The Economic Development Component of the Ethiopia-China Relationships

Messay Mulugeta[*]

Abstract

This study examines the economic development component of the Ethiopia-China relationships. Since the late 1990s, strong economic ties have developed between these two countries, with trade partnership of more than US$3billion a year, and over US$3.5 billion (until 2017) Chinese investment in Ethiopia, from a non-existent base two decades before that time. This relationship provides Ethiopia with an unprecedented opportunity to benefit from China's most rapidly growing economy and technology in the world. Given that the African Union is based in Addis Ababa, the Ethiopia-China relationship also has major economic implications for Africa as well. At the same time, it presents Ethiopia with significant challenges, such as the challenges to adapt Chinese technologies to local circumstances and priorities; and to ensure, among others, that the development projects are sustainable and in essential harmony with the environment and socio-cultural variables. On Ethiopian side, untangling the complexities of the challenges to harness the best out of the relationship requires transformative and accountable leaders who are capable of selecting and channelling the opportunities from China.

Keywords: Ethiopia, China, economic relations, job creation, technology transfer, investment

1. Introduction

Ethiopia is a sovereign state located in the Horn of Africa. With a population of over 100 million (CSA 2017), Ethiopia is the second most populous country in sub-Saharan Africa, next to Nigeria. Ethiopia has created international reputation for its staggering double digit growth for the last decade. The natural resource bases of the country, government's commitment to change the livelihoods of its people, economic collaborations with other countries such as China, South Korea and European Union and international development agencies, relative security and the aspiration of the people to growth have contributed for that growth.

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Ethiopia is also characterized as a country with growing flow of Foreign Direct Investment (FDI), which reached 2.2 billion USD in 2015/16 (EIC 2016), on account of the robust economic growth and the increase in the number of the middle class in the country. Hence, Ethiopia is currently a preferred destination for investors from many countries, the most notable of which is China.

Ethiopia is listed at 165th in the World Bank's list of countries by per capita gross domestic product, *i.e*. 768 USD in 2017. According to UNDP (2018), poverty in Ethiopia is estimated to have declined from 45.5% in 2000 to 23.5% in 2016. These trends show that Ethiopia is on the right path to economic development, though the issue of income inequality is still a major concern. It is also becoming a suitable investment destination for countries that wish to invest overseas, of which Ethiopia-China relations could likely be most successful in this regard.

Ethiopia's fervidness to have well-built economic relations with China is reflected by the frequent visits made by high level government officials to China as well as the enormous involvement of the Chinese companies in Ethiopia's multiple development sectors, the most notable of which are manufacturing, construction, real estate development, machinery and equipment rental, and hotel and resort development. This outcome has been achieved as a result of a number of investment-enhancing measures taken by the Ethiopian government. Those measures include robust industrial parks development undertakings, enforcement of targeted investor recruitment procedures, finance provision, comprehensive investment climate reforms and maintenance of security across the country.

In order to achieve a well-built and sustainable Ethiopia-China economic relationship, the governments of both countries are advised to work towards sincere mutual benefits, as per the FOCAC principles, unlike the case that Ethiopia has been experiencing from most western countries. The relationship is required to be based on the old principle '*teaching to fish to feed for a lifetime*' not on the basis of '*giving fish to feed on for a day*'. Though investments should create opportunities from which all parties would gain, Ethiopia, as a least developed country, has to be provided with sufficient opportunity to learn from circumstances that led to China's economic growth and adapt it to its socioeconomic and environmental situations. This, no doubt, enables Ethiopia to bring about sustainable, equitable and eco-friendly development within a few years to come. This scenario hugely benefits both sides as Ethiopia's economic growth improves the livelihood of the people that, in turn, widens China's market in Ethiopia for its manufactured goods. It also builds the purchasing power of Ethiopians to utilize the goods and services supplied by China. In fact, the Ethiopia-China economic ties should be accompanied by the advancement of the Ethiopian youth in targeted vocational and technological skills so as to widen employment opportunity in Chinese companies in Ethiopia, a condition that helps the companies to make use of the cheap labour. Therefore, for efficient Ethiopia-China economic relationships, which unfold utmost mutual benefits, various issues should be given attention during strategy formulation. These include, but are not limited to, well thought-out joint projects, exchange of researchers, local employment and market opportunities, local skills development, technology transfer, inclusion of local community and environmental considerations.

2. Statement of the Problem and the Rationale

Ethiopia-China relations have ancient roots though there was no substantial socioeconomic and political relationship up until the first Ethiopian Cultural Delegation to China in 1956, about the time when centralized pattern of power evolved in China and only two years earlier than the launching of the '*Great Leap Forward*' (the Second Five-Year Plan) in china (Csanadi 2017). The formal diplomatic relation between Ethiopia and China was established in the 1970s, the time when China was working hard to regenerate the '*Great Leap Forward*' strategy (which was halted in the early 1960s up until the second half of the 1970s) in a more decentralized nature. Subsequently, various bilateral agreements were signed between Ethiopia and China (Rabia and Samson 2017), though it took over two decades to see a strong economic attachment between them.

The Ethiopia-China economic relationship started booming in the late 1990s. The Chinese economic boom, particularly starting from the second half of the 1970s (Csanadi 2017), and the subsequent Chinese aspiration in overseas trade and investment, the accession of China to the World Trade Organization (WTO) in 2001, and Ethiopia's relative peace/security after 1991 and the determination for economic development have paved the way for strong Ethiopia-China economic ties. The economic nexus between the two countries increased unprecedentedly after the elapse of the second millennium. As a result, various Chinese companies are currently investing in various sectors, most notably in construction and manufacturing sectors, across Ethiopia. However, the contribution of Chinese investment in Ethiopia has not been methodologically and empirically researched, particularly in view of its contribution to job creation, technology and skill transfer, and overseas trade enhancement opportunities for Ethiopia/Ethiopians. The main objective of this research was, therefore, to assess the economic development ties between Ethiopia and China with particular emphasis on the aforementioned variables.

3. Methodology

Two approaches were used to obtain data for this research. First and foremost, the unprocessed secondary data were obtained from concerned offices of the Federal Democratic Republic of Ethiopia (FDRE) in Addis Ababa, most notably Ethiopian Investment Commission (EIC), Ethiopian Railway Corporation (ERC), and Ministry of Foreign Affairs (MoFA). Websites of these offices were also visited. Secondly, various published and unpublished documents were accessed at Addis Ababa University (Ethiopia) and Fudan University libraries in China. In fact, two Fudan Development Institute (FDDI) visiting professors, Ethiopian scholars who have good knowledge of Ethiopia-China relationships and expertise in different development sectors in Ethiopia were briefly interviewed to clear up some ambiguous views related to the study. Included were also ideas obtained from the visits and expert explanations at various historical and investment sites in China, including Shenzhen Metro Group Co Ltd, Weidong Chinese Cultural Museum (Beijing), Weidong Cloud Education Group (Beijing), Guangzhou CreativeView Optoelectronics Technology, Hauwei Technologies Co Ltd. (Shenzhen), Shanghai Industrial Investment Corporation (SIIC) Greenport Agriculture, and International Center for

Higher Education Innovation (ICHEI) under the auspices of UNESCO (Shenzhen).

The data were analyzed descriptively. This involved describing key quantitative circumstances uncovered from the numerical data to look into the prevalence and incidence of related facts and trends. It also focused on providing explanations to qualitative data obtained through field observations and key informant interviews.

4. Theoretical Foundation

The appropriate theoretical orientation for this research is foreign direct investment (FDI) theory, specifically the constellations of propositions forwarded by Hymer (1960), as well as Nayak and Choudhury (2014). Dunning and Rugman (1985) indicated the work of as a breakthrough in FDI theory. According to these two authors, this enables us to consider FDI as a modality in terms of which investors extend their territorial horizons to foreign countries. The unique feature of FDI is that the investing agencies retain control over productive activities outside their national boundaries. Based on this understanding, FDI refers to international production and sales, and is more than a process in terms of which goods and services are traded internationally.

The essence of Hymer's theory, as explained by Nayak and Choudhury (2014), is that international production is an imperfect market in which firms operating abroad have to compete with domestic firms that enjoy advantages in terms of culture, language, legal systems, and consumer preferences. Moreover, companies trading abroad are also exposed to fluctuations in rates of foreign exchange, while domestic companies are not.

Nayak and Choudhury (2014) classify FDI theories into five on the basis of perfect competition, imperfect competition, strength of currency, international trade and investment inflow from economically emerging countries such as China. All categories of FDI theories have their own merits and demerits; however, it is not the target of this paper to discuss thereon. The current Ethiopia-China investment relation is best illustrated by the last category (that is, 'international trade and investment inflow from economically emerging countries, such as China) as it is an investment inflow from emerging countries. Other FDI theories mainly give details to the movement of investment from developed countries to other regions. In more recent times, especially during the past two decades, China emerged on the map of international investment, and China's corporations established themselves in every sphere of the global economy in many parts of the world, particularly in Africa and Eurasia.

According to Nayak and Choudhury (2014), corporations of emerging countries (CECs) generally bring technology from the previously developed regions, particularly from the West and/or Japan. Gradually, CEC firms that have imported the technology tend to export their products once local demand has been met in their country. As the products become more familiar in foreign markets of less developed regions, and as the markets for such products steadily become established, the firms show a preference for setting up other similar companies abroad rather than exporting goods and services. At this juncture, the product may undergo modification to fit the purpose in host countries as a result of which the imported technology may also undergo changes. In fact, the modification processes (either the product or the technology) may allow innovations to gain a competitive edge in other developing countries that have similar socioeconomic circumstances.

Apart from the ownership advantage in the form of suitable technology, CECs also enjoy other ownership advantages over the developed world's investment projects in the form of lower overheads and expatriate costs, familiarity with local conditions, and less politically threatening conditions in the host country. There are also location-specific advantages in which the barriers imposed on import goods by the host country may encourage incoming investment projects. Rapid increase in labor cost and strong domestic currency at home, as compared to the case abroad, can also compel companies to relocate their projects in a foreign country.

It is, thus, vital to comprehend that there is no single most important FDI theory that fits different types of investments made by a particular corporation and/or country in any part of the world. So, one has to review the several FDI theories in order to understand and explain the pros and cons of FDI specific to the socioeconomic, environmental and political contexts of the specific country.

5. Findings and Discussions

5.1. A glance at Ethiopia-China relations

Literature, such as Bräutigam and Tang (2012), Geoff (2014), Muna (2015), and Gebregeorgis (2016), indicate that Chinese relations with Africa, particularly, the Horn of Africa including Ethiopia, are longstanding. According to Dent (2011), records of Africa-China bilateral trade date back to the 10th century BC, when the Egyptian city of Alexandria started trading with the people who had settled in the present-day China. Evidences also indicated that trade relationship between China and Africa took place at some point during the first period of the Silk Roads Trade (about 50BC–250AD). Gebregeorgis (2016), for example, cited historical sources indicating the indirect contact of Chinese merchants with Aksumite Kingdom of Ethiopia since the Chinese Qin Dynasty (3rd century BC) and Han Dynasty (3rd century BC – 3rd century AD) through the Balkh in Eurasia and Parthia in the Persian Plateau. There are also sources (www.newafricanmagazine.com; Geoff 2014; Muna 2015) that are sure about the indirect trade involvement of China with parts of the Horn of Africa in some point during the Tang dynasty /618–907 AD/. There are substantial sources indicating the contact of Zheng. Zheng, an administrator and diplomat during the Ming Dynasty (1368–1644) in China, had contact with people who had lived in the present-day sub-Saharan Africa centuries before the arrival of the 16th century European (Portuguese) explorer, Vasco *da* Gama. In fact, the relations had lapsed during the period of Western imperial domination until the later half of the 20th century (Dent 2011; Geoff 2014; Muna 2015).

The modern era of Afro-Asian (specifically, Afro-China) relations was thought to have started in 1955, when the Bandung Conference (Indonesia) brought together 29 African and Asian countries. However, trade and investment between Africa and China was increasingly built in 1990s, a process principally motivated by China's rapid industrialization and economic development (Dent 2011). The relationship was officially inaugurated in a meeting of the Forum on China-Africa Co-operation (FOCAC) in 2000 at Beijing. FOCAC was consecutively held in Addis Ababa (in 2003) and Beijing (in 2006). Those FOCAC meetings ultimately devised four fundamental principles, which, most likely, initiated Africa to welcome China more importantly than its preceding western partners. The principles are sincerity, friendship and equality; mutual benefit; mutual support and close co-ordination, and mutual learning and common paths of development. These principles give good explanations for the fact that China has no interest to compete hegemony in Africa. Taylor's (2006) arguments and author's discussion with a veteran FDDI Visiting Scholar in November 2017 also validate China's interest in Africa is only economic, such as market and natural resources, at least for this time, and not to create its authority with dominating political influence over African nations. The recent Djibouti President Ismail Omar Guelleh's official visit to China (22–24 November 2017) and the warm greetings by the Chinese leaders at the Great Hall (Tiantian 2017) is one of the testimonies for the burgeoning China-Africa economic ties. In fact, it is more likely to speculate China's interest in Africa may expand to peacekeeping and strategic missions at least to protect its massive investment projects and the Chinese workers in Africa in the years to come.

According to the Ministry of Foreign Affairs (MoFA) of Ethiopia, the first Ethiopian Cultural Delegation was sent to China in 1956, only two years earlier than the launching of the '*Great Leap Forward*' in China. This delegation served as a gateway to the socioeconomic and political relationships between Ethiopia and China. In 1964, the then Premier Zhai Enlai of China visited Ethiopia. Consequently, Formal diplomatic relation between Ethiopia and the People's Republic of China was established in 1970s, effected by Emperor Haile Selassie I /1930–1974/ (Bahru 2002) of Ethiopia and Mao Zedong, Chairman of the China Communist party from 1935 to 1976 (Walsh 2009).

Next to the formal diplomatic relations, various bilateral agreements have been signed between Ethiopia and China (Rabia and Samson 2017). These include, Ethiopia-China Agreement for Economic and Technological Cooperation (1971; 1988; 2002); Ethiopia-China Trade Agreement (1971;

1976); Ethiopia-China Trade Protocol (1984;1986;1988); Ethiopia-China Agreement Concerning the Encouragement and Reciprocal Protection of Investments (1998); Ethiopia-China Agreement for Mutual Promotion and Protection of Investment (1988); and Ethiopia-China Agreement for Trade, Economic and Technological Cooperation (1996). All over again, as noted by Rabia and Samson (2017), the Ethiopia-China relation has been transformed into a more strategic partnership with the establishment of the Forum on China-Africa Cooperation (FOCAC) in 2000. More importantly, Ethiopia hosted and co-chaired the second Ministerial meeting of FOCAC, which was held in Addis Ababa in 2003. The China-African Fund, which was founded following the Beijing Summit FOCAC, was established in June 2007 to support Chinese enterprises investing in Africa. The fund serves as a bridge between Chinese companies and African projects. It opened its East African branch in Addis Ababa in 2010 to facilitate the activities of Chinese companies in Ethiopia and Eastern Africa at large. The opening of the branch office in Ethiopia reflects the strong level of relations between the two countries as well as the confidence China has in Ethiopia. Ethiopia is also one of the countries which have participated/shown interest in the Belt and Road Initiative (BRI), a Chinese development initiative proposed by the leader Xi Jinping, which focuses on connectivity and cooperation between Eurasian countries to develop China-centered continental and maritime infrastructure networks in order to expand China's economic and political influence in global affairs, particularly Asia, Europe and Africa (Chin and He 2016; Csizmadia 2017; Klose *et al*. 2017).

Even if the cooperation between Ethiopia and China seems to have started with the signing of trade agreement in 1971 (Venkataraman and Solomon 2015), the economic and political relationships between them was not remarkable until the coming to power of the Ethiopian People's Revolutionary Democratic Front (EPRDF) in 1991 and the accession of China to the World Trade Organization (WTO) in December 2001. Trade between the two countries, for example, started to boom in 2006, the time when China became Ethiopia's largest trading partner. Yet, in the span of about two decades, the economic nexus between the two countries has increased unprecedentedly. The bilateral trade between the two countries, for example, increased from almost nil before 2005 (Alemayehu and Atnafu 2009) to over USD 3 billion in 2015 (Venkataraman and Solomon 2015). This signifies very close level of bilateral relations that Ethiopia has built with China over the past decade compared to any other country in Africa. Generally, China's current fast economic growth and its accompanied increased investment in Ethiopia over the last decades have brought about enhanced performances in economic activities (mainly in construction sector) and technology transfer to the latter.

The various agreements and forums between Ethiopia/Africa and China are expected to further the socioeconomic and political connections between the two countries in times ahead. Mutual support on issues of, for example, culture, trade, investment, agriculture, education, health, human resource development and many more is expected to expand. The visit of the Chinese Premier Li Keqiang (May 2014) can be regarded as another turning point to broaden the economic ties between Ethiopia and China. As one of the key building blocks of the Ethiopia-China ties, Ethiopian Airlines has been playing a high-flying role. The airline has been flying between Addis Ababa and Beijing since the 1970s and currently it flies between Addis Ababa and various cities of China, namely Beijing, Chengedu, Guangzhou, Hong Kong, and Shanghai. In fact, the Ethiopia-China economic relationship is not free of challenges that both parties are required to come to terms with. Many respondents, in both countries, mentioned several predicaments that they observed in the relationship milieu. These include, but not limited to, the enormous trade imbalance between the two countries, low-priced/low-quality goods that Ethiopia is importing from China, poor compensation for investment-induced displacees in Ethiopia, quality of the project outputs (mainly in construction sector), corruption/bribery, the adverse environmental impacts of the projects, and the rights of the daily works.

5.2. Chinese economic performance and its investment in Ethiopia

China has achieved rapid economic growth in the past three decade, which branded it as '*China's Economic Miracle*'. Various sources (Walsh 2009; Dent 2011; OECD 2011; Yuan and Yu 2014; Csanadi 2017; Losoncz 2017; Morrison 2017; Rippel 2017) are of the same opinion that the tremendous economic development over a short period (only since the second half of the

1970s) has lifted China to the second largest economic power in the world. China's economy is the largest and most powerful among the new global economic powers: Brazil, Russia, India, China and South Africa (BRICS). According to Losoncz (2017), China's GDP volume at constant prices reached USD 11.4 trillion in 2016; and its GDP per capita at constant prices was USD 8,260 (Table 1). The country established exemplarily giant companies like China Civil Engineering Construction Corporation Ltd (CCECC), China Communications Construction Company Ltd (CCCC), China Railway Group Limited, metro companies, manufacturing companies, ICT technology companies, petroleum and chemicals corporations, automotive industries, power plants and agricultural enterprises. It also exceedingly enhanced its magnificent tourist sites, such as the Great Wall, Forbidden City, Pearl River Cruise and Weidong Chinese Cultural Museum, as well as amazing modern skyscrapers such as the Shanghai Global Financial Center. With these achievements, China has become a model country for other developing nations in Africa, Asia, Eastern Europe and Latin America, which, in turn, has enabled it to highly deepen its economy across the developing world, especially Africa (UN 2018). According to Dent (2011), it is with Africa that China has established the strongest links mainly for mutual benefits.

Table 1: China's current economic performances

	Fiscal year						
Indicators	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP volume at constant prices (USD trillion)	6.1	7.5	8.6	9.6	10.6	11.2	11.4
Population (billion persons)	1.34	1.35	1.35	1.36	1.37	1.37	1.38
Urban population as % of total	49.2	50.6	51.9	53.2	54.4	55.6	---
GDP per/capita at constant prices (in '000' USD)	4.523	5.582	6.329	7.080	7.718	8.140	8.260
Agriculture (GDP %)	9.6	9.5	9.5	9.4	9.2	9.0	---
Industry (GDP %)	46.2	46.1	45	43.7	42.7	40.5	---
Service (GDP %)	44.2	44.3	43.5	46.9	48.1	50.5	---

Source: Modified from Losoncz (2017)

Literature, such as, Chakrabarty (2016); Gedion (2009); Bräutigam and Tang (2012) indicate that Chinese interest in Africa, in general, and in Ethiopia, in particular, is driven by a quest for resources and diplomatic support. Chakrabarty (2016) and Gedion (2009) argue that Ethiopia could be a commercial launch pad for Chinese companies and China is also getting diplomatic support from Ethiopia for its international policies and development strategies like the Belt and Road Initiatives. In fact, Ethiopia needs China for economic assistance, as an alternative source to the west, and as a role model for Ethiopia to follow. However, there are many challenges that have been visible in the bilateral relationship between the two countries. Gedion (2009) argues that, on the economic front, the bilateral relations are imbalanced, there is dumping of low-price export, underbidding of local companies and ideological differences, among others. Adem (2012) also put, it in plain words, the Ethiopia-China relationship as ‘infrastructure for diplomatic support’.

By and large, as indicated by Chakrabarty (2016) and Gedion (2009), the overall impact of Ethiopia-China economic relations is beneficial for both countries. Bilateral trade between the two countries expands rapidly, and China is currently Ethiopia’s top trading partner. Ethiopia gains from China’s zero-tariff policy on agricultural imports, and there is a dramatic growth in its agricultural exports (such as sesame) to China. China is also a major source of manufactured goods and machinery for Ethiopia. Despite being an agricultural exporter, Ethiopia has attracted significant volumes of Chinese official financial flows and foreign direct investment (FDI).

Most Chinese investment projects (both private and state-owned-enterprises [SOEs]) in Ethiopia are found engaged in manufacturing sector (Figure 1), a growing sector in Ethiopia (accounting for about 13.8% of the country’s GDP), revealing a gradual structural transformation of the country’s economy from agriculture (current GDP share of 38.8% in 2014) to manufacturing sector (EIC 2016). Out of the total number of licensed projects, 67.6% are manufacturing, 13% are construction contracting projects, 11.6% are real estate, 3.8% are hotel development, and the rest (4%) are agriculture, tour operation, mining, and health projects. Of the total registered capital, 61.7% goes to manufacturing, 24.6% to construction contracting and the rest (13.7%) to real estate development, hotel, mining, tour operation and health projects.

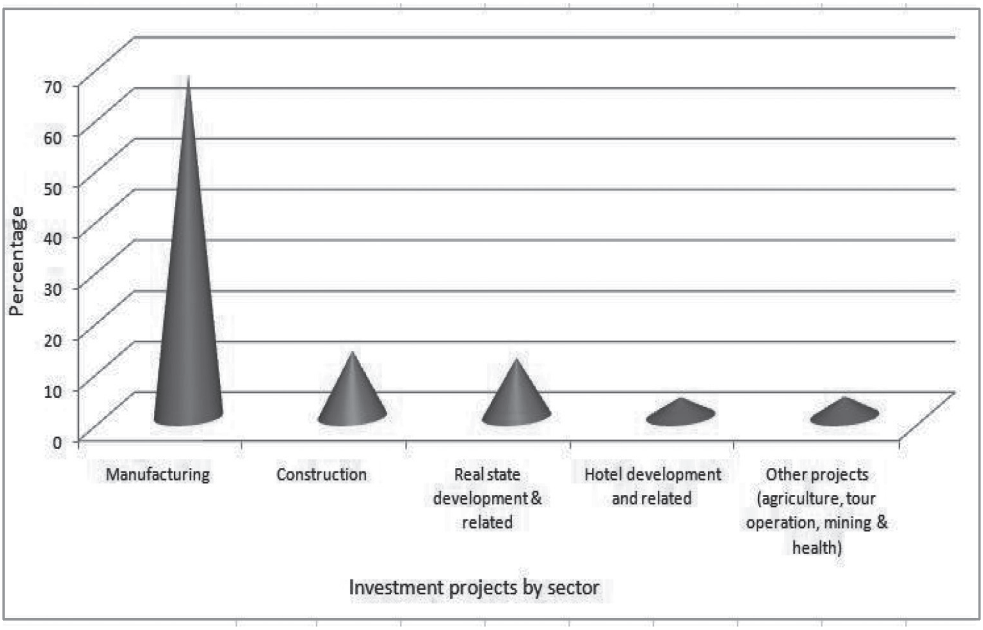

Figure 1: China-origin projects by sector in Ethiopia, August 1998–December 2017

Source: Computed based on unprocessed data obtained from EIC.

China started massive investment in Ethiopia in 1998 (Figure 2). Currently, China is the leading investor in number of projects, employees and foreign capital inflow in Ethiopia (Figure 3). According to the data obtained from EIC, the total number of investment projects, licensed between August 1998 and September 2017, is 1,206. It is incredible to perceive that, at the time of this study, 728 projects (60.3%) of the total licensed projects were operational with increasing trend form over the years mentioned above. Of the projects, 295 (24.46%) and 183 projects (15.17%) were at pre-implementation and implementation status, respectively. For clarity, EIC characterises projects at pre-implementation stage as licensed investment projects that have not yet started any practical activity; while those at implementation stage are characterised as projects in which practical undertakings, such as construction of civil works, provision of machineries/equipments are underway, but not yet started production of goods or provision of services. The investment projects which have either partially or fully begun production of goods or provision of services are identified as operational projects.

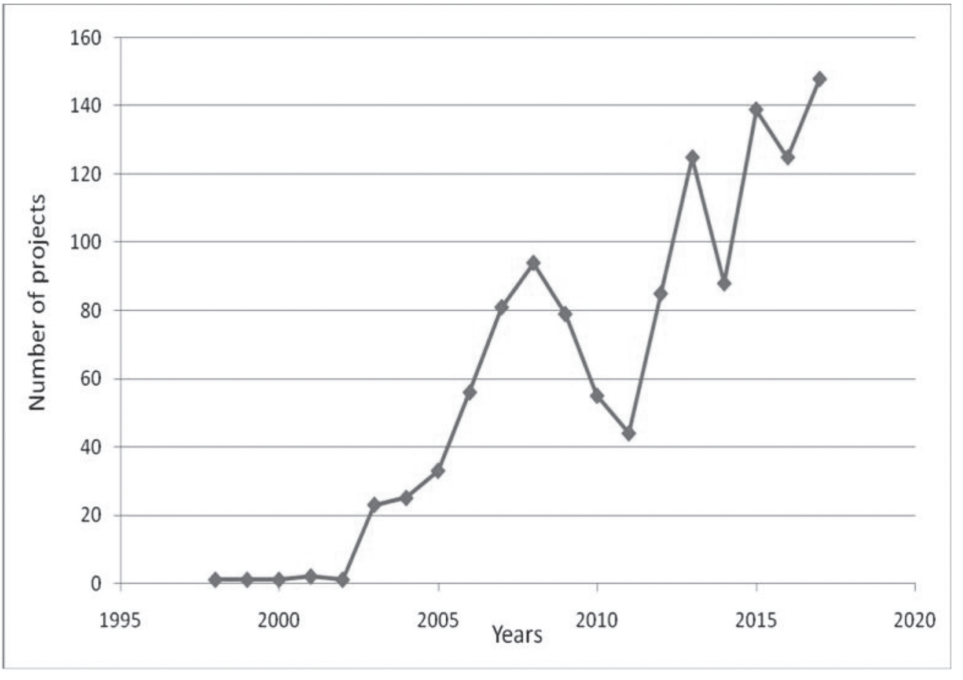

Figure 2: Trend of Chinese investment projects in Ethiopia

Source: Computed based on unprocessed data obtained from (EIC)

Regarding the sectoral structure of the investment, out of the total number of licensed projects, 67.6% are manufacturing projects, 13.0% are construction, 11.6% are real estate development, 3.8% are hotel development, and the remaining 4.0% are agriculture, tour operation, mining, and health-related projects. From the total registered capital, 61.7% has been allocated for manufacturing; 24.6% for construction; and the remaining 13.7% for real estate, hotel, mining, tour operation and health-related projects. China's investment ranks first, both in the number of projects and in the registered capital, among all foreign investment projects in Ethiopia. This signifies the prominence of the Ethiopia-China economic relations, for various intents and purposes in Ethiopia, such as job creation, technology transfer and economic growth. In case of investment capital, China is still the leading country in the cotemporary foreign investment in Ethiopia, followed by Saudi Arabia, Turkey and India.

In addition to exclusively China-origin companies investing in Ethiopia, there are also Chinese joint venture partners from about 20 countries, such as Australia, Canada, Ethiopia, Finland, France, India, Italy, Malaysia, Netherlands, Sudan, Turkey, South Africa, United States of America (USA) and United Arab Emirates (UAE). The total value of the joint venture investment at all stages (operational, implementation, and pre-implementations) between August 2017 and December 2017 adds up to about ETB 30.970 billion (USD 1.138 billion at the current exchange rate). Still, the vast majority of the projects are owned by Ethiopian and Chinese joint companies, constituting about 84.0% of the Chinese joint projects in Ethiopia. With these jointly undertaken business enterprises, China-origin companies are also contributing to Ethiopia's economy in bringing in investors from other countries across the world.

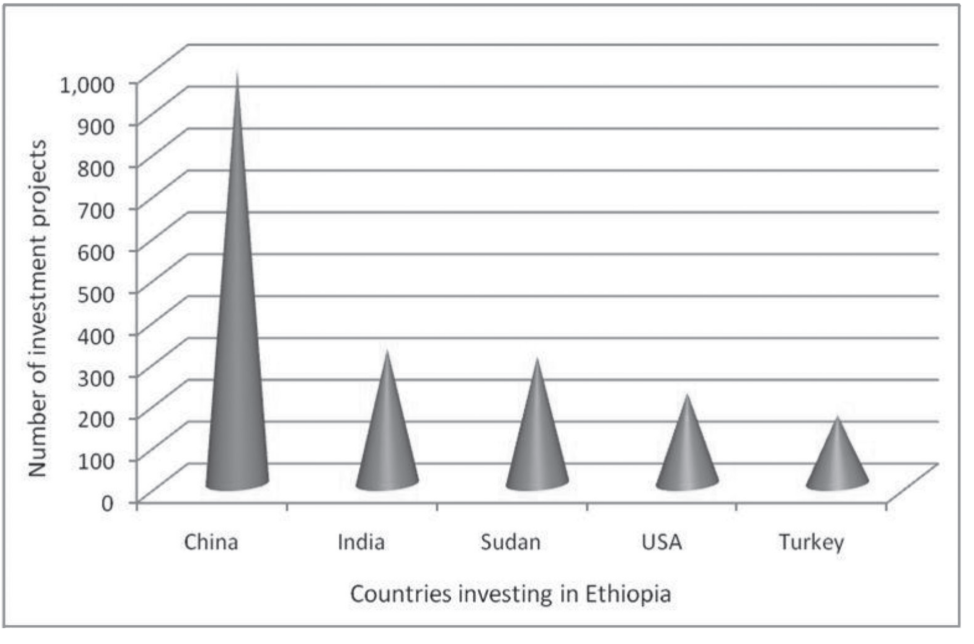

Figure 3: Top five countries investing in Ethiopia (by number of projects) August 1992 - December 2017

Source: Computed based on unprocessed data obtained from (EIC).

In addition to its current huge contribution in various aspects (such as job creation, foreign currency payment and technology transfer), the Chinese co-investment approach has an enormous role in promoting Ethiopia as a favourable investment destination country. This, no doubt, will help Ethiopia in achieving its long-term vision in the economic sector (NPC 2016) that is 'to build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy; to sustain economic development and secure social justice; and, increase per capita income of citizens so that it reaches at the level of those in middle-income countries'.

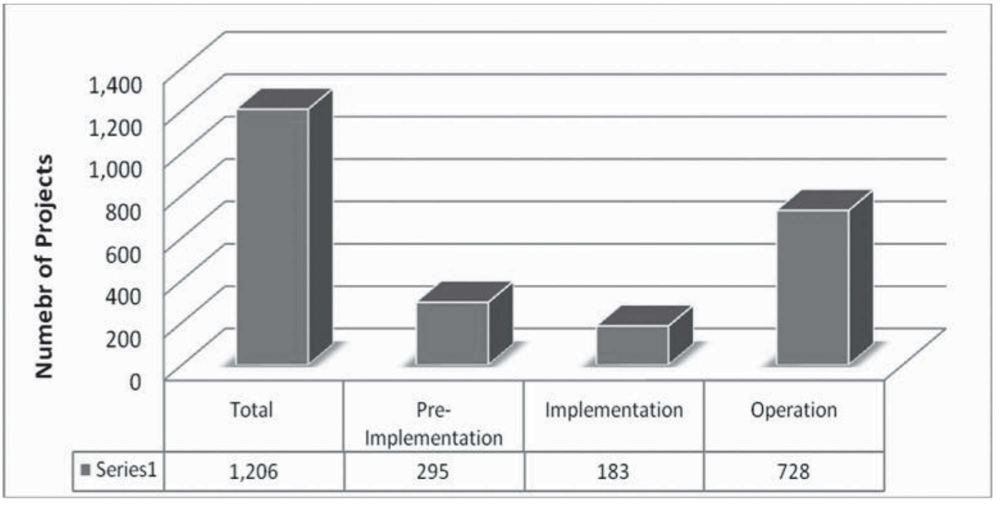

Figure 4: China's Investment in Ethiopia /August 1998 – December 2017/
Source: Computed based on unprocessed data obtained from (EIC)

5.3. Capital inflow

According to the study report by Mileva (2008) to European Central Bank (ECB), FDI constitutes the largest portion of capital inflows in most developing countries in the world. Its contribution in some countries is found to be around half of the total national capital inflows. Beyond adding to existing national capital stock, FDI stimulates investments in other sectors of the host economy through 'crowding in' or 'spill over effects'.

In view of the fore-noted supporting fact, Ethiopia is gaining huge amount of FDI as a result of its economic ties with China. As shown in Table 2, China-origin operational investment projects, registered between August 1998 and December 2017, in Ethiopia are huge.

Table 2: China-origin FDI sources in Ethiopia /August 1998 – December 2017/

Countries	Capital inflow (only operational projects) In billion ETB	In million USD
China only	18.570	682.502
China joint investment	5.647	207.536
Total	**24.217**	**890.040**

Source: Computed based on unprocessed data from EIC

In addition to the operational ones, projects at pre-implementation and implementation levels are also expected to play vital roles in various aspects of the Ethiopian economy. The registered capital by China-origin and China joint investment projects at pre-implementation and implementation stages during August 1998 to December 2017 was about ETB 75.40 billion (equivalent to USD 2.77 billion at the current (mid 2018) exchange rate. This was a very enormous FDI in Ethiopian history and ranks China the leading source of FDI in Ethiopia, followed by Saudi Arabia, Turkey and India (Table 3).

Table 3. Licensed Chinese investment projects by their status in Ethiopia (Aug 1998 – Dec 2017)

Status of projects	Registered capital (China-origin & China joint investment)	
	In billion of ETB	In billions of USD at current exchange rate
Pre-implementation	34.870	1.281
Implementation	40.531	1.489
Operational	24.217	0.890
Total	**99.618**	**3.660**

Source: Computed based on data from EIC

With this, no doubt, China is enormously contributing to the Ethiopian economy in job creation, technology transfer, strengthening the capital stock, and stimulating the national/local investors in every sector through its spill over effects.

Chinese investment has been rising over the years, particularly between 2006 and 2017 (Figure 5). China and China-Ethiopia joint projects owners invested over USD 585 million in 2009 alone and over USD 766 million in 2017. In fact, the volume of investment decreased in 2011 and 2012;

probably because it was this time that the government of Ethiopia set a minimum financial requirement for foreign investors to initiate investment projects in Ethiopia. Yet, again, it started accelerating in 2013 and has been continuing with remarkable pace up to the present time. It is also realistic to look forward that the existing peaceful political and socioeconomic relationship between Ethiopia and China hints at increasing Chinese investment trend during the times ahead, and will be contributing more greatly to the Ethiopian economy in many aspects.

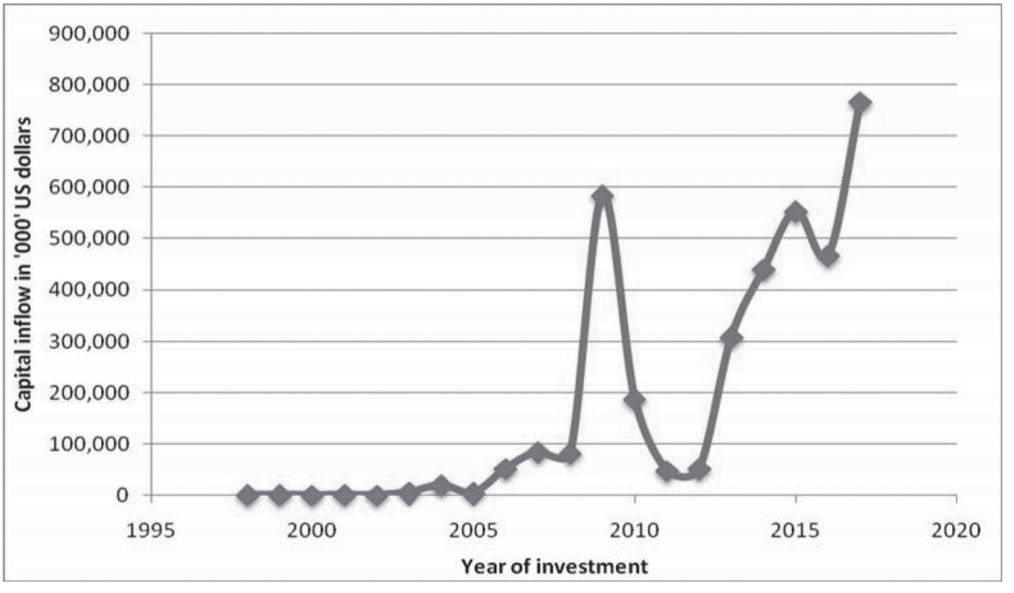

Figure 5: Trend of capital inflow from Chinese investment projects in Ethiopia
Source: Computed based on data obtained from EIC

5.4. Import-export trade between Ethiopia and China

The import-export trade between Ethiopia and China started shooting up in 2006, the time when Ethiopia's import Free-On-Board (FOB) value was USD 663,570,000 while the export FOB value was USD 71,688,000, showing a negative balance of USD 591,882,000. Ethiopia's import from China tremendously increased and hit a record high in 2015 when the FOB's value mounted to over USD 6 billion (Figure 6). It seems that Ethiopia's export to China is not only lower but it is also slower in progress (with coefficient of variation /CV/ of FOB values over years = 0.51) as compared to the more accelerating importation from China (with the CV =

0.62). This can be an important economic implication for Ethiopia in that it is expected to work hard towards enhancing its export trade and make the best out of its current encouraging relationships with China.

As a key component of Ethiopia-China economic relations, the import-export trade between the two countries plays a vital role for economic transformation in Ethiopia in that, as indicated in the European Commission (EU) *'benefits of trade for developing countries'*, 'trade strengthens ties between nations by bringing people together in peaceful and mutually beneficial exchanges and as such contributes to peace and stability'. Similarly, it '… enhances competitiveness by helping developing countries reduce the cost of inputs, acquire finance through investments, increase the added value of their products and move up the global value chain'. UNCTAD (2014:1) also clearly indicates that '…in the post-2015 development agenda, international trade should be seen an *enabler* for achieving a broad range of development goals through promoting inclusive and sustainable economic growth'. Particularly, if properly harnessed, the opportunities brought by international trade can be vital for investment stimulation, job creation, efficient resource utilization, technology transfer, innovation, production efficiency and, ultimately, livelihoods enhancement in developing countries, such as Ethiopia and China.

In view of these realities, the enormous and rising import-export trade amount between Ethiopia and China certainly contributes hugely to achieve the overall importance of trade indicated herein both for Ethiopia and China. It is said to be contributing significantly to the economy in both countries by allowing them to access new markets for their raw materials and/or finished/semi-finished goods, and thereby opening up new production possibilities and technologies for both countries. Though the trade balance is positively skewed to China (Figure 6), the vast market in China for Ethiopian raw materials and/or semi-processed goods certainly encourages export diversification for Ethiopia, which, in turn, contributes greatly to job creation and balance of payment for Ethiopian economy. In the same way, the ever-progressing Ethiopia-China trade has an immense role in enhancing the financial capacity of the local enterprises and producers in Ethiopia and enables the Ethiopian people to consume cheaper Chinese products in comparison with overpriced/costly import items from Europe and North America.

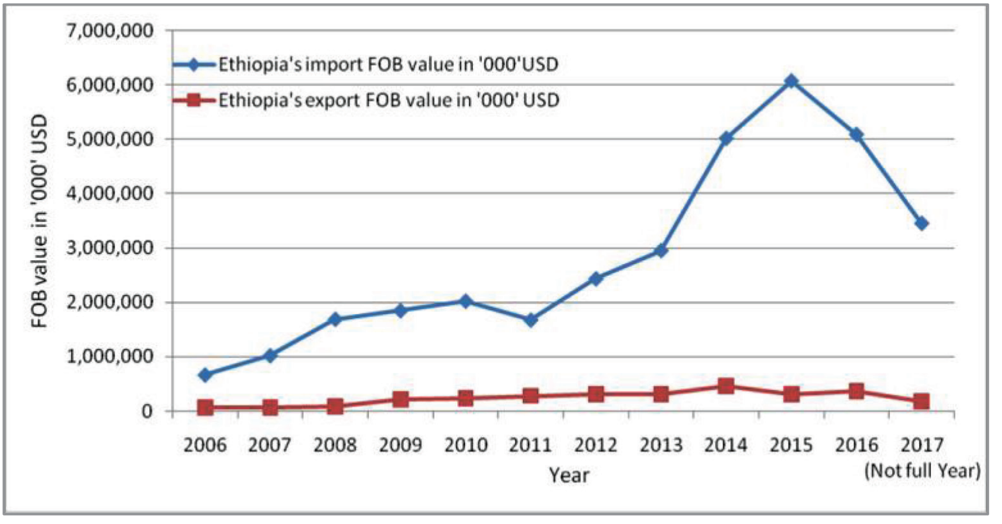

Figure 6: Trend of import-export trade between Ethiopia and China /2007–2017/
Source: Computed based on data obtained from EIC.

5.5. Job created and technology transferred by Chinese investment in Ethiopia

As defined by Glass and Saggi (2008) '…international technology transfer (ITT) refers to any process by which a party, in one country, gains access to technical information of a foreign party and successfully absorbs it into its production process'. Concerning the importance of FDI in technology transfer, UNCTAD (2011) lays emphasis on overseas investment projects having a great potential to play key roles in narrowing the technology gap between the developed and developing countries. They are very important sources in providing high-technology activities and the entire package of knowledge to the developing world. They can transfer and diffuse various forms of foreign operations to individual members of staff and/or local firms in developing countries. Similarly, Glass and Saggi (2008) argue for the overseas investments, not only for economic development, but also for technology adoption so as to reduce the gap between developed countries and the developing ones, which, in turn, impacts positively on human capacity development, job creation, and livelihoods enhancement in the host country.

In view of the aforementioned reality, Ethiopia is currently benefiting from the technologies and skills transferred to it from East Asian countries such as China, Japan and South Korea and adapted to local contexts. To mention some, the huge Chinese manufacturing and construction projects in Ethiopia are introducing new approaches of meeting the targets within short time and less energy, but at superior quality. Kaizen, a Japanese business philosophy of continuous improvement in working practices (Elmslie and Milberg 1996) is another key example that has been implemented in the manufacturing sector, in particular, predominantly since the establishment of the Ethiopian Kaizen Institute in October 2010. South Korean ways of business management strategy (Business process re-engineering) can be a worth mentioning approach adapted to the Ethiopian Civil Service sector for over a decade.

The Chinese investment projects have created extensive opportunity for transfer of technologies and skills as they are found investing in multiple sectors like agriculture, manufacturing, mining, health, hotel and restaurants, tour operation, transport and communications, construction, water well drilling, and wholesale trading (Figure 7).

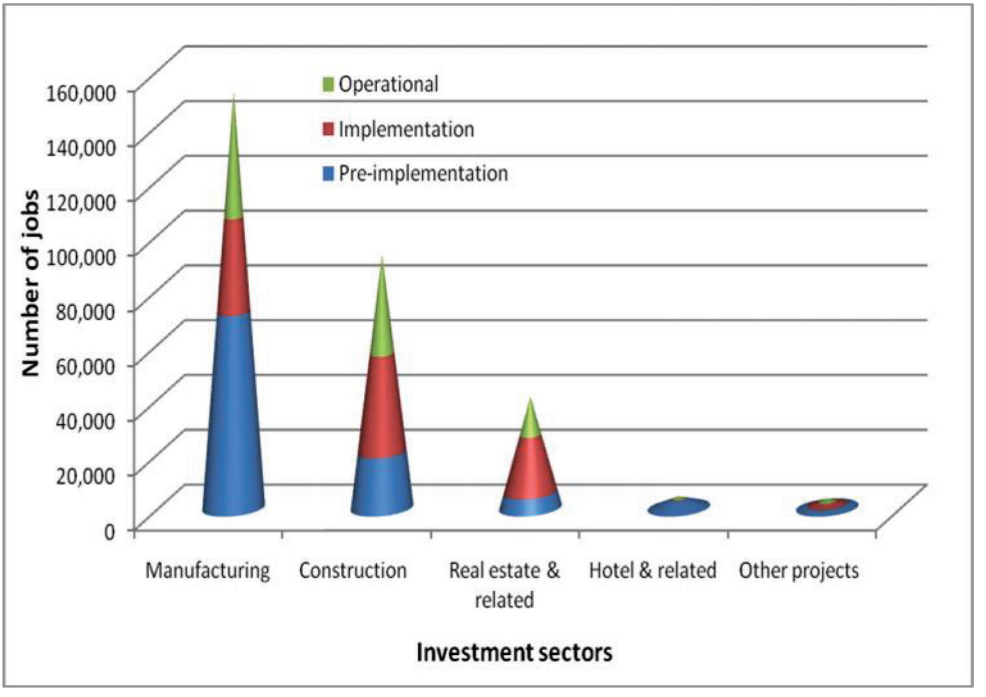

Figure 7: Jobs created by China investment projects in Ethiopia by sector and status (August 1998 – September 2017)
Source: Computed based on data obtained from EIC

The projects at all stages (operational, implementation and pre-implementation) in Ethiopia have created job opportunities for about 291,924 Ethiopians, of whom 97,651 (33%) are already employed in operational projects. This, as evidenced in Mexico in 1980s (Feenstraa and Hansonb 1997), likely increases job opportunity and relative wages for workers, if properly harnessed. In addition to job creation, the projects have created opportunities for the employees to have access to Chinese technologies and skills in various aspects related to the peculiarities of the projects. It is imaginable that thousands of Ethiopians have gained advanced knowledge of electric installation, metallurgy, construction, railway operation, textile and garment processing, and Information and communication technologies (ICT). In fact, most Ethiopian employees are daily laborers, followed by technical staff and a few managerial positions. It is common to observe in and around Addis Ababa young business people who initiated their own small enterprises based on the knowledge they have acquired through their previous employment in Chinese companies. Chinese industry park development project is another opportunity, adapted from the Chinese approach, to realising integrated industrialisation and accelerated structural transformation of the economy (Table 3).

Table 3: Chinese industry park development projects in Ethiopia

Chinese Industry Parks (IP)	Location	Capital in USD	Area in hectare	Status
Eastern Industry Park	Dukem town	100	400	Operational
Hua Jian International Light Industry City (Ethiopia) plc IP	Addis Ababa	34	138	Operational
George Shoes Cluster IP	Mojo town	100	84	Operational
Total		**254**	**622**	**---**

Source: Adapted from EIC (2018).

One of the most notable technology and skill transferring sector is the railway construction and management projects in Ethiopia. According to the data obtained from Ethiopian Railway Corporation (which was established in 2007), Ethiopia has been developing an integrated and high-capacity railway lines for freight and passengers. Chinese companies are the leading contractors in the ERC's project. Two of the projects, the Addis Ababa-Djibouti and Addis Ababa Light railways, have already been completed. Some other railway projects are under construction at different stages. An electrified 31.6-kilometer long Addis Ababa Light Rail (AALR) and a 659-kilometer AA-Djibouti railway have already started operations in 2015 and 2017, respectively. According to the discussion made with Shenzhen Metro Group Co Ltd management and technical team at its headquarters in Shenzhen in August 2017, about 254 Ethiopian youth acquired technologies and skills in driving, maintenance, dispatching, marketing and ticket sales as well as customer and station services from the Chinese railway companies (China Railway Group Limited and Shenzhen Metro Group Co Ltd) engaged in the construction and operation of the AALR. More specifically, Shenzhen Metro Group Co Ltd contributed a lot in training technicians and operators. Generally, the contribution of Chinese railway companies in economic development, job creation and technology transfer in Ethiopia is tremendous has resulted from the good economic ties the country has forged with China. It is worth mentioning that the AA-Djibouti railway will offer landlocked Ethiopia the most important access to the sea and the world market as more than 95% of Ethiopia's international trade passes through Djibouti.

In the same way, the technology and skill transfer (such as construction, ICT, railway operation and e-marketing) that Ethiopia acquired from China, together with the Chinese projects developing industry parks (IPs), is unquestionably high. At the time of this study, three Chinese industry parks are fully operational, leasing out shades for other manufacturing enterprises (Table 4). Altogether, they invested over USD 254 million. In addition to the abovementioned IP owners, there are other Chinese companies contracting the construction. The most notable of those construction contracting companies are China Civil Engineering Construction Corporation Ltd (CCECC) and China Communications Construction Company Ltd. IP (CCCC). They contracted the government-owned IPs in Dire Dawa and Arerti towns, respectively, for a total capital of over USD 34 million.

To wrap up the job creation and technology transfer role of the Chinese investment companies in a few words, the companies have been creating huge job opportunities and technology transfer through their investment projects in Ethiopia. Many Ethiopians have been benefiting from the job opportunities and the technology and skills that have come together with the occurrence of the projects. This can be a decisive moment for Ethiopia to properly adapt the technologies so as to serve the required national objectives. In fact, it is promising that Ethiopia can learn more from China in areas including, but not limited to, construction of urban subways, eco-city development, urban agriculture, e-commerce, touristic sites development and management, Massive Open Online Courses (MOOCs) teaching and learning, innovation and entrepreneurship, research and technology development, urban planning and development, overseas trading, and agricultural productivity enhancement. Particularly, as indicated by Losoncz (2017), the current (since 2010) economic shift of China to knowledge, research and technology-intensive growth trajectory, will greatly benefit Ethiopia in adapting innovations based on its domestic priorities and targets. What matters from the Ethiopian side is trying to establish responsive, accountable, capable and transformative leadership that can cope with the fast and highly technological transformations happening in China, and, in fact, flowing into Ethiopia mainly through investment projects.

6. Conclusions and the Way Forward

As clearly indicated in UNCTAD (2014), in the development context of the post-2015 development agenda, international economic activities, such as overseas investment and trade are very important enablers for achieving a broad range of development goals. The report of OECD (2002) also argues that FDI is an integral part of an open and effective international economic system and a major catalyst to local development, with particular importance to developing countries. In view of this reality, the economic cooperation between Ethiopia and China is found to be fundamental for both countries in various aspects. It creates more investment milieu for Chinese investors while benefiting Ethiopia in job creation, efficient use of resources, entrepreneurship, technology and skills transfer and, in due course, improving the livelihoods of the people. If properly harnessed, the opportunities brought by these activities can be a powerful force for economic development and have a great role to play in promoting inclusive and sustainable economic growth in Ethiopia.

However, the Ethiopia-China economic relationship is not free of challenges. It requires overcoming various challenges in order to make the best out of the relationship. One of the key issues to be addressed in Ethiopia is establishing competent, proficient, accountable and transformative leadership which can foresee the fast economic and technological transformations in China and gear up its society to select, adapt and make the best out of it. The leadership, in Ethiopia, should be able to foresee the technological dynamics in China and align the development policies/strategies so as to catalyse the positive effects of the Chinese investment in Ethiopia. It may be important to focus on identifying the types of national policies/strategies and institutions that would harness the enabling power of Chinese investment projects in Ethiopia, and against that background, design a coherent framework in which the development goals are sustained with respect to the policy mix and conditions required to bring about the desired goals.

Another key challenge that must be adequately met prior to implementation of the projects is related to land tenure systems and human displacement. It is inevitable that investment projects require a piece of land to operate on. Land acquisition, in turn, displaces local people in most cases. In Ethiopia, investment projects have resulted in various disarticulations, livelihoods disruption, family breakages, public violence and even deaths in many parts of the country. Therefore, investment projects that inevitably displace local residents are strongly recommended to adequately compensate the displacees so as to sustain their livelihoods in more sustainable way than their pre-displacement status. In fact, the displacees must be compensated not only for the resources and land use right they are losing, but also for their psychosocial damages as displacement, by its very nature, results in psychological disturbances and socio-cultural disruptions.

In the same way, the government of Ethiopia has to be proactive to environmentally and socially sensitive investment sectors, such as large-scale agriculture, though Chinese investment projects, in this regard, are minimal so far. Despite the growing number of works which indicate that 'investment in developing countries' agricultural sector is among the most efficient ways to reduce food insecurity', some forms of large-scale agriculture entail risks both for host and investing countries. The studies by Zwerg and Arango (2008) and Liu (2014), for example, found that large-scale land acquisitions contributed to the problems of environmental pollutions and forced the destruction of the environment by the poor in order to survive. It aggravates local community's reduced access to natural resources and loss of livelihoods, which are likely to generate harsh local opposition and irreversible damage to the investment project itself. Even from the perspective of the investor, land acquisition is unlikely to be the most profitable business model due to the high potential for conflict and damage to reputation. In this regard, the government of Ethiopia is required to have a comprehensive inclusive business model as to how investments involve local farmers as business partners, giving them an active role and leaving them in control of their land so as to have the most positive and sustainable effects on local economies and social development. In fact, this requires also strong support from the investing country (China, in this case) to establish strong investor-farmers relationship in order to succeed.

Regarding the point of environment *vs* investment, currently in China, there are outstanding eco-friendly investment projects that can be adapted to the Ethiopian situations. A case in point is the SIIC Dongtan Low-Carbon Agriculture and Eco-City Development Project in Shanghai where close to carbon neutral, recycling, reuse, integration and zero waste dumping technologies have been vigorously implemented to bring increased sustainability for improved economic efficiency and social benefit. In this regard, Ethiopia is expected to fill in the gaps in its policy frameworks to adapt the nature-friendly investment projects of this kind for sustainability and efficiency of the projects, which, ultimately, exceedingly benefit the society at large.

By and large, Ethiopia needs, not only to obtain the technology from the incoming Chinese projects, but also to learn how to use it to its fullest potential. In this context, to effectively leverage FDI as a means to achieve technology transfer and diffusion, Ethiopia needs to establish an effective national innovation system, which caters for technology-related activity, supports the development of the absorptive capacities of domestic enterprises and their linkages with Chinese investment projects, and provides a regulatory framework, including a framework for intellectual property that enables the development of a knowledge base and technological capacities in Ethiopia. The coherence between FDI policy and other relevant policies (especially education policy, international trade and/or export-import policy, agricultural development policy, industry policy, technical and vocational education strategy, innovation and technology policy) is important in this regard. Most importantly, the government of Ethiopia is required to enhance its policies and leadership so as to cope with high-tech and dynamic developments in China. Only transformative, accountable, capable and dedicated leadership can sustainably benefit both countries. In conclusion, as noted by Taylor (2009), Ethiopia cannot benefit from China's investment and technology transfer if the leadership is corrupt and/or incapable to harness the best out of the relationship. The commitment of both countries to social, environmental and transparency standards is also of the essence.

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