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The Role of Foreign Direct Investment to Technology Transfer for Local Employees: Evidence from SNNPRS, Hawassa Town, Ethiopia

Ammen Diakon Debebe
MA, Lecturer at Wolaita Sodo University
P.O.BOX-138, Wolaita Sodo, Ethiopia

Wubetu Taye Eshetu
MA, Lecturer at Wolaita Sodo University, Project consultant
P.O.BOX-138, Wolaita Sodo, Ethiopia

Dechasa Seifu Ashenafi
MSc, Lecturer at Wolaita Sodo University
P.O.BOX-138, Wolaita Sodo, Ethiopia

Abstract
The study assesses the Role of Foreign Direct Investment to Technology Transfer in SNNPRS, Hawassa Town. To achieve the objective of the study, both qualitative and quantitative research methods were employed. A total of 112sample respondents were randomly selected from 577 target population to fill the questionnaires. The questionnaire, personal observations and key-informants interview were used for primary data collection. Qualitative data's were analyzed by narration, while quantitative data's were analyzed using descriptive statistics such as percentage, frequency, mean, and standard deviation. Moreover, chi-square was used to explain whether two attribute are associated. The survey result signposts that technological inflow through FDI is an important channel in capacitating the local work force, promoting STI and assuring the prosperity of the Town. However, the educational level of the local employees to absorb the transferred technology, the collaboration between foreign firms and local employees, and the national technology policy are very weak to benefit from FDI. The employees in these companies faced multifaceted challenges to absorb the intended technology based know-how thus all stakeholders should come together and mobilize the available local resources to mitigate these challenges of the employees in the study area.
Keywords: Technology Transfer, FDI, Foreign Firms, Local Employee

1.1.BACKGROUND OF THE STUDY

Foreign Direct Investment (FDI) has played a leading role in many of the economies of the world, particularly in export sectors, it has been a dominant vehicle in facilitating international technology transfers, and has been a vital source of foreign capital, in the short run, increased competition from multinational corporation (MNCs) may reduce the local firms market share, even as it induces some firms to upgrade their resource utilization and improve their competitiveness (K.E. Meyer, 2000).

The importance of FDI has emerged from the role played by MNCs in creating positive externalities in economic growth through providing financial resources, creating jobs, transferring technological know-how, managerial and organizational skills, enhancing competitiveness and most importantly transferring technological know-how (Kobrin, 2005; Adams, 2009).

According to United Nations Conference on Trade and Development (UNCTAD) report, technological invention is primarily undertaken in a limited number of developed countries.

There are seven OECD countries that account for 90% of all expenditures on „research and development" (R&D), the United States alone accounts for as much as 40% (UNCTAD, 1999).Thus, if one can carefully observe these industrially leading countries, they are more of exerting their potential on certain problem solving research and development programs.

As a strategy in Ethiopia expanding human capital and improving human development outcomes are still a central pillar strategy of Growth and Transformation Plan (GTP). The Government has been taking measures to improve the human resource development as healthy, productive, and trained human resource is essential for the implementation of government policies, strategies and programs, so this can be achieved through capacitating the human resources with improved technological applications, training as well as research and development (R&D) and it can either domestically or importing foreign technologies (FDRE GTP, 2010).

The role of FDI to the economy of one country will be operative if and only if there is a local competency to captivate the technology owned by the foreign company to other similar industries as well as the local employees which potentially dictates a large scale participation of local personnel's in the foreign companies at a critical level.

The contribution of FDI in Ethiopian economy has been hindered by the political and ideological affiliation of the Dergue regime besides other socio-economic factors. In 1975 the Ethiopian regime had nationalized major industries; this scared off foreign private investors had a great impact on the country's economy (UNCTAD, 2002). In addition the Dergue regime did not give any opening for privatization to domestic and foreign investors, so the gap between domestic investments and saving remained wide in the pre-1991 period. According to UNCTAD (2002) the investment policy review in Ethiopia report, in between 1990 to 1997, gross domestic investment as proportion of GDP rose from 11.9% to 19.1%, while gross domestic saving remained the same rate. Though the number of foreign investors currently destined to our country might not be small, but most of them are attracted towards labour intensive sectors mainly in the agricultural sector, besides some political and ideological factors. Therefore the cardinal objective of this study is to identify the role of FDI to technology transfer for the local employees in Hawassa.

1.2. STATEMENT OF THE PROBLEM

Obviously these days the government of Ethiopia has concentrated on lifting up the country's development to a middle income stage by developing various developmental strategic plans which will transform the country from back ward agricultural practice to the industrial development through creating a linkage between agricultural and industrial sectors by developing various developmental strategies such as PASDEP, GTP etc. So far successful development can be assured through the achievement of improved technological applications in all sectors. It may also be true that technology and know-how transfer accompanying FDI is more important for catch-up development than pre-capital transfer (Hunya, 1998).

However, apparent from economical constraint the human capability of the country to manage and invest on a major investment sectors is far limited and the government is forced to look forward beyond the country's capacity on foreign direct investment (FDI) for the overall growth of the countries agricultural and industrial transformation to capacitate the domestic work force in knowledge by facilitating the transfer of technology to the local employees. Nevertheless, whether the intended technology transfers is diffused to the local employees or not and also the educational status and motivation of the local employees in absorbing such knowledge still needs further study. Besides this there are a number of studies conducted on the contribution and role of FDI for certain host countries by various scholars in Ethiopia. But few of them are emphasize on the contribution of FDI for technology transfer. For instance Remla (2012), have conducted her research to identify the impact of FDI on poverty reduction and whether there exists a causal relationship between FDI and economic growth and poverty reduction in Ethiopia. Apparently her findings indicates, estimation results reveal that real per capita GDP responds negatively to FDI in the long run in Ethiopia. This may be a result of profit repatriation of foreign firms, crowding out of domestic investment because of FDI or low level of human capital in the country. However, in the short run, FDI was found to be insignificant in explaining real per capita GDP.

The finding also indicates that, in the long run, openness to trade; which implies that increasing trade openness is a useful tool for economic growth and poverty reduction. In addition, infrastructure and government size contribute positively to real per capita GDP while inflation contributes negatively. Here, even though her finding analyzes the role of FDI only from maximizing real per capita GDP perspective but it lacked to address its contribution in terms of knowledge diffusion that will in return could coined to GDP increment. On the other hand the finding also point out the long run positive effect of trade openness as it is useful for economic growth but not potentially indicates the role of technology absorption through FDI for economic growth. Over all, the research more of focused in general at national level but not concentrated on specific study area especially in Hawassa.

Therefore, this study is focusing to assess the contribution of FDI in diffusing technological knowledge to the local employees specifically in Hawassa town.

1.3. RESEARCH OBJECTIVES:

The overall objective of the study is to assess the role of FDI to technology transfer for the local employees in Hawassa. The specific objectives of this research are:

- ✓ To analyze the guiding policies that promotes technology transfer for the local employees
- ✓ To identify the contribution of FDI in transferring technology to the local employees
- ✓ To explore the major challenges of foreign companies to transfer knowledge based technological applications.
- ✓ To identify the factors that hinder local employees in assimilating knowledge from foreign firms in the study area.

1.4.REVIEW OF RELATED LITERATURE:

1.4.1Theoretical Overview of FDI

It is by now commonly agreed in literature that, although the resource gap model has helped to assess the benefits and costs of private capital flows, the role of FDI for development remains unsettled in this conventional analysis

(Reuber et al., 1999; Lall and Streeten, 2000). More recently, therefore, there has been renewed interest in the empirical analysis of the FDI-growth nexus. Such interest has also been stimulated by new developments in growth theory. The so-called „Endogenous Growth" Model identifies knowledge accumulation as the driving force explaining long-term growth of the economy (OECD, 2001).

FDI, which provides a channel for knowledge acquisition and dissemination, can therefore act as an engine of growth for the recipient economy. According to Endogenous Growth Models, the impact of FDI on growth depends crucially upon the existence of production and knowledge externalities. In the standard Neo-classical model, production is represented by a constant-return-to-scale technology, relating the level of output to input bundles. FDI enters this model as an additional input to production. More precisely, FDI is treated as additional investment that increases domestic capital stock. This is not the only channel, however, through which FDI can affect growth. Industrial organization studies point to the peculiar nature of FDI, which is better described as a"combination of capital stock, know-how and technology" (De Mello, 1997), whereby it may impact on both labor and capital productivity.

1.4.2.Technology

Technology means dynamic and different things to different observers. Its definitions vary from simple dictionary explanations to complex elaboration. Many definitions and descriptions of technology are very broad and sometimes almost all encompassing.

The word "Technology" is derived from the Greek word. "Techne" with meaning art, or more descriptively, craft as implied in the definition of the applied arts and "Logos" with meaning word, discourse or knowledge. This in meaning, the word technology is knowledge of the practical or industrial arts, or the knowledge of how craft or industry is wrought (Amri Ahmed, 1995).

The Concise Oxford Dictionary, in a similar manner to other dictionaries, defines technology as "the study or use of the industrial and mechanical arts and applied sciences"(Adam et.al, 1998).However this definition does not include other areas, because industrial art is not by any means the only area in which technology plays a role. According to Adaobe (1990), technology denotes the broad area of purposeful application of the contents of the physical, life, and behavioral sciences. It comprises the entire notion of techniques as well as medical, agricultural, management, and other fields with their total hardware and software contents.

According to K.M. Mansour, Technology has become the most cardinal source of economic, political as well as, military power of certain nation. For a long time, capital and labour were considered as the most important factors of production. With the increasing globalize business activities; technological knowledge and information have been gaining considerable productivity as vital elements of any firm's success in contemporary world's economy (K. M. Mansour, 2008).

In addition, rapid advances in science and technology and increasing accessibility to the fruits of new knowledge both lead to rapid obsolescence, and thus to enhancing the role technology plays in every day's life of the business world.(Ibid,2008).

While technology is an abstract term, three main characteristics of technology can be identified (Bassant and Chandra, 1999). Technology can be characterized by the knowledge that is embodied in products, processes and practices. Products comprise the knowledge of how things work, their design, and their interface with other products. Processes comprise knowledge on how a product can be produced or changed. And practices consist of the routines necessary to manage the product-process combination and the knowledge re-generation process.

1.4.3. Foreign Direct Investment

FDI is; investing directly in production in another country, either by buying a company there or establishing new operations of an existing business. World Bank defines FDI as when one individual or business owns 10% or more of a foreign company's capital. If an investor owns less than 10%, it is considered as nothing more than an addition to his/her stock portfolio. Even with just 10%, the investor usually has significant influence on the company's management, operations and policies. For this reason, most governmental agencies want to keep tabs on who is investing in their country's businesses (Delali, 2003).

FDI is particularly important for developing countries since it provides access to resources that would otherwise be unavailable to these countries. Moreover, the advantages of FDI are extremely positive for a country or region (Genet A., et al, 2005).

In a widely cited work, Borensztein et al. (1998) examine the effect of FDI on economic growth in cross country regression framework, using data on FDI outflows from OECD countries to sixty-nine developing countries over the period 1970-1989. They find that FDI is an important vehicle for adoption of new technologies, contributing relatively more to growth than domestic investment. In addition, they find, through the relationship between FDI and the level of human capital, FDI has a significant positive effect on economic growth. However, they qualify their results in as much as the higher productivity of FDI only holds if the host country has a minimum threshold stock of human capital.

1.4.4. Determinants of FDI

With globalization and the growing tendency of FDI in most of developing countries FDI led technology transfer

recently becomes a common trend of these countries on account of this in attracting FDI identifying the determining factors of FDI seems compulsory condition for both host countries as well as foreign firms (UNCTAD, 1998).

The review of host country determinants is closely linked with the role of national policies and especially the liberalization of policies, a key factor in globalization, as FDI determinants. Location-specific determinants have a crucial influence on a host country's inflow of FDI (UNCTAD, 1998).

It is argued that a strong policy and regulatory regime, appropriate institutions, good infrastructure, and political and economic stability are important to attract FDI. According to Ludger Odenthal from UNCTAD, business has indicated different determinants for decisions to invest abroad. Some of these determinants are: The policy framework for FDI, Economic determinants such as the size of the market and per capita income, Business affiliation provisions such as investment incentives, Privatization programs.

1.4.5. Foreign Direct Investment as a Channel of Technology Transfer

Technology Transfer often occurs between unrelated partners in market-based transactions. However, information also flows internationally between related parties on a non-market basis, within the boundaries of firms and joint ventures. Given the multi-faceted nature of technology transfer, there exist numerous channels through which technology flows across international boundaries. One major channel is trade in goods and services. All exports bear some potential for transmitting technological information. Trade in capital goods and technological inputs can directly improve productivity by being integrated into production processes. Another major channel of International Technology Transfer (ITT) is direct trade and investment in knowledge via technology licensing, which may occur within firms, among joint ventures, or between unrelated firms (A. J Glass and K. Saggi, 2000).

The 1999 World Investment Report points out that FDI is of major importance to economic development. FDI provides financial resources and links to export markets. Furthermore, an inflow of foreign capital may contribute to the upgrading of both managerial and technological effectiveness and improve human capital. This way FDI may trigger industrialization in developing countries (Young Stephen, et al., 1996).

Technology transfer‟ due to FDI occurs when local companies or institutions adopt technology applied by a multinational corporation (MNC) Industrial restructuring‟ takes place if the establishment of an MNC affiliate affects existing competition. Such externalities are referred to as "spillover-effects", and arise "as a direct consequence of the linkages forged between foreign direct investors and other economic agents in the countries in which they operate" (Dunning, 1997).

1.5.RESEARCH METHEODOLOGY

The nature of the research is descriptive type of research that describing the role of foreign direct investment (FDI) in terms of technology transfers to the local employees in Hawassa town. Moreover, both qualitative and quantitative research design has been used. In line with the aim of the study, qualitative research had been employed to provide an insight that whether the intended foreign direct investment diffuses the necessary technology to the local employees or not. Purposive and simple random sampling techniques have been used in this study. To this end purposive sampling has been used to identify the sample industries which had been selected in the study; purposive sampling technic were used because the researcher's intention was to focus on manufacturing industries in the town.

According to the data obtained from SNNPR trade & investment bureau, there are forty four (44) registered foreign investments in Hawassa, among these only fourteen (14) are fully operational and from these fully operational Industries only four (4) are manufacturing industries. To this end, in order to assess the intended technology transfer the researcher had selected two of these manufacturing industries purposively because of their operational experience and their containment of largest number of work force. Since the researcher's main aim was to investigate the role of FDI to technology transfer for the local employees. It seems more preferable to focus in production and technique departments which are more of technology intensive sections and these are more or less enabling the researcher to assess the transferred technology from foreign firms, so that the researcher deployed purposive sampling, Simple random sampling technique also have been used to identify the sample individuals who are participated in the study for administrating questionnaires. The reason behind using the random sampling technique was that it gives an equal chance of selection for all individuals in a sample population. On the other hand, purposive sampling technique also again applied in identifying the key informants who has been take part in interviews. Purposive sampling technique has been used for selecting respondents who have administrative power and have a certain degree of knowledge and information about foreign direct investment (FDI) and technology transfer. Thus, the researcher uses the following formula to determine the sample size for this inquiry (Jeff, 2001).

$S = X^2 N P (1- P) \dagger d^2 (N -1) + X^2 P (1- P)$, Where,

S = required sample size.

X^2 = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

N = the population size.

P = the population variability (assumed to be 0.10)
d = the degree of accuracy expressed as a proportion (0.05).
The total employee of the two selected manufacturing industries constitutes 728 (BGI Ethiopia, Hawassa cheap wood, 2014).

However, taking all employees of these two companies were not relevant for the current study because the main objective of this study was to assess the role FDI in technology transfer to the local employees. Therefore the researcher identified 577 employees who were deemed to be relevant for current study i.e. production and technic department employees were selected while the remaining 151 employees were excluded due to the fact that their work position were not linked with technical matter (like accountants, public relation, cleaners, guarding, drivers, and others).

Therefore, the total population of the study (N) was, 577, *Ha*wassa chip wood PLC (N_1) = 217 and BGI Ethiopia PLC (N_2) = 360 and S (Total number of sample) =? X^2 = at 95% level of confidence is 3.841, d= 5% or 0.05 and P=0.10. Therefore, using the above formula,

$$S = \frac{(3.841)(577)(0.1)(0.9)}{0.05^2(577-1)+(3.841)(0.1)(0.9)}$$

= 112 (approximately), 112 sample respondents are a sample for this study to distribute questionnaires. On the other hand, to determine the number of sample (respondents) from *H*awassa chip wood PLC (n_1) and BGI Ethiopia PLC (n_2), proportional probability sampling formula was used.
Thus, $n_1 = S (N_1/N)$ and hence $n_1 = 112 (217/577) = 42$

Similarly, $n_2 = S (N_2/N)$, which is $n_2 = 112 (360/577) = 70$Hence, from *H*awassa chip wood PLC (n_1), 42 and BGI Ethiopia PLC (n_2), 70 respondents had been selected proportionally.

1.6.DATA ANALYSIS AND DISCUSSION

Among 112 questionnaires administered by the data collectors, only 108 questionnaires were filled up properly and completely making the response rate of 96 percent.

1.6.1. Guiding Policies That Promotes Technology Transfer for the Local Employees

Table 1. Respondents' Perception on Guiding Policy of the Company

	Variables	Categories	Frequency	Percentage
1	Do You think a company's existing policies enable local employees to acquire a necessary knowledge?	Strongly Agree	13	12.04
		Agree	32	29.63
		Disagree	49	45.37
		Strongly disagree	14	12.96
		Total	108	100.00

Source: own survey data, 2015

The first objective of this study was sought to evaluate the guiding policy of the company in promoting technology transfer to the local employees.

Based on this the finding in the above table 1 reveals that majority of the respondents were disagree and strongly disagree with the existing policy in the company in enabling the local employees to acquire the necessary knowledge. However a study showed that technology transfer to the local employees will be determined by the effectiveness of policies and technological know-how transfer agreements.

1.6.2. The Role of FDI in the Transfer of Technologies to Local Employees

Based on this the response collected from the respondents computed in table below. The survey result in the table below shows that the company's effort was so limited in assuring technology based know-how transfer to the local employees and simply as it was business oriented.

Table 2. The Efforts of the Company Owner/S in Assuring Technological Transfer

Variables	Category	Frequency	Percentage
The efforts of the company owner/s and administrative unit in assuring the technological transfer to the Local employees	Very high	4	3.7
	High	16	14.81
	Medium	25	23.15
	Low	49	45.37
	Very low	14	12.96

Source: own survey data, 2015

1.6.3. Factors That Hinder Local Employees in Assimilating Knowledge

However regarding to the major challenges that the employees facing in assimilating knowledge from foreign firms 33(30.55%),22(20.37%),20(18.51%),19(17.59%),14(12.96%) of respondents were agreed that absence of motivation, lack of adequate training, lack of collaboration with transferee, the existence of rough administrative system, lack of the necessary knowledge respectively. This spectacle that besides other hindrances like lack of collaboration, less educational level of the employees, lack of motivation to set up the necessary trainings was the major challenge in transferring their technological knowledge by the firm's side.

Table 3: The Major Challenges of Employees Facing in Assimilating Technological know

No	Variable	Category	Frequency	Percentage
1	What are the major challenges/ problems facing you in assimilating Knowledge from foreign firms?	Lack of necessary knowledge	14	12.96
		Absence of motivation	33	30.55
		Lack of adequate training	22	20.37
		Lack of collaboration with transferee	20	18.51
		The existence of rough administrative system	19	17.59
		Total	108	100

Source: own survey data, 2015

1.6.4. The Potential Contribution of FDI to Technology Transfer

Table 4: The potential Contribution FDI to Technology Transfer

Variable	Category	Frequency	Percentage
Do you believe that, FDI have a capacity to transfer technology to the local employees?	Extremely capable	11	10.19
	Capable	33	30.56
	Moderately capable	27	25
	Totally incapable	37	34.26
	Total	108	100

Source: own survey data, 2015

As depicted in table 4 above, majority of respondents theoretically argues with the potential contribution of FDI to technology transfer in local areas. However, till now there was limitation as few respondents indicated and practical application problems related with technology transfer.

Meanwhile Thomas, *et al*. (2008) has argued that multinational corporations‟ investment in the host country imposes the pressure on the local firm's personnel as well to develop new technologies and to innovate. This also explains the reason the developing countries are interested in taking measures that attract foreign direct investment. Largely, the developing countries face the issue of gap between investment and modern technologies which has to be bridged by FDI.

Concerning to the employees agreement on FDI led technology transfer in providing STI as a driver of raising prosperity and improved national competitiveness, more than half or 81(75%) of the respondents were agreed or responded „Yes‟. On the other end, only 27(25%) of the respondents were responded „No‟. meanwhile regarding to the reason why 25% of the respondents were disagree or responds "No" for the aforementioned question 13(48.14%),12(44.44%),2(7.40%) of the respondents were given as a reason that they are only profit oriented, low domestic absorptive capacity, lack of potential infrastructure respectively.

Moreover this result designates that the intention of foreign firms was not solely to transfer technological knowledge to the locals rather it might be market and profit seeking.

Table 5: The Contribution of FDI Led Technology Transfer to (STI*)*

No	Variable	Category	Frequency	Percentage
1	Do you agree that FDI led technology transfer contributes in providing Science, Technology and Innovation (STI) serves as a crucial driver of rising prosperity and improved national competitiveness?	Yes	81	75
		No	27	25
		Total	108	100
2	If "No" what is the most reason?	They are only profit oriented	13	48.14
		Low domestic absorptive capacity	12	44.44
		Lack of potential infrastructure	2	7.40
		Total	27	100

Source: own survey data, 2015

This finding have goes in line with Asiedu (2002) who have conducted a study on 32 sub-Saharan African Countries and 39 non sub-Saharan African countries over a period of 10 years (1988-1987). She argues that FDI inflows in to sub-Saharan African countries are for market seeking. Asiedu (2004) also argues that natural resource and market size are the chief determinates of FDI.

1.7. CONCLUSION

This Study confirmed that as FDI can facilitate the diffusion of technological know-how from host countries to the recipient countries through local industries and domestic human resource. This simply means that the extent to which effective technology transfer depends on the magnitude that domestic firms and local work force responds positively to the dynamics such as technologic gap and human capital.

The objective of the study reflected the role of FDI to technology transfers for the local employees. The process of technology transfer should not simply leave alone only for the transferor or transferee; it requires the commitment of foreign firms to share their technological experience and the learning efforts of the local work force and a working policy framework by the government side as well. From the observance of the survey the tendency of foreign firms to transfer technological knowledge to the local employees in Hawassa town is too weak. This is because; most of foreign firms are concentrated in accessing certain market in the host country, cheap labor as well as simply for rough business orientation. The result also exhibits that the existence of weak guiding policy in the company that does not enable the local employees to acquire the necessary knowledge mixed with the absence of almost zero efforts of concerned government bodies in supervising the technological progress of local employees have been greatly hinders the efforts in assimilating technological knowledge from foreign firms.

One of the most decisive method of technology transfer and spillover is delivering sufficient technological up gradation trainings to the local employees and the result shows that the low spending habit of foreign firms on trainings as well as R&D activities in Hawassa. Moreover, it is considerable that the more the educational level of the employees the greater tendency of assimilating the transferred technology from foreign firms. However it is also detected in this study that local employees in these companies failed to absorb the necessary technological know-how due to their low level of educational status. Based on the analysis the researcher intended to propose a solutions and policy directions as well as develop a framework for effective transfer of technology to the local employees via FDI.

1.8. RECOMMANDATIONS

To ensure effective and successful technology transfer to local employees in the study area, the subsequent policy directions are recommended out of the empirical qualitative and quantitative findings, these are:

- Both government and these companies should have to focus and continuing on upholding the educational status of the local work force, the firms also should have to carefully recruit the employees with better educational levels especially in the sectors which require more technical excellence moreover providing the necessary and continuous on job trainings to fill such a gap.
- The contractual agreement signed by the government and foreign investors should have to adjust the inclusion of a working guiding policy in foreign firms to promote the process of technology transfer which is valued more than that of a paper . In addition to this the government should come up with strengthening and reforming its organizational framework, and also arrange the necessary follow up mechanism on how foreign firms catalyze the process of technology transfer to the local employees.
- The government investment policy must strengthen the obligatory approach on foreign investment to make an effort and budgeting the process of importing new technologies by foreign firm's side as well as the government should support the firms those who brings new technological applications to the locals.
- For local employees those who have major contributions to innovate and catalyze the processes of technology transfer the government should give them some preferential treatment, like budgeting skill development trainings, allowing them to share experiences with other companies, promoting financial incentives and so on.
- There should be a sound effort in these foreign firms for transferring technological applications for local employees for those who are capable of absorbing, modify and re-sell the transferred technology**.**
- The government should evaluate and rearrange its bureaucratic process regarding to encouraging FDI and change its policy performance in attracting FDI to transfer technological know-how rather than absorbing funds and brands.

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