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Chat exports and the Ethiopian economy: Opportunities, dilemmas and constraints

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The paper discusses the growing importance of chat as an export product in the Ethiopian economy and the controversies that its production and marketing generate. It also presents the results of the analysis of survey data from 4 major export associations and 10 individual exporters. The results of the study show the opportunities and problems related to chat export to Ethiopia's neighbouring countries in the process of internationalization. The strategic and policy implications of the results are also addressed.

Key words: Chat export, Ethiopian economy, opportunity, dilemmas, constraints.

INTRODUCTION

Chat (*Catha edulis*, Khat or Qat) is an evergreen plant used commonly for mastication and its sympathomimetic actions (Cox and Rampes, 2003). Consumption of chat leaves is common in Yemen, Madagascar, Saudi Arabia and East African countries (like Kenya, Ethiopia, Djibouti, Somalia, Uganda, and Tanzania). Chat is chewed by almost everyone in Yemen and has become part of the Yemeni way of life (Ward, 2000). Commercial viability of chat production and distribution has elevated it to one of the most important commodities for export-import in some African and Arabian countries. Once limited to the Red Sea Littoral, chat is now an international commodity, traded and consumed in the cities of Western Europe and North America (Anderson, 2003). Chat acquires the status of cash crop in Ethiopia- the country thought to be the place-of-origin of the use of chat (Cox and Rampes, 2003). In Ethiopia, chat is planted and chewed for different purposes, occupies second place among export commodities after coffee, and is a major source of foreign exchange (Survey of Ethiopian Economy-II, 2005).

A substantial body of literature is now available on

various aspects of chat production. Some comprehensive review articles exist on the history, botany, cultivation, chemistry, pharmacology, sociology, and medical characteristics. But despite its growing economic importance limited studies have been conducted on its marketing and export. The aim of this study is to address this knowledge gap. In specific terms, this paper seeks to make the following contributions:

1. Bring together the empirical evidence on the nature of the chat business and its importance to the Ethiopian economy.
2. To determine the direction of trade (i.e. target export markets), the entry strategies adopted by the exporters, their overall performance in the business, and the problems they face.
3. To provide guidelines for strategy and policy formulation aimed at improving the operational conditions of the participants in the business.
4. To put forward the social problems associated with chat so as to open a debate whether Ethiopian economy should live with it or without it.

The paper is organised as follows. A brief introduction with a discussion on the history and recent developments in the chat business in Ethiopia seeks to illustrate the importance of chat to the Ethiopian economy. This is

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followed by a review of export-marketing literature in order to provide a theoretical platform to the empirical part of the study, and to draw on the current debate on export marketing in Africa that informs the analysis, presented in this paper. The following sections present the methods used to collect the data as well as the results of the analysis. Thereafter, the results are discussed for their policy and strategic implications.

AN OVERVIEW OF THE CHAT BUSINESS IN ETHIOPIA

History

Chat production and its sale have a long-standing history in Ethiopia. Thought to be originated from Harar, it became popular, in due course, to Oromo and other tribal regions of Ethiopia. However, the volume of the exported Chat was small that time due to the lack of rapid means of delivery (Gebissa, 2004). Large quantities of Chat were imported from Ethiopia to Aden only after the air route was setup across the Red Sea in 1949 (Ward, 2000). Following the development of rail and road transport to Djibouti and Somaliland, it attained a significant surge (Gebissa, 2004). In the decade after the Second World War and also between 1954 and 1961, a sizeable amount of arable lands were devoted to Chat production in Harerge (Amare mastication Krikorian, 1973 cited by Gebissa, 2004).

Local consumption

The reasons behind chewing of Chat take different explanations ranging from religious to recreational ones. Its consumption is high among the Muslim community and usually takes place at homes, recreational sites, or trading places for pleasure. However, Chat has gained popularity among the Ethiopian Christians too. People, such as farmers, traders, teachers, students, health and military people, drivers, government officials, and foreigners; consume chat, irrespective of their gender (Lemessa, 2001).

On the religious pretext, mastication usually takes place during prayer sessions for the sick or for blessing someone to have a good fortune. Chat is also chewed in occasional events such as social meetings, prayers, wedding and funeral ceremonies, and also while invigilating (maintaining wakefulness) for the dead (Abbink, 1992 cited by Gebissa, 2004). It is served in welcoming and entertaining guests, mourning, weddings, circumcision ceremonies, and in collective labour works (Lemessa, 2001). Among students too, Chat is popular for concentration in studies and remaining stimulated or awake while studying. Farmers believe that chat chewing enables them

to accomplish their work without fatigue (Lemessa, 2001).

Chat-chewing, though, predominant in the Harar district, is also common in other parts of the country. Data from different surveys conducted in 1996, 1999, and 2000 establish prevalence rates of about 30, 50, and 31.7%, respectively for habitual chewing (Al-Hebshi and Skaug, 2005). Arguably, the data reveal that chewing Chat is common in Ethiopia. Researchers have found certain communities within Ethiopia who spend their greatest proportion of household expenditures equally on food as well as stimulants such as tobacco, Chat and beverages (Gemtessa et al., 2006).

Millions of farmers in Ethiopia derive their income from the production and sale of Chat leaves. This is partly true for the distributors and retailers in urban centres of Ethiopia- particularly in Harar, Dire-Dawa and Addis Ababa, who are involved in distributing the product in the domestic and international markets (Gebissa, 2004). In the Harar district, Chat is cultivated in three forms: as a dwarf plant, an arborescent shrub and a shrubby tree- the dwarf variety is the most sought after (Beitter, 1900 cited by Nordal, 1980).

Oromo people in Harerge recognize three types of Chat plants namely, dimaa, dalota (dalacha), and hamarcot – classified physically based on the colour of the young shoots of the plant (Lemessa, 2001). The chewing of Chat is so integrated in their daily routine that it has got specific names with respect to timings of consumption namely, igabanaa- the morning chew, bartcha- the afternoon chew, and atarora- the evening chew (Gebissa, 2004). Awaday market is an international market for Chat where over 25,000 kg of Chat passes through daily (Bhalla, 2002). Majority of the Eastern Ethiopian farmers believe that Chat is "more lucrative" than coffee and cereals (Tefera et al., 2003). Most farmers in Harerge highland areas have substituted their crops with plantation of Chat, e.g., coffee has been uprooted in preference to Chat in some places (Gole and Teketay, 2001).

Negative effects of chat usage

Socially, chewing Chat has attracted severe criticism and opposition from time to time. In Ethiopia, Yemen, and Kenya, Community-Based Organizations have campaigned for its prohibition, blaming it for promoting an indolence culture, spreading addiction among the young, and even for its promoting the Islamic culture affecting the Christians (Anderson, 2003). UN Commission on Narcotics and Drugs (UNCND) consider Chat consumption and its effects quite controversial as the plant's narcotic effect was insufficiently understood due to lack of viable clinical research information (Lemessa, 2001).

Chat consumption, has reportedly caused gastrointestinal

Table 1. Earnings from major export items during 1997/ 98 to 2003/04 (in millions of Birr)

Commodity	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	%Growth
Coffee	2889.5	2112.7	2133.6	1520.1	1393.8	1418.3	1926.7	-5.5
Oil seeds	314.7	271.5	255.3	269.6	278.7	395.6	712.7	12.1
Hides and skins	347.7	243.1	286.5	633.8	474.4	448.0	375.8	1.1
Pulses	103.0	101.7	80.0	72.8	281.4	171.2	194.7	9.3
Chat	272.4	445.0	618.8	510.5	418.7	497.9	758.9	15.4
Other	214.4	463.4	583.6	859.9	1017.3	1211.4	1207.8	27.3
Total Export	4141.6	3637.3	3957.8	3866.6	3864.3	4142.4	5176.6	3.2

Source: - Survey of the Ethiopian Economy II, 2005, p. 24.

and urinary problems, adverse reproductive effects, increased risk of myocardial infarction, liver and kidney toxicity, esophageal and gastric carcinomas, haemorrhoids, and low birth weight infants. However, in many of these cases, there are not enough scientific evidences (Al-Hebshi and Skaug, 2005). It has been observed that unlike other addictions, chewers of Chat do not experience any withdrawal symptoms (Wilson, 2003). Some experts in the U.S. Agency for International Development understand the role of Chat in alternative agricultural development, which might help reduce poverty and food insecurity (Erwin, 2004). In the United States, Canada and most of the Europe, Chat is illegal; penalties for trafficking or dealing with it are equivalent to those given out for cocaine or heroin. In spite of that, Chat continues to be one of the important trade commodities in some countries.

Growth in chat export business

In Ethiopia, the revenue from exports of chat grew by 59.1% during 1960/61-2000/01. At the time of the Derg regime (1974/1975 to 1990/1991), export revenue from the plant demonstrated an average annual growth of 69.8% compared to 0.8% during the imperial rule (Gemechu, 2002). After the year 1991/92, under the period of Ethiopian Peoples' Revolutionary Democratic Front (EPDRF), the growth rate in the real value of total exports had a significant increase. The volume of chat reached to new heights of 15.7 metric tonnes (MT) in 1999/2000 from 6 MT in 1997/1998 (Survey of Ethiopian Economy-II, 2005). Chat export went down from \$ 71.9 million in 1999 to 2000 to \$59.3 million in 2000–2001, and \$22.5 million in 2001–2002, due to a shortage in supply (UN Publication: 2004). It declined to 6.1 MT and 7.8 MT in 2002/2003 and 2003/2004, respectively, due to a decline in production caused by drought and an increase in domestic consumption (Survey of Ethiopian Economy-II, 2005).

In Harar region of eastern Ethiopia, while earnings from coffee went down from \$3 a kilo to around 86 cents a kilo,

it went higher for Chat to \$9 a kilo. As a result, coffee production in this region dropped by 17% in a period of five years (DaSilva, 2003). Following the global coffee crisis, earnings from coffee in Ethiopia dropped from 70% (\$330m) of the GDP to 35% (\$165m) in five years time, while official earnings from Chat doubled to almost 13% (\$58m) (DaSilva, 2003). The earnings from Chat export that were recorded 272.4 million Birr in 1997/98 rose to 758.9 million Birr in 2003/2004 (Table 1). The large gap between average growth rate in volume and value indicates that Chat commanded a better price in international market than any other export items (Table 2).

Chat export remains huge in Ethiopia and employs both legal as well as illegal channels. According to Dire-Dawa foreign trade office (2004/2005), the volume and value of Chat exports from the country rose from 208 MT or 3.9 million Birr in 1992 to 23,735.5 MT or 786.3 million Birr in 2005. Surprisingly, Chat became the second most important earner of foreign exchange after coffee in 1999/2000, without any active support from the government (Table 3).

The volume and value of major export items exported in the past 14 years through the eastern part of Ethiopia also establish Chat as the major export item among other commodities. As compared to coffee and other items, the value of Chat is increasing year by year, particularly from 2001 to 2005.

Spin-off benefits of Chat-business extends to stakeholders such as Ethiopian Airlines, banks and local businesses (Hasen, 1985 cited by Gebissa, 2004) in the form of transportation charges, service charges, exchange commissions, income and employment, etc.

REVIEW OF EXPORT MARKETING LITERATURE

There is a vast body of literature on export growth and marketing strategies that provides a platform for discussing how Ethiopian chat exporters can develop their business further to improve their performance and contribute to general economic growth of the country. It has been realized that export performance of developing

Table 2. Earnings from major export items during 1997/ 98 to 2003/04 (in metric tonnes)

Commodity	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	%Growth
Coffee	120.0	101.2	116.6	99.1	110.3	126.1	156.4	3.8
Oil seeds	66.6	51.4	43.1	55.1	76.6	82.8	101.9	6.2
Hides and skins	7.9	5.8	8.6	12.4	10.3	10.5	9.4	2.6
Pulses	30.9	29.8	23.5	26.9	109.2	66.2	73.3	12.8
Chat	6.0	9.7	15.7	11.9	9.4	6.1	7.8	3.8
Other	42.0	29.4	41.9	75.4	88.9	104.8	60.4	5.3
Total Export	273.2	227.23	249.4	280.8	404.7	396.6	409.3	5.8

Source: - Survey of the Ethiopian Economy II, 2005, p. 24.

Table 3. Volume and earnings from major export items from the eastern part of Ethiopia during 1992 to 2005 (in tonnes/Million Birr).

Year	Coffee		Chat		Vegetables		Cereals		Animals	Others
	Qty	Value	Qty	Value	Qty	Value	Qty	Value	Value	Value
1992	2115	16.1	208	3.9	7719	3.1	0	0	0.2	0.2
1993	3839	61.5	2781	82.2	13326	5.3	443	1.4	0	0.02
1994	5946	113.6	3496	114.2	15698	6.1	789	1.9	0.3	0.35
1995	6801	171.8	4255	163.1	21642	9	2196	8.7	0	0.4
1996	8781	189.1	4035	169.7	18277	8.2	1156	3.5	0.2	0.6
1997	9214	202	3659	171.8	20922	27.6	951	2.4	0.22	0.44
1998	8880	242	3677	132.6	27372	41.9	1473	10.6	0.05	0.6
1999	13735	322.9	11748	337.5	21109	35.6	2832	7.5	0	1.1
2000	12692	253	16033	546	22870	45.1	2659	7.3	0	1.2
2001	11435	223	11648	438.9	19732	37	3668	8.8	0	1.6
2002	133343	232.6	10850	439	21513	46.6	75539	15.8	0	3.2
2003	13127	194.6	13049	499.5	21453	47.9	5400	14.4	1.1	9.7
2004	12592	189	16250	578.5	30444	59.2	4574	12.6	5.7	5
2005	12936	252.06	23735	786.3	35027	68.07	3515	9.53	40.57	6.7

Source: - Dire-Dawa Foreign Trade Office (2006)

countries is alarmingly low, and hence there is need for African governments to create an environment that will stimulate small firms' competitiveness in the current globalized export markets (Rutashoby and Jaensson, 2004). This section of the paper provides a review of some of the concepts and theories that we consider relevant for the present study.

In recent years, the increase in competition, integration and liberalization in international markets has induced firms to engage in exporting (Crick and Chaudhry, 1997). Exporting is important for developing countries to earn foreign revenues and for strengthen the economy. Export based developments have attracted economists and policy makers in achieving the macro and the micro economic benefits. From the macroeconomic perspective, Leonidou and Katsikeas (1996) review that exporting can enable national economies in enriching their foreign exchange reserves, inducing employment, and in forging backward and forward linkages that, ultimately, lead to

a higher standard of living. In microeconomic terms, exporting can help individual firms in gaining competitive advantage, improving their financial position, utilizing a higher capacity, and in raising their technological standards (Leonidou and Katsikeas 1996).

There is no dearth of literature that shows a positive relationship between export expansion and economic growth in developing countries- justifying exports critical to the development process (Rutashoby and Jaensson, 2004). To understand export's contribution to the economic growth, an understanding of the process of internationalization, export market barriers, export entry, and promotion strategies is necessary.

Theories of Internationalisation

The importance of international trade to a nation's economic welfare and development has been heavily documented

in theories of international trade, foreign direct investment (FDI), and firm's internationalization (Morgan and Katsikeas 1997). At the macro policy level, governments, around the world, are concerned about the ways to improve firms' performance in export markets, because exports are considered an engine of economic growth (Diamantopoulos 1999). Exporting is considered as the most common foreign market entry mode, particularly among small-to-medium sized enterprises (SMEs), due to the minimal business risks, low resource commitment and high flexibility of action [Young et al. 1989 cited by Leonidou and Katsikeas, 1996].

There exist several theories of internationalization, which endeavor to explain how and why firms engage in overseas activities and, in particular, how the dynamic nature of such behavior can be conceptualized (Morgan and Katsikeas, 1997). Various processes or models of internationalization have been proposed, e.g., the Uppsala process model, the innovation-adoption internationalization models, and the management decision making process towards internationalization (Chetty and Hunt, 2003). Kuada (2006) argues that firms may adopt any one or a combination of four routes to internationalization namely, upstream only, downstream only, sequential upstream-downstream, or concurrent upstream-downstream routes. Downstream route is one of the most accepted routes, which assumes that firms internationalize by following a path from country-based production and export to a shift in production activities abroad.

However, the path-dependent trajectory of internationalization appears hardly tenable in developing countries due to different size, ownership structure, resource disadvantages, and managerial capabilities of the firms (Kuada, 2006). Another theory - the network theory of internationalization assumes that business activities among firms are also shaped by interactions and mutual interdependence. This implies that the internationalization process of firms may be initiated by activities of other firms within cross-border networks, which in some cases are embedded in the form of socio-cultural contexts (Kuada, 2006). No single theory justifies the process of internationalization completely. There have been arguments that the existing theories of internationalization are insufficient to explain the currently observed behaviors in the international business with respect to the impact of global economy, the service economy, the new economy, the high technology and connected knowledge/ network economy, and the value economy (Axinn and Matthyssens, 2001)

Leonidou and Katsikeas (1996) argue that exporters in the developing countries have limited managerial, marketing, and other capabilities, and are pulled by their foreign customers in international activities. For smaller firms in developing countries, export seems to be a remote possibility until they unite and build networks. Recent literature

on business networks and clusters in Africa, however, discard this pessimism on export potential of small firms in developing countries (Schmitz, 1999; Pedersen et al., 1994; McCommick, 1996 cited by Rutashobya and Jaensson, 2004).

Export barriers

Tariff and non tariff barriers to traditional trade have taken different positions in the post GATT regime. There has been a reduction in tariff barriers, but an increase in non-tariff barriers (Soontiens, 2002). Trade restrictions exist in the form of import quotas, an alternation in health safety and custom procedures, provisions for procurement to favor indigenous goods and domestic content, broader taxes and rebates, administrative regulations and classifications, restriction on services, health and safety provisions, domestic subsidies, and obstacles arising out of economic and political environment (Soontiens, 2002). Downstream internationalization in developing countries can be constrained by several internal and external factors such as meeting quality standards, export packaging, lack of competent staff, inability to self-financed exports, high cost of financing exports, bureaucracy, export documentation, lack of market information, logistical constraints, and high cost of transportation (Kuada, 2006).

Soontiens (2002) observes some of the obstacles that have affected the South African economy and regional export. He has categorized the main obstacles in the following three categories:

1. Situational: such as high transportation costs to foreign markets, inability to meet competitive prices internationally, lack of long term export promotion plan, and labor issues;
2. Affecting regional interactions: such as poor commitment to regional arrangements, a larger trade imbalance between member countries, the nature of regionalism in developing countries, and proximity and poor transport infrastructure; and
3. Inherent: such as inward oriented import substitution strategy, inequality in economic development between member countries, shortage of foreign exchange within the region, poor convertibility of currencies, and inherent risk exposures for local exporters.

The low export performance of firms in Sub Saharan Africa has been further explained from the two perspectives (Ibeh, 2004):

1. The prevalence of environmental difficulties (including the lack of relevant infrastructure and institutions, political turmoil and uncertainty, and unstable macro-economic policy situation)

2. Weak managerial and technical abilities of the firms from low performing developing countries (LPDC) (including internal shortcomings in technological capabilities, firm-specific learning, productivity, technical efficiency, and entrepreneurial skills).

Export market entry strategies

Researchers have identified several export marketing strategies. Two alternative export market expansion strategies are export market concentration and diversification (Lee and Yang, 1990). International firms require three kinds of knowledge: (1) foreign business knowledge, (2) foreign institutional knowledge, and (3) internationalization knowledge (Eriksson et al., 1997 cited by Kuada, 2006). Kuada (2005) argues that managerial aspirations, differential advantages, and economies of scale are the influencing internal determinants for firms to venture into export market. However, Ibeh (2004) argues that favorable export performance is more likely to be achieved by LPDC firms with higher levels of entrepreneurial orientation that proactively and aggressively pursue export-related product-market innovations and opportunities. Competence-enhancing support for decision makers, introduction of external change agents into LPDC firms, commitment to improve global market participation among LPDC firms, training programs on international entrepreneurship, and participation in international trade-fairs, and establishment of cultural links between LPDCs' decision makers and their counterparts in foreign-based ethnic minority firms are some of the strategies that could help internationalization in LDPC (Ibeh, 2004).

Determinants of export performance

To arrive at successful determinants in export marketing, valid and reliable measurements of export performance is critical. Yet, there has been a lack of consensus on such measures (Diamantopoulos 1999). Performance can be measured in terms of internal and external factors. Among the internal factors export marketing strategies has got sufficient attention (Aaby and Slater, 1989; Barker and Kaynak, 1992; Beamish and Munro, 1986; Caruana et al., 1995; Cavusgil and Zou, 1994; Evangelista, 1994; Greenly, 1995; Madsen, 1989 cited by Thirkell and Dau, 1998). Other internal factors, that have been extensively reviewed and categorized, are marketing (or market) orientation, firm size, management attitudes, firm, industry, product and market characteristics (Cavusgil and Zou, 1994; Chetty and Hamilton, 1993; Dau, 1992; Diamantopoulos and Cadogan, 1996; Madsen, 1989; McGuinness and Little, 1981; Slater and Narver, 1996 cited by Thirkell and Dau, 1998). Based on

an extensive search of the literature, Shamsuddoha and Ali (2006) argue that most mainstream studies on export performance are narrowly focused on firm-related determinants and ignore the external factors such as export promotion programs (EPPs). Export promotion measures such as tax rebates, low-interest loans, low prices of leased-lands, electricity and water, promotional support in overseas markets are still widely used by many developing countries (Yin and Yin, 2005).

Marketing orientation, export market knowledge, quality and service, cultural affinity, and channel support have been found positively correlated with the export performance in New Zealand manufacturing (Thirkell and Dau, 1998). One Nigeria-based study suggests that export behavior is positively associated with internal factors such as existence of decision makers with previous business experience; international contact network (or orientation); and firm specific competencies including developing new markets, adopting innovations and new technologies, and developing channel links/ relationships (Ibeh, 2003). Another South African study reveals that enterprises having business linkages, in the form of either their relation with the parent company or joint ventures, or otherwise engaged in networks like business associations, have enhanced exporting probabilities (Gumede and Rasmussen, 2002).

Export promotion strategies

Export promotion programs of the governments, generally, aim to overcome the real or perceived obstacles to export. Alternatively, they also aim to enhance export performance by improving firms' capabilities, resources, strategies, and overall competitiveness (Francis and Dodd, 2004). Advertising and trade promotions are two of the major export promotion strategies (Hill and Still, 1983; Koh, 1991; Cavusgil and Zou, 1994 cited by Lee and Griffith, 2004). One study in African context advocates that from a public policy point of view, individuals rather than firms should be made the centre of export promotion programs (Mtigwe, 2005). In addition, the study suggests the use of-

1. Strategic export promotion programmes that set up strategic alliances/partnerships between various categories of exporters through the creation of localized regional clusters.
2. Inventive export promotion programmes that reduce the financial burden on would-be exporters and put firms in a much better resource position to take advantage of foreign opportunities.

METHODOLOGY

There are 4 major chat exporters' associations currently registered

Table 4. General characteristics of chat consumers.

Gender	No.	Percentage	Age	No.	Percentage
Male	40	80	Below 20	5	10
Female	10	20	21-30	20	40
Total	50	100	Above 30	25	50
			Total	50	100

Education	No.	Percentage	Occupation	No.	Percentage
Illiterate	3	6	Student	5	10
Grade 1-6	3	6	Unemployed	5	10
Grade 7-12	24	48	Private Employee	15	30
Diploma	8	16	Govt. Employee	8	16
Degree	9	18	Businessmen	11	22
Masters	1	2	Others	6	12
Ph. D.	2	4	Total	50	100
Total	50	100			

in Ethiopia and about 54 individuals operating outside the associations. Data have been collected from all 4 associations in addition to 10 private exporters, using quota-cum-convenience sampling methods. The quota sampling frame was designed to represent a balanced cross selection of the geographical areas (towns). Data required for this study were collected directly from the respondents. Different questionnaires were developed and used to gather data to accomplish the objectives of the study. For collecting data, necessary translations in Amharic were given to the respondents. In addition, the study took into account secondary data collected from earlier studies, the records or reports of Dire-Dawa Foreign Trade Office, Survey of the Ethiopia Economy- II and other sources.

Since none of the Chat distributors maintained accounting records, the information was gained through the amount of net assets, amount of monthly salary payments, and income tax payments, based on their memories. Hence, the collected data may be subjected to recall bias. The findings of the study were further limited by the situations prevailing at the time in the area of the study. Also, the study could not collect the views of the consumers in the chat importing countries. However, concerted efforts were made to minimize the errors.

RESULTS AND DISCUSSION

The basic characteristics of sample respondents such as gender, age, education and occupation are presented and discussed in Table 4. The general characteristic of chat distributors / retailers has been mentioned in Table 5 with respect to gender, license for distribution, age and educational level.

Chat is generally sold by farmers to buyers or brokers who visit their farms in search of the produce. Some big and experienced farmers access the exporters of chat directly and negotiate for the best possible prices, while others either sell their products either on-site or approach brokers in their local market. These brokers are known as

dalala or qabqabii and they do not take title of the goods. Usually, Chat traders and exporters operate through a number of brokers involved in different markets. The brokers work on commission basis which they receive from sellers of the product.

Exporters of Chat make foreign trade either directly or through an intermediary. Chat export associations find direct trade so advantageous that each association has established export as one of the main functional departments. But private exporters depend on intermediaries to handle their exports. There are export houses that may act as buying agents for foreign buyers or as selling agents for local producers, for a commission. Intermediaries may also deal as independent exporters through outright purchases and their sale abroad.

Most of the exporters to Somalia deal, at their own, by making an outright purchase in Ethiopia and its sale in Somalia (Hargessa, Mogadishu and Bosaso markets), whereas exporters to Djibouti deliver Chat through the importers' agent who are stationed in Ethiopia (Figure 1). To export Chat, an exporter needs a license, issued by the Ministry of Trade and Industry, to be renewed at the end of the year.

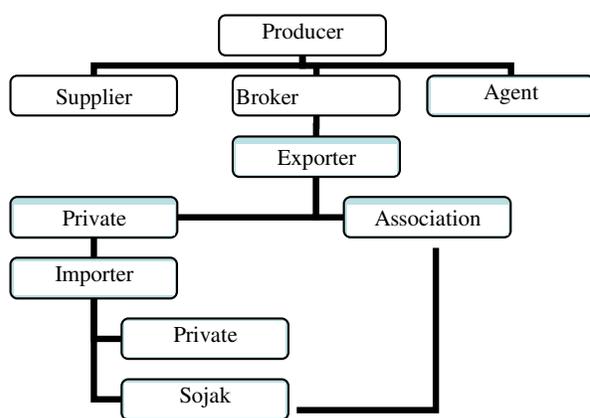
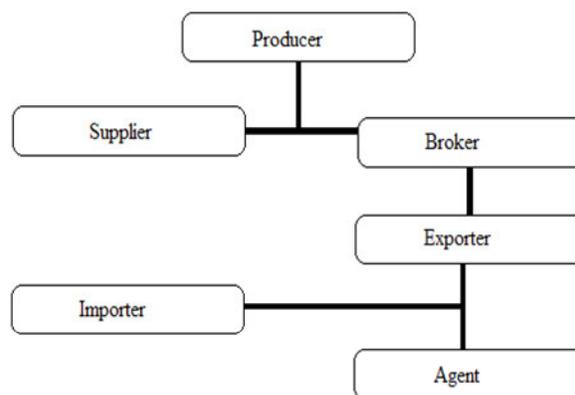
According to Dire-Dawa foreign trade office, the daily demand of Chat for Djibouti is more than 20 tonnes and for Somalia about 50 tonnes. However, the demand fulfilled through informal exporters (contrabandist) from Ethiopia is not well assessed. Exporters to Somalia mainly follow 'C and F' pricing while FOB pricing is prevalent in Djibouti market. Most of the purchases for the Djibouti markets are done by Sojak – a company of importers registered in Djibouti having its local office at Dire-Dawa for facilitation of inspection, acceptance, forwarding and payments.

Private Chat exporters export grade-1 Chat to Djibouti

Table 5. General characteristics of chat distributors/ retailers.

Gender	No.	Percentage	Response	No.	Percentage
Male	13	43	Yes	16	53
Female	17	57	No	14	47
Total	30	100	Total	30	100

Age	No.	Percentage	Education	No.	Percentage
Below 20	2	7	Illiterate	9	30
21-30	15	50	Grade 1 to 6	12	40
Above 30	13	43	Grade 7 to 12	9	30
Total	30	100	Total	30	100

**Trade Structure for Djibouti****Trade Structure for Somalia****Figure 1.** Trade structure for chat export.

market at FOB Dire-Dawa Airport. Height and weight specifications that prevail for a stock-keeping-unit (SKU) are 35 cm 200 g per pack, respectively. The prices are \$8.00 at FOB Dire-Dawa airport with advance payment. Whereas, associations export grade 2 Chat to Djibouti market at FOB Dire-Dawa Airport price– i.e. \$6.00 per SKU, with a height and weigh dimensions of 28 cm and 90 grams, respectively. The prices for grade-1 and grade-2 Chat are fixed usually for a season, and are determined jointly by Sojak and Chat exporters. Furthermore, the prices are also communicated to the Dire-Dawa foreign trade office for the purpose of taxes and control of foreign exchanges.

The differences in price of Chat to Somalia and Djibouti can be attributed to the quality of Chat that is consumed in these markets, and the institutional and governmental support to the import process. Reasons such as lack of institutional support, instability, and lack of adequate means of transport make Somalia a less attractive market for the export of a better quality chat.

Generally, Chat is preferred to be transported by air

because of its low shelf-life. Other grades of chat- Grades 3 and 4, are exported to Mogadishu and Bosaso in Somalia using airplanes at C&F prices. Because of an absence of air transport, Chat to Somaliland region in Somalia is transported by utility vehicles (Isuzu) to Hargessa, Togo-Wuchale, and Teferi-Ber at \$3.00 FOB. Two modes of payment are prevalent for exporting Chat to Djibouti and Somalia markets- (i) Revolving letter of credit, and (ii) Advance payment. The former is used by the Chat exporters association to export Chat to the Djibouti market. Foreign currency is deposited one day in advance in the Commercial Bank of Ethiopia (CBE). Importers' agent assigns quota for each association and verify the quality and packaging of the Chat, and instruct the CBE to release the fund to the exporters. The latter mode of payment is usually adopted by private Chat exporters. The importers transfer foreign currencies to CBE in the name of the private exporter, in advance. The exporter collects the money in its equivalent Birr amount and also the bank-permit before dispatching the consignment to the importer.

Table 6. Chat Exporter's Associations' cost matrix (2005-206) under good harvest and good supply conditions (in Birr/kg).

Description	Associations*				Average
	1	2	3	4	
Purchasing price	21	20.76	24.85	22.07	22.17
Packaging costs	0.75	0.7	2.19	0.75	1.17
Labor costs	2	10.27	3.87	2.48	4.66
Transportation cost	7.15	1.22	2.79	1.45	3.15
Tax	1.86	9	7.25	9.5	6.90
X-ray, quarantine and bank charges	2.45	0.66	0.46	1.45	1.26
Other expenditure	9	3.61	2.95	9.97	6.38
Total	44.21	46.49	44.36	47.67	45.69

*Associations 1 = Ethiopian Khat and Farm Products Exporter Share Company, 2 = Biftu Dinsho PLC, 3 = Kulimiye Trading Share Company, 4 = Berewaqa Khat Export Share Company. Source: Dire-Dawa Trade Office, 2005/2006

Table 7. Chat Exporter's Associations' cost matrix (2005-206) under low harvest and scarce supply conditions (in Birr/kg).

Description	Associations*				Average
	1	2	3	4	
Purchasing price	40	36.89	74.8	64.06	53.94
Packaging costs	0.75	0.99	2.2	0.78	1.18
Labor costs	2	12.25	3.67	2.95	5.22
Transportation cost	7.15	1.62	2.77	1.55	3.27
Tax	1.86	9	7.43	9.48	6.94
X-ray, quarantine and bank charges	2.45	0.66	0.43	1.46	1.25
Other expenditure	9	4.05	2.98	7.84	5.97
Total	63.21	65.46	94.28	88.12	77.77

*Associations 1 = Ethiopian Khat and Farm Products Exporter Share Company, 2 = Biftu Dinsho PLC, 3 = Kulimiye Trading Share Company, 4 = Berewaqa Khat Export Share Company. Source: Dire-Dawa Trade Office, 2005/2006

Table 6 presents Chat Exporters Associations' average purchasing price and operating costs (incurred while transporting Chat from the purchasing sites to Dire-Dawa Airport), for a good harvest and good supply conditions:

A significant difference was observed with respect to purchasing price ($t = 23.64$, $p = 0.000$, $\alpha = 0.05$), tax ($t = 3.94$, $p = 0.029$, $\alpha = 0.05$) and other expenditures ($t = 3.53$, $p = 0.039$, $\alpha = 0.05$) among the associations during good harvest and good supply conditions.

The cost / price figures of Chat export are quite fluctuating with respect to harvest seasons and supply conditions. Table 7 gives the cost price matrix under low harvest and scarce supply conditions:

A significant difference was observed with respect to purchasing price ($t = 5.84$, $p = .010$, $\alpha = 0.05$), packaging costs ($t = 3.42$, $p = 0.042$, $\alpha = 0.05$), tax ($t = 3.96$, $p = 0.029$, $\alpha = 0.05$) and other expenditures ($t = 2.73$, $p = .026$, $\alpha = 0.05$) among the associations during low harvest and scarce supply conditions. Paired t Test establishes a significant difference ($t = -3.791$, $p = .032$, $\alpha = 0.05$) with respect to purchase price among associations, keeping seasonality a control variable. For

other costs, the differences remain insignificant.

Chat export provides different profits to different traders in different harvest seasons. Low harvest seasons account for maximum profit for local collectors and losses for export associations and private exporters. While for local collectors' profit was found as 3.42 Birr/Kg and 13.42 Birr/Kg in good and low harvest seasons, respectively, for export associations it was 2.91 and 26.17 (negative) respectively. At the same time, the profit was observed as 1.77 and 48.23 (negative), respectively, for private exporters in good and low harvest seasons (Table 8). It is evident that while private collectors remain profitable under both the harvest seasons, the export associations and private exporters makes profit only in the good harvest seasons and incur huge losses in low harvest seasons.

Analysis of chat exporters

Chat is exported through two different groups of exporters-private exporters and associations. This section

Table 8. Analysis of cost and profit margin of the participants.

Participant	Description	Costs/ Profit (Birr /Kg)	
		Good harvest season	Low harvest season
Local collectors	Purchase Price	15	35
	Total Cost	1.58	1.58
	-Transportation	0.55	0.55
	-Tax	0.2	0.2
	-Packaging	0.33	0.33
	-Labor	0.2	0.2
	-Other	0.3	0.3
	Selling Price	20	50
Profit	3.42	13.42	
Export associations	Purchase Price	22.17	53.94
	Total Cost	23.52	23.83
	Selling Price	51.60*	51.60
	Profit	2.91	-26.17
Private exporters	Purchase Price	50	100
	Total Cost	17.03	17.03
	- Transportation	1.01	1.01
	-Tax	8	8
	-Packaging	6	6
	-Labor	0.2	0.2
	-Other	1.82	1.82
	Selling Price	68.8*	68.8
Profit	1.77	-48.23	

* Exchange rate is taken as US 1\$ = Birr 8.60. Source: Dire-Dawa Trade Office, 2005/2006.

reveals important findings with respect to export of Chat.

Experience of exporters

The data revealed that 58% of Chat exporters are in this business for more than 8 years. This implies that exporting Chat has good prospect to stay in the business for a long term. Even the remaining 42 % of the respondents were found in their business of exporting Chat for more than 5 years (Table 9).

Frequency of export

All of the sample respondents replied that they export Chat seven days a week. Twenty-nine percent of the respondents exported Chat to both the countries, i.e., Djibouti and Somalia. It is clear that the market for Ethiopian Chat is mainly confined to Djibouti and Somalia- accounting for 42 %, and 29 % of the total export, respectively (Table 10).

Net assets of exporters

Chat exporting business is profit making and enables the owners to compile huge volume of net assets. It could be observed that Birr 44 million out of the total Birr 45.3 million is the net assets of three Chat export associations, which were found to stay in Chat business for more than 26 years (Table 11).

Sources of Chat for Export

Exporters have 6 major places for collection of Chat, namely, Aweday, Bedesa, Gara Muleta, Kombolcha, Chiro, commission agents and suppliers, and farmers (direct).

Mode of payment for purchasing Chat

Cash was found as the most preferable mode of payment, supplemented sometimes by bank check. The absence of banks in the area of Chat producers makes

Table 9. Experience of chat exporters.

Export duration	No.	Percentage
5 – 9	8	58
10- 15	5	35
Above 15	1	7
Total	14	100

Table 10. Countries where chat is exported.

Country of export	No.	Percentage
Djibouti	6	42
Somalia	4	29
Both	4	29
Total	14	100

Table 11. Net assets employed by exporters.

Amount of net assets	No.	Percentage	Total capital
Up to 10000 Birr	2	14	15,000.00
10001 to 100000 Birr	7	50	500,000.00
100001 to 1000000 Birr	2*	14	800,000.00
Above 1000000 Birr	3**	21	44,000,000.00
Total	14	100	45,315,000.00

* One respondent is association and the other one is private exporter. ** All respondents are Chat export associations.

cash mode the most popular one.

Types or grades of chat for export

There is a near absence of standardization of Chat in the country. As per the information obtained from the exporters and the Dire-Dawa Foreign Trade Office, grades are mainly assigned by the Djibouti importers. However, these grades are not similar to the grades accepted by Somali importers.

Custom duties on exported chat

Chat attracts higher custom charges as opposed to any agricultural produce- which is free of any custom charges. On an average, Chat exporters pay a custom duty of Birr 3 to Birr 6 per kilo for exporting Chat to the Regional States. In addition, exporters are also supposed to make payments for municipality tax, quarantine, and x-ray charges for exporting Chat if it passes through Airport (Table 12).

Employment opportunities offered

Chat offers sufficient opportunities of employment for the natives. The data revealed that Chat exporters have offered a total of 965 job opportunities to the natives, whereas 94 jobs have been offered by private exporters. It is to be noted that the study covers 100% of the associations but only 20% of private exporters (Table 13).

Profitability and average monthly salary payments

All the respondents considered Chat as profitable business. Sample data revealed that Chat exporters pay Birr 636,200 monthly to their employees, and that private exporters pay better salary than the associations (Table 14).

In the export market, the major problems witnessed are tax charged on the gross weight of Chat that includes the packaging and other accessories, double taxation, irrational quota distribution among the export associations, fixing of constant selling price for each season, lack of standard for the quality and type of chat suitable for export

Table 12. Tax collection from exported chat (Birr per kilo).

Chat customs tax collection [Check Posts (<i>Kellas</i>)]	Customs	Municipality	Quarantine	X-ray charges
Aweday (For Djibouti, Mogadishu and Bosaso)	5	0.2	N.A.*	N.A.
Aweday for Hargesa Market	6	0.2	N.A.	N.A.
Bedessa	3	0.2	N.A.	N.A.
Dire-Dawa Airport	3	0.7	0.50	0.25
Jijiga	3	0.2	N.A.	N.A.

* N.A. – Facility Not Available

Table 13. Number of workers in Chat export market.

Type of exporter	No. of employees	Percentage
Private exporter	94	10
Associations	871	90
Total	965	100

Table 14. Average monthly salary of employees in Birr.

Type of exporter	Total monthly salary	No. of employees	Average monthly salary
Private	94,200.00	94	1002.12
Associations	542,000.00	871	622.27
Total	636,200.00	965	1624.39

export, absence of tax refund policy, and the monopoly power of the importer to reject the product, simply by mentioning a lack of quality. Furthermore, the exporters bear the losses of damage caused by any transportation problem, even a bad weather faced by airlines even after the acceptance of Chat by the importers' agent. Moreover, the government does not allow tax refunds for the expired product. Chat exporters do not get any export benefits as enjoyed by the exporters of other commodities.

It can be said that the internationalization of Chat has not gained from the external factors such as export promotion program. However, the conducive environment, demand for Chat, and support extended to the import of Chat in the importing countries could be some external factors for its internationalization. Discussion with exporters revealed that Chat export, primarily, is influenced by the differential advantages that the producers and exporters gain due to the uniqueness of product and the premium price it governs. Internationalization theory professed by Kuada (2006) applies much in case of Chat export that takes into account internationalization of firms initiated by activities of other firms within cross-border networks- which in some cases are embedded in the form of socio-cultural contexts.

Certainly, Chat attracts deeper social antagonism and anguish in its local consumption and sale. However, the

ground reality is that Chat-growing and trading are highly coveted by the farmers, currently, without any competition from rival crops. The cultivation and marketing of Chat has attained such levels which deter any move for its prohibition. Chat has not only become popular among the agrarian community but also has got deeply embedded in the socio-cultural fabric of the societies where it is commonly chewed. While liquor, tobacco and other products can be given recognition and support within the export policy on some pretext, treating Chat half-heartedly for export marketing does not seem logical to the exporters and farmers. Notwithstanding, Chat happens to be the second major export commodity. A major study on drug problems in Ethiopia admits that- paradoxically, as the production, marketing and export of Chat become more lucrative, Chat use seems to gain social respectability and it becomes more difficult for Governments to deal with the problem (Selassie and Gebre, 1996).

Policy implications

Based on the above findings, the following possible recommendations could be made:

1. Government should either accept chat business or

ban it altogether. If it accepts it as a major contributor to livelihoods of people, it should use some of the tax revenue it generates to support this sector.

2. Selassie and Gebre (1996) observed that a lack of awareness on the part of law-makers and law enforcement officers of the seriousness of substance abuse seems to be a major cause of difficulties in dealing with the problem. Law enforcement officers may not clearly understand the law in this respect, and even with training it is unlikely that they can be more effective unless they are provided with adequate technical and logistical support. This needs due consideration.

3. In the meanwhile, efforts are needed to create public awareness on the consumption effects of chat for socially responsible marketing.

4. Policy makers need to assess the contribution of chat export in earning foreign currency, tax revenues and in creation of job opportunities. Accordingly, there is a need to revise the previous policies and think of some newer ones that either ban the marketing of chat or include chat in the list of commodities notified for sale through the organized markets.

If Ethiopian government decides to continue with chat export business:

1. The government needs to take some necessary steps to explore new markets in order to augment the foreign exchange earning.

2. The government needs to make specific policies pertaining to regulation of taxation that chat attracts in local or export markets.

3. There is a need to maintain proper information on international demands and price so as to plan the production and marketing of Chat for export.

4. So far, standards for chat are not established. Hence, government, together with marketing associations needs to develop standardized grades and packaging for Chat for better export prospects.

10. Proper storage techniques should be designed and developed so as to preserve the quality of chat for a longer shelf life.

5. Even though, fixing of constant selling price for chat has advantage of having better sales during the time of good harvest, the policy makers should consider and compare the costs and benefits of constant selling price with the price determined through market force.

6. Currently, the government tries to regulate the volume of chat export to Djibouti market by fixing quota for each chat export association. For government, fixing of quota for the major export item is not advantageous. Even if it assumes the importance of fixing quota, such decisions along with the process of fixing should be as objective and transparent as possible.

6. Policy makers should amend the taxing policy of chat. This is to say that chat should be taxed based on the net

weight of chat like other export agricultural products. Besides, the policy of tax refund should be introduced by the government by considering the amount of loss incurred by the Ethiopian chat exporters.

7. The government should introduce incentive schemes or packages for major chat exporters like it does for exporters of other commodities.

8. Exporters should start to purchase insurance coverage for chat in order to protect themselves from possible losses.

Conclusion

Chat has got the status of cash crop in Ethiopia. It is one of the major sources of foreign exchange earnings to the Ethiopian Economy. Chat has a strong demand at local and overseas markets and is sold daily in both the markets. Chat accounts for certain collection of taxes by both regional and federal governments. This type of double taxation is not witnessed in any other commodities of trade. The Government collects large sum of foreign exchange earnings and revenues from taxes on export transactions and uses that in government's budgetary expenditures. Notwithstanding, the government does not provide any incentive to the exporters of Chat. Internationalization in Chat export is currently due to the external pull from the importing countries, their internal network, and the price that Chat governs there.

Recognizing the fact that Chat is sold largely by the unorganized sector and entails some social repercussions, the tax imposed on Chat is not so pronounced in the domestic market, which otherwise could offer the government an additional source of revenue. Not only taxation, Chat can be a good source of job opportunities for the locals, once recognized. Variety of Chat exists in Ethiopia and this offers various possibilities for its local and global branding. One can argue that although chewing Chat has a number of important psychological and physical sequel (Cox and Rampes, 2003), is it that harmful as the effects caused by poverty, unemployment, and HIV in Ethiopia.

Since Chat acquires second place in the list of export commodities, to impose a complete ban on the production and marketing of Chat may prove disastrous for the economy in the short run. A key constraint in dealing with Chat is the lack of information with which to base decisions. Economic, social and health related aspects of Chat chewing also need to be studied to make any policy on Chat. This makes the issue of Chat marketing full of controversies and needs a nationwide debate towards the determination of a national policy and strategy on its production, marketing and export.

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