

The Determinants of Trade Flow and Potential between Ethiopia and Group of Twenty

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Abstract : This study is intended to examine Ethiopia's trade flow determinants and trade potential with G20 countries whether it was overtraded or there is/are trade potential by using trade gravity model. The sources of panel data used were IMF, WDI, United Nations population division, The Heritage Foundation, Washington's No. 1 think tank online website database, online distance calculator, and others for the duration of 2010 to 2019 for 10 consecutive years. The empirical data analyzing tool used was Random effect model (REM), which is effective in estimation of time-invariant data. The empirical data analyzed using STATA software result indicates that Ethiopia has a trade potential with seven countries of G20, whereas Ethiopia overtrade with 12 countries and EU region. The Ethiopia's and G20 countries/region bilateral trade flow statistically significant/ $p < 0.05$ /determinants were the population of G20 countries, growth domestic products of G20 countries, growth domestic products of Ethiopia, geographical distance between Ethiopia and G20 countries. The top five G20 countries exported to Ethiopia were china, United State of America, European Union, India, and South Africa, whereas the top five G20 countries imported from Ethiopia were EU, China, United State of America, Saudi Arabia, and Germany, respectively. Finally, the policy implication were Ethiopia has to Keep the consistence of trade flow with overtraded countries and improve with under traded countries through trade policy revision, and secondly, focusing on the trade determinants to improve trade flow is recommended.

Keywords : trade gravity model, trade determinants, G20, international trade, trade potential

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