.987
1990	2.726	3.087	2000	6.073	0.911	2010	9.937	1.135
1991	-7.137	-9.863	2001	8.301	2.228	2011	7.299	-2.638
AGDP	1.1441%	-0.853		4.546%	1.5438		8.3863	-0.1002

Source of data WB/World Bank data/

The average growth rate for the first decade from 1982-1991showed 1.144% it was very low as compare to 2nd decade and 3rd decade. The first decade economic policy was socialist. So the private sector was limited in the growth process. The growth process was driven by the public sector. This and other factor limited the growth process to be low. On the other hand during this time Ethiopia had been in a great internal war. At the beginning of the 1990 the socialist government changes his policy to become mixed economic system. This should show a little bit improvement. And the growth rate over the year showed in consistent due to the subsistence Agriculture.

The method of production of Agriculture was poor and the farmers were dependant on the rain fall. Therefore the rain fluctuation was the major cause of inconsistent growth rate. The second decade the average Growth rate from 1992-2001 showed 4.516%. This was 3 times more than the first decade. The war was end up and EPRDF came to power May 1991. There was not out change in the economic policy of the country. The free market system and privatization or disinvestment policies of the government which helped the private sector to plan a crucial role in economic growth. The economic growth strategies have been Agricultural development led industrialization (ADLI) which brought a great change in Agricultural production.

The third decade average growth rate was 8.386% which was 1.84 times more than the 2nd decade there was also impressive improvement in the growth. The government gave great emphasis on growth strategies ADLI. On the other hand the government was used different technical and marketing research to diversify agricultural production. The market oriented production was the major factor in the change and growth of Agriculture production.

In the Previous government i.e. first decade the major agriculture production for sale was few such as coffee …… But the current coffee market became lower price as compare the previous to overcome the problem. The government diversifies the Agricultural production to different crop and non-crop production such as oil seed, flower, chats……. e.t.c.

This was very crucial for the growth of economy in the 3rd decade. In addition to this the government was used massive agricultural input such as fertilizers, irrigation, training, high yield seed etc.

8.II.1. INFLATION (INF)

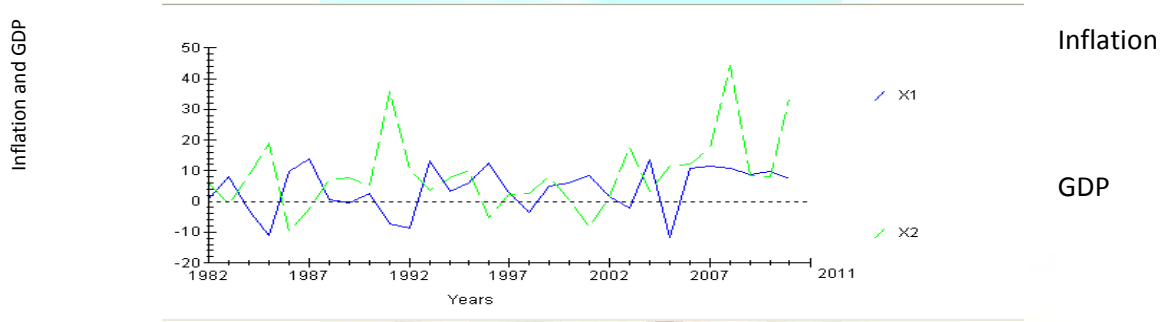
The term inflation is a persistent of continuous rise in the general level of prices. Inflation is a long time process of calculating price rises and hence any accessional rise of price may not be called inflation. Two to distinct cause of inflation known as demand pull inflation and cost push inflation.

TABLE4.2: INFLATION WITH EXCHANGE RATE TRENDS FOR THE 3 DECADE

1st Decade Inflation			2nd Decade Inflation			3rd Decade Inflation		
Date	INF	Forex	Date	INF		Date	INF	Forex
1982	5.89	2.06Birr	1992	10.527	2.06	2002	1.654	8.15
1983	-0.675	2.06Birr	1993	3.543	2.06	2003	17.762	8.15
1984	8.417	2.06Birr	1994	7.594	2.06	2004	3.256	8.15
1985	19.065	2.06Birr	1995	10.022	5.88Birr	2005	11.611	8.65Birr
1986	-9.809	2.06Birr	1996	-5.091	5.88Birr	2006	11.611	8.39Birr
1987	-2.429	2.06Birr	1997	2.395	5.88Birr	2007	17.238	8.39Birr
1988	7.081	2.06Birr	1998	2.583	5.88Birr	2008	44.391	9.67Birr
1989	7.817	2.06Birr	1999	7.941	5.88Birr	2009	8.468	13.39Birr
1990	5.152	2.06Birr	2000	0.662	8.15Birr	2010	8.137	13.33Birr
1991	35.723	2.06Birr	2001	-8.238	8.15Birr	2011	33.224	16.85Birr
AV INF rate	7.62%			3.19%			15.80%	

Source of data WB/World Bank data/

FIG. 4.1: TIME SERIES GRAPH OF INFLATION AND GDP



Inflation in the first ten year average rate was 7.62%. In the Drug regime the inflation was limited because the government very much controlled. The major cause of the inflation was due to import price of good. During the period the exchange rate system was fixed exchange. And so the exchange rate are fixed it was set by the Government. On the 2nd decade the average inflation rate 3.19% as compare the 1st and 3rd decade the inflation was very low rate.

The 2nd decade year the policies of the Government changed. And it also gave a great emphasis on the Agricultural production and then there was a great reduction in the food price. The 3rd decade the average inflation rate 15.80% the inflation was very high as compare the past year. The major cause of the inflation was the increase in import price to motivate export price.

Although the country can't cover the consumer goods, the government promotes export rather than import. There was in compatibility between population increase and domestic production. On the other hand there was massive export without satisfy the local market demand and this create food price to be higher and the input shortage for the local small scale industry.

Due to reduce purchasing power, the inflation became very high which has been affecting the poor society such as government workers, pensioners.

8.II.2. TERMS OF TRADE AND INTERNATIONAL OPENNESS

International openness. The degree of international openness is measured by the ratio of export plus imports to GDP.

Openness index:

1. Any measures of openness
2. The ratio of a country's trade
3. Exports plus imports to its GDP

Open economy. An economy that permits transactions with the outside world, at least including trade of some goods Contrasts with closed economy.

Terms of trade: This variable is measured by the growth rate of the terms of trade (export price relative to import prices).

The rate of which one good is exchanged for a unit for a unit of another in the international market is called terms of trade. The formula can be expressed as follows:-

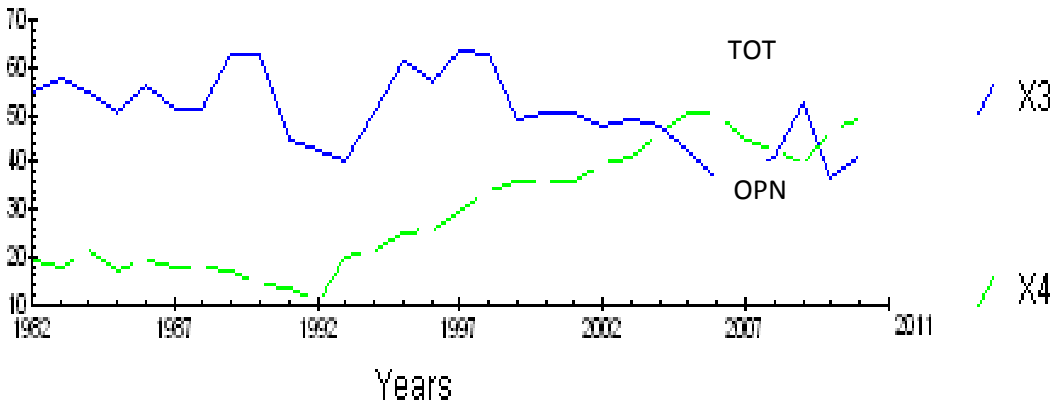
$$\text{(TOT)} \quad \text{Terms of Trade} = \frac{\text{Export price index}}{\text{Import price index}} \times 100$$

TABLE 4.3: TERMS OF TRADE AND INTERNATIONAL OPENNESS

1st Decade TDT/Openness			2nd Decade TDT/Openness			3rd Decade TDT/Openness		
Date	TOT	OPN	Date	TOT	OPN	Date	TOT	OPN
1982	0.549	0.192	1992	0.422	0.108	2002	0.474	0.392
1983	0.574	0.178	1993	0.401	0.201	2003	0.486	0.407
1984	0.548	0.215	1994	0.505	0.212	2004	0.472	0.465
1985	0.507	0.173	1995	0.616	0.254	2005	0.426	0.505
1986	0.563	0.190	1996	0.569	0.255	2006	0.379	0.504
1987	0.512	0.176	1997	0.636	0.292	2007	0.397	0.448
1988	0.508	0.174	1998	0.627	0.334	2008	0.370	0.422
1989	0.626	0.171	1999	0.488	0.358	2009	0.366	0.395
1990	0.628	0.144	2000	0.502	0.360	2010	0.413	0.466
1991	0.443	0.132	2001	0.505	0.357	2011	0.529	0.487
Average	0.495	0.1569		0.527	0.270		0.4312	0.449

Source of data WB/World Bank data

FIG. 4.2: TIME SERIES GRAPE OF TERMS OF TRADE AND INTERNATIONAL OPENNESS



The first decade the average terms of trade was 0.495 a unit of good imported exchange with 2.02 export goods. Since country export Agricultural raw production. The elasticity of agriculture product inelastic. The imports were higher than the export. The openness for the 1st decade average rate was 0.1569 or The GDP equal to 6.37 times the sum of import plus export. There was closed economic system in the 1st decade. And the 2nd decade the average TOT was 0.527 which was equal to a unit of good imported exchange with 1.89 exported goods. The openness showed improvement as a result of the economic power change i.e. free market system. The GDP equal to 3.70 time sum of export and import.

The 3rd decade the average TOT was 0.431 which was equal to a unit of good imported exchange with 2.31 exported goods.

This was higher terms of trade as compared past 2 decades. This change was due to the increase of foreign exchange currency from 8.15 in 2000 to 16.85 in May 2011. The openness in the 3rd decade GDP equal to 2.22 time the export plus import. Again openness increase in this decade as compare the past 2 decade.

8.II.3. GOVERNMENT CONSUMPTION RATIO

The real government consumption to real GDP was adjusted by subtracting the estimates ratio to real GDP of year spending on defense and non capital real expenditure on education.

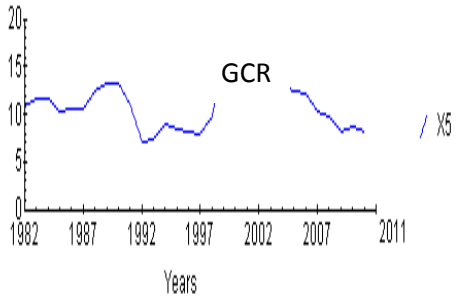
General government final consumption expenditure (formerly general government consumption) includes all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditure on national defense and security, but excludes government military expenditures that are part of government capital information.

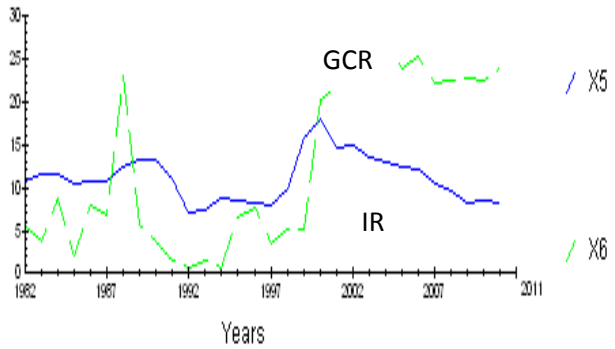
TABLE 4.4: GOVERNMENT CONSUMPTION RATIO TREND

GD/GDP 1st Decade			GD/GDP 2nd Decade			GD/GDP 3rd Decade		
Date	GC/GDP		Date	GC/GDP		Date	GC/GDP	
1982	0.107		1992	0.072		2002	0.148	
1983	0.116		1993	0.073		2003	0.134	
1984	0.115		1994	0.089		2004	0.130	
1985	0.103		1995	0.084		2005	0.123	
1986	0.106		1996	0.083		2006	0.121	
1987	0.106		1997	0.080		2007	0.104	
1988	0.123		1998	0.098		2008	0.097	
1989	0.133		1999	0.156		2009	0.082	
1990	0.132		2000	0.179		2010	0.859	
1991	0.110		2001	0.146		2011	0.081	
Average	0.105			0.106			0.188	

Source of data WB/World Bank data

FIG. 4.3: TIME SERIES GRAPE GOVERNMENT CONSUMPTION RATIO (GCR) & INVESTMENT RATIO





The average government expenditure for purchase of goods and service for the first decade was 10.5% of the GDP.The second decade it was almost similar to the first which was 10.6% of the GDP. Apart from this the third decade the average government expenditure was increase very high at the begin and gradually decreased.

In this decade the average government expenditure was 18.8% of the GDP. This was one of the major causes for the inflation rate to the increase at higher.

8.II.4. INVESTMENT RATIO

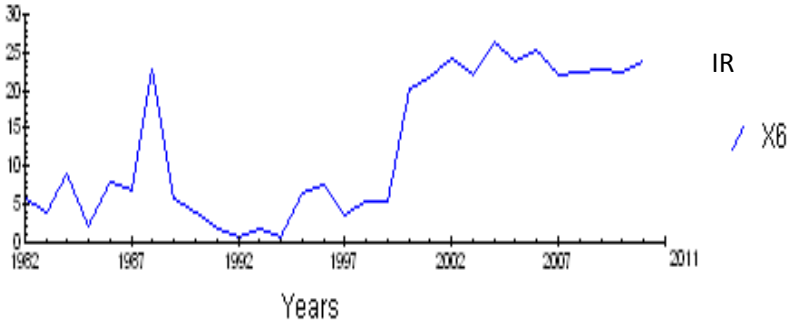
The rate of real gross domestic investment (Private plus public) to new GDP. This ratio gives the share of GDP that is used by the public and private sector. For investment (rather than being used for e.g. consumption or export).

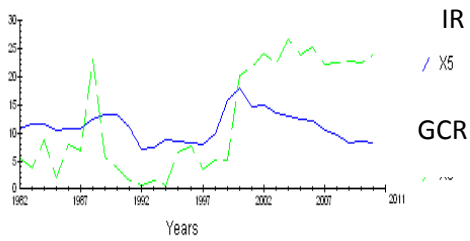
TABLE 4.5: INVESTMENT RATIO

1st decade I/GDP		2ND decade I/GDP		3RD decade I/GDP	
Date	GC/GDP	Date	GC/GDP	Date	GC/GDP
1982	0.05545	1992	0.00627	2002	0.24118
1983	0.03783	1993	0.0644	2003	0.22204
1984	0.08803	1994	0.07525	2004	0.26516
1985	0.02094	1995	0.0239	2005	0.23755
1986	0.07956	1996	0.0757	2006	0.25202
1987	0.06837	1997	0.03435	2007	0.2212
1988	0.022855	1998	0.05242	2008	0.22356
1989	0.05739	1999	0.0525	2009	0.22716
1990	0.03853	2000	0.2028	2010	0.22349
1991	0.01552	2001	.21528	2011	0.23963
Average	00690		0.0803		0.2352

Source: Economy watch.com

FIG4.5 TIME SERIES FIG/GRAPE/ INVESTMENT RATIO (IR) AND WITH GCR





The first decade the investment to GDP ratio was sources very low which was average of 6.90% the GDP. The role of the private investment in the 1st limited became the socialist system. The 2nd and 3rd decade the investment to GDP ratio share Gradual incensement. This near the government and private sectors play a great role for two decades.

The 2nd decade investment to GDP ratio average was apart from two decades the 3rd decade the investment to GDP ratio was very high which was 0.2352 or 23.52% of GDP.The government high investment on development and non-development which was the major cause for the inflation to be high over the past few years.

9. FINDINGS

Determinates and GDP	Indicator	Problems	Solution
GDP	The GDP over the past 30 year from 1982-2011 average growth rate showed growing. The last two decade economic growth was dynamic growth.	There was a very attractive growth rate however no one considers the environment and people The process create very unfair distribution of income and very low income society.	The growth and it's meaning need s clear definition in the country. The growth process in the country should be pro-people focused inclusive growth with consideration of environment.
INF	The inflation from 1982-2011 Average rate show up and down.	The major cause of inflation 1.The increase of import price 2. Government over expenditure on development program.	The government should control the inflation rate at low using the 1.monetary and fiscal policy. 2. Import substitution
TOT	TOT average rate 0.495 and then increase 0.527 finally it became 0.4312.This show ups and down.	The economics policy previous was close system. Since 1992 the open economic system has been used.	To improve terms of trade it need more domestic production and reduces import.
OPN	OPN average rate very low at the began which was 0.1569 and then there was a dynamic change 0.527 and it fall to 0.4312.	The economics policy previous was close system. Since 1992 the open economic system has been used.	The openness of the country should need careful management. Because most of our export is Agriculture raw material. in addition we should make local demand satisfied .
GRC	Government consumption to real GDP For first ten year and the next ten year the rate are the same 1.06. The expenditure from 2002 to 2011 increase at very high rare.	Government function increase in different sector this creates very huge expenditure.	Minimize the government expenditure to control the dynamic increase of inflation.
IR	The first and second ten year investment ratio more or less similar very low but from 2002-2011 the investment ratio increase at very high rate.	There is high government investment with less involvement of private sector.	Limit government function and motivate private sector.

10. RECOMMENDATION

i. The EPRDF announce the strategies ADLI in 1994 the policy still it has been continuing work more than one –half decade but there is no time period for the agriculture development maturity and so the following sector i.e. Industrial sector start growth. In contrasts to this the industrial sector share of GDP shrink from 17.6% to 11.7%. This implies there is a need of new strategies or make some adjustment mechanism for further growth and development of agriculture and industrial sector.

ii. The agriculture sector share in the economy decline as the economy of one country grows. On the other hand, the industrial sector grows. There is complementary relationship between the two sectors. And The condition in Ethiopia doesn't work in contrast to this as the share of the agriculture decline from 41.5% to 33.2% the people engaged in the sector remain there. Hence there is a structural rigidity problem it needs a great economic solution.

iii. The Ethiopia financial sector is a very fast growing sector and it is also a base to the economic growth .However the role of financial sector is very limited in the growth process. There is no state (region) agriculture and industrial sector financing system. The role of the central bank or national bank of Ethiopia (NBE) is very much limited and under performance in the growth and development process. Therefore, I recommend there should be financial system reform.

iv. Government had not given attention to the local industry so the local production totally distracted and replaced by the new technology. People who are work in small scale industry in the local shouldn't get financial, technical, and raw material support from the government. This and other factor which cause the local industry contribution drastically became approach to zero. There should need a great attention to promote the local producer for the further expansion of industrial development.

v. I suggest that the government of Ethiopia should use inclusive growth strategies to include the exclude majority of the people.

Inclusive growth is a very essential element in the reducing poverty and inequality among the people. I would like to repeat prime minister of India Dr. Manmonhan Singh statement '' we would like the state to embark on a path of people-focused inclusive growth driven by knowledge and innovation and mindful of environment concerns".

11. CONCLUSION

In the project work I attempt to examine determinant of economic growth and its prospect. I have been analyzed to see the problems and I concluded from the result of study as follows:-

1. After the 1992 the economic growth for two decade averagely between 4.5% to 8.5% however the value gain from the growth goes to few trader and brokers. The poor farmer sale his farm production with less price. there for there is a need of some adjustment to fair payment or distribution of income.
2. The inflation in 3rd decade from 2002- 2011 G.c had been registered very high than the rest of the year. These were extremely affecting the poor society such as government workers, pensioners….e.t.c
3. The inflation and growth fig showed that inflation rate was very high than the growth rated. The very high increase of inflation cause to reduce saving then to retard growth.

In the last ten year from 2002 -2011 the import price became higher than the average terms of trade showed lower than the rest years.

4. The international openness of country show increase from decade to decade .This is an indicator of the international trade growth.
5. The government expenditure for the first and second decade was similar but the last decade which was from 2002-2011. The government expenditure increase at higher percentage this was one of the cause of higher inflation.

6. The investment ratio was should that for two decade very low but the last decade show very high increment .The government have been doing very high investment on infrastructure ,electric generation ,damp for irrigation ,education center ,health center….e.t.c .There was excess of expenditure which create very high inflation and adversely affecting the poor society.

12. LIMITATIONS

The project has been taken for the Ethiopia economic growth the recommendation and conclusion regarded only to Ethiopia.

Some of the data taken from Ethiopia investment commission was not sufficient as I inquired .Holding this and other truth I did my project in very attractive and convenient way therefore any one can understand easily .Even though there are so many constraint and limitation.

13. SCOPE FOR FURTHER RESEARCH

The research has taken in the Federal Democratic Republic of Ethiopia the conclusion and recommendation also applicable in these boundaries only. The economic growth is non stopping process since the need of the society is unlimited. In fact there maybe interruption by different natural and manmade problems. The economic growth of any country need very careful study and research work year to year. So it is very important for those who want to study further in this area.

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