SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF POLITICAL SCIENCE AND INTERNATIONAL RELATIONS

ETHIOPIA-TURKEY ECONOMIC RELATIONS: AN ASSESSMENT ON TRADE AND FOREIGN DIRECT INVESTMENT FROM 2006 TO 2018

BY

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ADDIS ABABA, ETHIOPIA

NOVEMBER, 2019

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A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF AAU IN PARTIAL FULFILLMENTS OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS OF ARTS IN INTERNATIONAL RELATIONS AND DIPLOMACY

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ADDIS ABABA UNIVERSITY

COLLEGE OF SOCIAL SCIENCES

SCHOOL OF GRADUATE STUDIES

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NOVEMBER, 2019

DECLARATION

I, the undersigned, declare that this thesis is my own original work and has not been presented for a degree in any other University and that all sources of material used for the thesis have been duly acknowledged.

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November, 2019

This thesis is submitted for examination with my approval as an advisor of the candidate.

Prof. K. Mathews

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Table of Contents

LIST OF TABLE

LIST OF PICTURES

LIST OF FIGURE

ABBREVIATIONS AND ACRONYMS

ADLI	Agricultural Development led Industrialization
AGOA	African Growth and Opportunities Act
AKP	Adalet ve Kalkınma Partisi
AMSOM	African Mission in Somalia
AU	African Union
EBA	Everything-But-Arms
EIC	Ethiopian Investment Commission
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian Birr
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GSP	Generalized System of Preference
IDS	International Development Strategy
IGAD	Inter-Governmental Authority on Development
IHH	The Foundation for Human Rights and Freedoms and Humanitarian Relief
IMF	International Monetary Fund
IR	International Relations
JEC	Joint Commission on Economic, Trade and Technical Cooperation
LDC	Least Developed Countries
MA	Master of Arts
MNC	Multinational Corporations
MoFA	Ministry of Foreign Affairs
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Co-operation and Development
SAPs	Structural Adjustment Programs
SNPPRS	Southern Nations Nationalities and Peoples Regional State
SSA	Sub-Saharan Africa
TAP	Turkey-Africa Partnership

TFTA	Tripartite Free Trade Area
TGE	the Transitional Government of Ethiopia
TNCs	Transnational Companies
TIKA	Turkish International Development Cooperation Agency
TURKSTAT	Turkish Statistical Institute
TVET	Technical and Vocational Education and Training
UN	United Nations
UNIDO	United Nations Industrial Development Organization
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNMID	United Nations Mission in Darfur
UNMISS	United Nations Mission in South Sudan
US	United States
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WB	World Bank

ACKNOWLEDGMENTS

First and for most, I am thankful to Almighty God!! Secondly, I would like to forward the deepest of my appreciation and gratitude to my advisor Prof. Mathews for his constructive advice throughout the course of the thesis. Thirdly, it is difficult to thank all those people and institutions that have helped me in accomplishing my thesis work, but the following deserve a special mention. I would like to extend my deepest gratitude to my father Ayele Tilahun, my mother Tirunesh Nigussie and my brother Getnet Ayele for their invaluable aid to my life and academic success; I also extend my deepest appreciation to all those who provided me every necessary information when I had gone to their office.

Thank you all !!

Dagmawi Ayele

ABSTRACT

Ethiopia has had long-standing historical relations with Turkey. The aim of this study is to examine Ethiopia-Turkey economic relations from 2006 to 2018 with particular reference to the trade and FDI. To attain its objectives, the study used a qualitative method to assess economic ties. Data were collected both from primary and secondary sources. Available pieces of literature were reviewed to discuss historical relations and bilateral economic relations between the two countries. Additionally, in-depth interviews were conducted with officials from the Ethiopian Investment Commission, FDRE Ministry of Foreign Affairs, FDRE Ministry of Trade, The Development Bank of Ethiopia and The Embassy of the Republic of Turkey, seven officials in number. The different economic cooperation agreements signed between Ethiopia and Turkey are the responsible factors for the two country's relations. After the analysis of trade data between Ethiopia and Turkey, this paper showed that Ethiopia incurs a huge deficit in its trade relations with Turkey in the period under discussion. The result reveals that Ethiopia's export to Turkey is much short of its imports from that country. Dependence on the export of a few primary products and raw materials and weak export performance are among the reasons for the country's trade deficit. Turkish investments take the third highest in terms of capital next to china and Saudi Arabia, and the fifth-highest in the total number of FDI projects next to China, India, Sudan and the USA in Ethiopia. The Turkish foreign direct investments and its experience bring technology and access to employment, which have been lacking in Ethiopia. The availability of natural resources, low labor wage, investment guarantees, and investor-friendly policies, and incentives are among the prospects listed under this study. Besides the prospects, challenges like lower human capital development, infrastructure problems, companies' failure to service their debt and corruption are among the findings of the study.

Keywords: Economic Relation, Trade, Foreign Direct Investment, Ethiopia, Turkey.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

International relations study the interaction between two or more states, which are often complex and influenced by a variety of geopolitical, historical, social, religious, and ideological factors. These relationships among state and non-state actors have the form of cooperation and conflict which are two sides of the same coin (Black, 1974:10).

The post-Cold War period has witnessed various changes and developments in the socio-economic and political practices of the world society. With the collapse of the former USSR in the late 1980s, the world transformed from a bipolar international system into a unipolar in which the US emerged as the supreme global power. This, in turn, led to the establishment of democracy and a free-market economy as a universal paradigm (Sebsebe, 2015:84). The fifty-five African countries are also influenced by this global dynamism like the other parts of the world. One of the most important developments of the post-Cold War era that significantly influence Africa's political economy was the relaxation of the East-West tension and the subsequent disengagement of Western powers including the US from the region. This consequently marked a shift in the socio-economic and political relationship between African countries and western powers (Sebsebe, 2015:84).

The rise of the South has become a stimulus for expanding South-South economic ties. After the mid-1990's nations like China, India, Brazil, Indonesia, Vietnam, and Turkey, etc. have begun to emerge as alternative external partners to various African countries. These rising economies have established new forms of engagement under the framework of 'South to South Cooperation' (UNFPA, 2011:2). Turkey is one of the most well-known emerging economies that attracted recent global attention and it has been building its position as a leader in South-South cooperation (Sebsebe, 2015:84).

Historically, Ethiopia boasted one of the main civilizations in the ancient era which produced myths of the Queen of Sheba as well as Cassiopeia, Cepheus, and Andromeda. Kingdoms and empires continued for about 3,000 years. Ethiopia was never colonized by foreign forces except for a brief period of Italian occupation from 1936 to 1941 (GRIPS, 2015:4). Ethiopia's relation with Turkey goes back to the Ottoman period. The Ottoman Turks following their conquest of Egypt in 1517 began to extend towards the Red seacoast region. This territorial expansion was aimed to maintain the security of the trade that stretched from the Far East to Europe and contributes a lot to the strengthening of the Ottoman's economic capacity (Bahiru, 1991).

This relationship between the Ottomans and Ethiopia further developed with the appointment of the Ozdemir Pasha as governor-general of Yemen in 1548. He expanded his domination in the red sea region and in 1555 he had founded the province of Abyssinia. In 1555 a man named Abdulvehab Efendi was appointed as the first Kadi of the province (Muhumed, 2015:4).

Despite some declines in later periods, Ethiopia-Ottoman relations restarted during the reign of Sultan Abdulhamid II. Emperor Menelik II of Ethiopia sent Ato Josef and Kont de Leonitif to Istanbul. The king also sent various gifts and also requested Ottoman support for the protection of Abyssinian properties in Jerusalem, especially the Monastery of Deiru's Saltana. Sultan Abdulhamid II sent a reply with some presents and also made efforts to solve the problem concerning the monastery in Jerusalem (Sebsebe, 2015:92).

Following the collapse of the Ottoman Empire and the establishment of the Republic of Turkey, the two countries prolonged their economic and diplomatic relations. It was only after three years following the fall of the Ottoman Empire, 1926; Turkey opened its embassy in Ethiopia, which was the first Turkish embassy in sub-Saharan Africa. Ethiopia opened its embassy in Ankara in 1933 and it had remained active until the Derg regime closed it in 1984. Ethiopia has the longest relationship with Turkey. Emperor Haile Selassie visited Turkey twice. In April 2006 Ethiopia reopened its embassy in Ankara. Furthermore, TIKA- Turkish Cooperation and Coordination Agency also opened its first office in Africa in Addis Ababa in 2005**.** Turkish Airlines began flights to Addis Ababa in 2006. In 2008, Prime Minister Meles Zenawi was co-chair of the Turkey Africa Summit in Istanbul. Turkey provides training each year for five Ethiopians in the Turkish Police Academy (Shinn, 2012).

The country image of Ethiopia has been negative for long by most foreigners; Ethiopia is associated with a military regime (1974-91), refugees, poverty, droughts, hunger, a war with Eritrea (1998-2000), and instability in neighboring countries. The Ethiopian Government is well aware of this, but the effort to reverse the image significantly has barely begun (GRIPS, 2015:3).

With regard to Ethiopia’s economy, the Ethiopian economy has changed from a liberalized economy (till 1974) to a controlled one (1974-1989) and back to liberalized one (after 1991). Since 1990s, Ethiopia has transformed from a command economy to a market-oriented economy with a broad range of policy reforms such as power decentralization and privatization, deregulation of domestic prices and devaluation of currency (Henok, 2014) and one of the fastest-growing non-oil producing economies in Africa, experienced high rates of economic growth from 2003 onwards and has outperformed most other African countries. Its GDP grew at a rate of 10.9% from 2003 to 2013 as compared with 4% from 1993 to 2003 (Chakrabarty, 2016:227).

According to the Ministry of Foreign Affairs Foreign Trade Promotion Manual (MoFA,2007:12), Ethiopia's foreign trade policy has three general objectives. The first is developing and ensuring a broad international market for the country's agricultural products and the second one is generating sufficient foreign exchange which is essential for importing capital goods, intermediate inputs and other goods and services that are necessary for growth and development of the economy. The third one is improving the efficiency and international competitiveness of domestic producers through participation in the international market. The core assumption of the country’s Industrial Development Strategy (IDS) of 2002 was also the primacy of the free market, and government support is only to be provided on a temporary basis in order to help the domestic industry become internationally competitive. In line with the overarching Agricultural Development Led Industrialization (ADLI) strategy, the IDS focuses on labor-intensive industrial inputs and consumer goods for agriculture and value-added/processed goods, especially for exports. Although the IDS have undoubtedly contributed to Ethiopia’s increasing exports, it is now clear that the export-led strategy must be complemented by other measures that help to address the widening trade deficit (Alekaw, 2017:2).

In Turkey-Ethiopia relations, there are areas that should be further developed and one of the most important areas is the investment. There is an agreement between the Republic of Turkey and the federal democratic republic of Ethiopia concerning the reciprocal promotion and protection of investments which signed by the two parts in November 2000, in Addis Ababa. The agreement contains nine articles about different aspects of investment and investors of the two countries. Another indication of the relations between Ethiopia and Turkey is the trade volume registered in recent years. The trade volume was 27 million USD in 2000 which rise to 140 million USD in 2005 (Muhumed, 2015:3).

In general, all the above-mentioned facts about past Ethiopia-Turkey relation have their own implication of the current and future socio-political and economic ties of peoples of the two countries.

1.2. Statement of the Problem

Globalization is a common phenomenon that leads to the intensification of worldwide interconnectedness through trade, investment, finance, migration and diffusion of culture (Hampson et al., 1999). In the 21st century, it is difficult to find the example of a closed economy and all economies of the world have become mostly open. Trade has become a decisive issue largely because countries' economies are now more open to flows of imports and exports than ever (Vijayasri.G.V, 2013).

Ethiopia had diplomatic relations with most of the developed European countries and the USA. During these times, except for humanitarian aid with conditionality, the country couldn't get any substantive economic assistance and/or foreign direct investment from these countries. However, after identifying its basic problems and be able to formulate homemade economic policy and strategy the country is trying to come out of serious poverty. During this time Ethiopia has been searching partners who can support its development agendas and shares their experience of development. (Gebregiorgis, 2016:2)

Since the mid-1990's countries like China, India, Brazil, Turkey, Indonesia, Vietnam, and the Gulf States began to emerge as an alternative foreign partner for various African states. These rising countries articulated new forms of engagement under the framework of the 'South-South cooperation'. The United Nations Population Fund (UNFPA) 2011 has defined South-South

Cooperation as a *"means of development by an exchange of knowledge, experience, technology, and information and capacity development between and among developing countries through governments, civil society organizations, academic institutions, and national institutions".*

This new form of collaboration is characterized by a two-way relationship; a cooperative relationship that incorporates trade, investment and financial flows. The rise of the South has become a stimulus for expanding South-South economic ties, most notably, in trade and investment. Foreign trade and investment have increasingly become a keystone of economic prosperity. Ethiopia's economy and foreign policy are greatly influenced by this new form of International Relations. A country must import the required inputs, capital items and appropriate technologies to broaden its production base and foster export growth. It must still export something to fill its foreign exchange gap. Increased participation in world trade is consequently considered as the single most important tool for rapid economic growth (Bahre, 2015). Ethiopia is also exerting its most efforts to develop its industrialization in particular and its overall economy in general. For this reason, the country has made a friendly relationship with the new international economic powers to develop industrialization (Gebregiorgis, 2016:2).

In studying Ethiopia-Turkey relations, Turkey's presence in Horn of Africa in general and in Ethiopia, in particular, increased at a faster rate than ever during the first decade of the twenty-first century (Ozkan, 2008). However, scholarly attention is lacking in the field. Yet, there are few works of literature that worth mentioning in the field. Paul Henze, (2008) illustrated, without describing the nature and scope of existing bilateral relations, identifies similarities between Ethiopia and Turkey and summarizes how the domestic similarities differently led to unequal development levels. Despite the similarity in geography, resource endowments, pressure for modern development, demography, history, foreign relations and regional instability, Turkey unlike Ethiopia achieved advanced economy. Thus, Ethiopia should follow Turkey's path to development endeavors. The literature fairly compares Ethiopia and Turkey and concludes that the former will benefit by sharing experiences of the latter. Thus, the study fails to appropriately address contemporary relations of Ethiopia and Turkey.

David Shin, (2012) also addressed Turkey's growing interest in the Horn of Africa in general and Ethiopia in particular. According to Shin, Turkey's growing interest in Ethiopia during the last decade among others has been marked by a rapidly increasing volume of trade, size of FDI, frequent visits of higher officials and a number of agreed and ratified agreements. However, the literature describes the relations only from Turkey's point of view and is marked by a bias towards Turkey. So, there is a fragmented view and interpretations so far by some writers by considering the relation between Ethiopia and Turkey. Nonetheless, this study tried to investigate and deeply understand the economic relation between the two countries focusing on trade and investments specifically. Therefore, this paper tried to fill the gap in the literature by providing a comprehensive study of the economic ties between Ethiopia and Turkey.

The years from 2006 to 2018 were chosen to be studied by the researcher because of two major events. Firstly, the 2005 policy of' 'Year of Africa' put Africa under Turkish trading and investment radar. As a result, Turkish investors began to study and start businesses in Africa. Ethiopia was one of the few African countries that became the destiny for Turkish investors. Secondly, the opening of the Ethiopian Embassy in Ankara in 2006 facilitated investment promotion and recruitment, and an increase in the number of investors coming to Ethiopia and, tried to include updated data up to 2018.

1.3. Objective of the Study

1.3.1. General Objective

The general objective of the study is to critically examine the economic ties between Ethiopia and Turkey with particular reference to the trade and FDI from 2006-2018.

1.3.2. Specific Objectives

The specific objectives of this study are:

- ✓ analyze the factors responsible for the economic relations between Ethiopia and Turkey
- ✓ examine the trade and trade imbalance, and investment relations between Ethiopia and Turkey from 2006-2018
- ✓ identify the basic challenges and prospects in Ethiopia-Turkey economic relations

1.4. Research Questions

The study attempted to address the following questions:

1. What factors are responsible for Ethiopia-Turkey economic relations?
2. How the total trade and investment can be examined between the two countries?
3. What are the challenges and prospects in Ethiopia-Turkey economic relations?

1.5. Significance of the Study

This study has a fundamental value to anyone who is interested in similar areas and it could serve as a springboard for further study in the area. Since there are only a few pieces of literature, this paper can be an important input for organizations that are seeking information about the trade and investment environment between Ethiopia and Turkey and, it also serves as an important guide for students who have an interest in conducting research in this area of study, this study also tried to fill the gap in the literature and it may provide new insights with regard to the overall Ethiopia-Turkey economic relations. Additionally, this study makes positive contributions on how Ethiopia can get better benefit from its economic ties with Turkey.

1.6. Core Argument

The economic relation between Ethiopia and Turkey is based upon mutual cooperation and mutual agreements, and the level of Ethiopian trading and Industrialization and its contribution to GDP with the engagement of the Turks is important. Mehmet Ozkan (2010) indicates that the Africa-Turkey relationship is a case of one developing nation trading and investing profitably with other developing nations, based on mutual self-interest. From these African countries, Ethiopia is one of the major destinations for Turkish investors and trading commodities. However, there are differences in the gained benefits of these economic ties. On trade relations, the data gained from the International Trade Centre shows that the trade relationship between the two countries is unequal and in favor of Turkey.

Ethiopia-Turkey economic relation is in favor of Turkey. Thus, the study has, therefore, attempted to examine and provide evidence about the exchange of trade relations and the role and extent of Turkish foreign direct investment in Ethiopia.

1.7. Scope of the Study

The scope of this paper is limited to Ethiopia-Turkey economic relations on the study of Trade and FDI. The study focuses on the time period from 2006 to 2018. The reason for the selection of the above two sectors is that trade and investment have driven Africa's relations with Turkey in general and Ethiopia-Turkey relations in particular.

1.8. Limitations of the study

In conducting this study, the researcher has faced some difficulties, which contributed to the limitations of the study. In the first place, most relative data for this study came mostly from Ethiopian sources. The study includes the Turkish perspective only from one source i.e. the Turkish Commercial counselor/attaché on the issue. The study is, therefore, limited to show the Turkish perspective due to a lack of information sources. The other limitations are; financial constraints as a self-sponsored student and shortage of pertinent materials to conduct the study.

1.9. Methodology

1.9.1. Research Method and Design

In this research paper, qualitative research methods have applied in order to fittingly reveal answers for the questions that are raised in the research, i.e. by creating new knowledge about and giving meaning for certain phenomena or events. By application of qualitative research, the researcher has a critical role by constructing concepts, theories, and principles from the interviews made (Creswell, 2007). Descriptive and explanatory research techniques were also applied in this research. By application of descriptive techniques, the researcher presents a descriptive approach that sets up the overall framework to be followed throughout the study. By this descriptive approach the selection, arrangement, and identification of a possible theoretical direction began to take place before attempting to answer the research questions and, through explanatory research techniques the researcher applied pattern-matching as several pieces of information are being related to some theoretical proposition (Hillebrand and Berg, 2000).

1.9.2. Method of Data Collection and Analysis

Both primary and secondary data were employed in this research. In-depth unstructured interviews were conducted among selected experts from relevant Ministries and offices in Ethiopia to realize the Turkish involvement in the investments, and the issue of trade relations between the two countries. In-depth interviews were held with officials from departments of the Federal Democratic Republic Ethiopia (FDRE) of the Ministry of Foreign Affairs with Ms. Muntha Jemal (Director General for Foreign Trade and Tourism Promotion Affairs) and Mr. Mehreteab Mulugeta (Director General European and European Union Affairs), from Ethiopian Investment Commission with Mr. Ahmednur Yusuf (Director One-Stop Service Directorate), from Ministry of Trade with Mr. Hunde Belay (Import Management Directorate Director) and Mr. Assefa Mulugeta (Director General Export Promotion Directorate General), from The Development Bank of Ethiopia with Mr. Kifle Hayleyesus (Strategy, Change and Communication Directorate Director) and from the Embassy of the Republic of Turkey with Mr. Sedat Erdogdu (Commercial Counselor). The researcher prepared open-ended questions that permit respondents to freely offer information on various matters related to Ethiopia-Turkey economic relations in general and on trade and investment in particular (See Appendix I).

The research has also used secondary data. Under this research, reading of books, journals, articles, publications, academic literature, and media reports like newspapers, online news, website blogs, and documents like treaties and agreements were analyzed.

The data collected through the series of interviews has thematically arranged based on the themes mentioned in the basic research questions which are framed at the beginning of the study. In a similar fashion, the data collected from the secondary sources have also sorted out. Eventually, the data has narrated thematically to the extent of meeting the research objectives set for the study. In doing so, the researcher used some descriptive statistical methods to summarize some data obtained from the primary and secondary sources to make it more informative and complete based on the kind of the data collected in this regard.

1.10. Organization of the Study

This study has consisted of six chapters. The first chapter has comprised of an introduction part under which background of the study, statement of the problem, objective of the study, research questions, core argument, significance of the study, the scope of the study, limitations of the study, methodology, and methods of data collection have included. The second chapter has covered the conceptual frameworks and review of related literature that consists of theoretical and conceptual frameworks. The third chapter assessed the Ethiopia-Turkey contemporary relations in brief. The fourth chapter of the study, on the other hand, has focused on Ethiopia-Turkey economic relations with a particular emphasis on trade and investment from 2006 to 2018, and the fifth chapter explains the major prospects and challenges in Ethiopia-Turkey economic relations. Finally, the sixth chapter provides a conclusion.

CHAPTER TWO

CONCEPTUAL FRAMEWORKS AND LITERATURE REVIEW

This chapter examines the conceptual framework and the theories that explain Ethiopia and Turkey's economic relations. The chapter is arranged as follows. The first section of this chapter focuses on the definition of terms and concepts. The second section describes international trade theories. Then, the third section focuses on theories of Foreign Direct Investment, and the fourth section of this chapter examines International Relations theories that explain Ethiopia-Turkey economic relations. The fifth section briefs Africa-Turkey relations and the last section describes Ethiopia-Turkey historical relations

2.1 Definitions of Terms and Concepts

2.1.1 Economic Cooperation

Economic Cooperation is one of the most complicated and complex terms to define. This is mainly because of the multiple meanings provided to the term by different actors involved in international cooperation. Different countries define the concept of Economic Cooperation in their policy documents differently. Due to the above fact, it is difficult to come up with a single accepted and universal definition of the term “Economic Cooperation”.

According to FAO (as cited in Tefera, (2011:10)):

> *Economic cooperation is a broad concept that includes cooperative measures in trade, investment, banking, financial assistance, industry, agriculture, etc., between and among countries.*

Enrique O’Farrill also defined Economic Cooperation as a component of international cooperation that seeks to generate the conditions needed to facilitate the processes of trade and financial integration in the international arena by implementing actions with the purpose of obtaining indirect economic benefits in the medium and long terms. (Enrique O’Farrill, 1999 (as cited in Tefera, 2011:10)) while in the context of trade and finance, Ramkishen Rajan defined economic cooperation as a policy measure that facilitates cross-border trade and financial flows by removing fractions and obstacles (Rajan, 2004:7). However, these definitions by different scholars do not have mutually exclusive meanings. They all may have something in common.

Enrique (as cited in Tefera, (2011)) states Economic Cooperation as an element of international cooperation that seeks to create favorable conditions that are essential to enhance the processes of trade and financial integration in the international arena.

Economic cooperation is much broader than specific cooperation in terms of trade, investment or any other specific sector of the economy. With regard to Ethiopia and Turkey relations, the term “Economic cooperation” has been largely used to encompass the investment and trade between the two countries.

2.1.2 Balance of Trade

The World Bank has adopted a comprehensive definition of the term balance of trade. Accordingly, the Balance of Trade is the net exports (exports minus imports) of goods and services for a particular country. It includes all transactions between residents of a country and the rest of the world involving a change in ownership of general merchandise, goods sent for processing and repairs, nonmonetary gold, and services (World Bank, 2002).

The balance of trade compares the value of a country's exports of goods and services against its imports. When exports are greater than imports, there is a trade surplus, which is generally considered favorable trade balances. When the value of imports is greater than the value of exports, there occurs a trade deficit. The latter is generally considered an unfavorable trade balance. In other words, if more money flows in than out, one has a positive balance of trade which is known as “Surplus”. On the contrary, and if more flows out than in, one has a negative balance of trade which is called “Deficit” (World Bank, 2002).

There are three ways of measuring the balance of trade/payment. The first and simplest of these measures is the balance of goods and services, which is derived by computing the net excess of debits, or credits in those accounts. Such a debt balance, reflecting an excess of imports indicates that the country received more real resources (goods and services) from other countries than it transferred to them during the period, while a credit balance would indicate the reverse (Fieleke, 1996:11).

The second measure; the balance on the current amount, is the net excess of debits or credits in the accounts for goods and services income and unilateral transfers, that is, the balance on all accounts other than the financial claims, or "capital," accounts. Because total debits must equal total credits in the balance of payments and the balance on the current accounts must equal the balance on the remaining, or capital accounts (except the statistical discrepancy). The last way of examining the balance of trade measures the difference between the change in the country's official reserves and the change in foreign official claims on the country (Fieleke, 1996:11).

2.1.3 International Trade

International trade is trading between residents of different countries, which may be individuals and legal persons, firms, TNC, non-profit organizations, etc. It provides the voluntary exchange of goods, services, products of intellectual labor between the parties of a trade agreement. Since this exchange is voluntary, both parties of the agreement must be confident that they will get benefit from this exchange; otherwise, the agreement will not be signed (Kozak and Shengelia, 2014:51). International trade is a characteristic feature of the existence of the global market, which is the realm of commodity-money relations between the two countries and is based on the international division of labor and other factors of production. The product, which is located on the world market in the phase of the exchange, performs the function of information as reported on the mean values of aggregate demand and supply. Therefore, countries have the opportunity to evaluate and adapt the parameters of their products and production (i.e. what, how much and for whom to produce) to the demands of the global market (Kozak and Shengelia, 2014:51).

International trade also refers to the exchange of goods and services between two or more countries. It is also defined as the process of exchange of imports and exports among countries. The United Nations (UN) has adopted a working definition for import and export. According to the UN, imports and exports between the domestic economy and the rest of the world are transactions between people of a certain economic territory and people outside of that territory. Thus, a transaction of goods and services from people of the outside world to people of a certain economic territory is termed as import whereas the transaction of goods and services from people of an economic territory to the outside world is termed as an export (UNCTAD, 2002).

International trade is thought of as the great hope for poverty alleviation with the ever-growing globalization It can contribute to poverty alleviation by expanding markets, promoting competition, and raising productivity, each of which has the potential to increase the real incomes of poor people (Reinert, 2006).

2.1.4 Foreign Direct Investment

2.1.4.1 Definitions and Main Concepts of FDI

According to World Bank World Development Indicators (2012) FDI is defined as "the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors."

On the other hand, foreign direct investment is not just a capital movement. In addition to capital, a controlled subsidiary often receives direct input of managerial skills, technology, and other tangible and intangible assets. Unlike portfolio investors, direct foreign investors have substantial control over the management of a foreign subsidiary. In fact, "balance of payment accountants define FDI as any flow of lending to, or purchase of ownership in, a foreign enterprise that is largely owned by the residents (usually firms) of the investing country" (Lindert and Pagel, 2000).

2.1.4.2 Types of Foreign Direct Investment: from investor and host country perspective

There are three main types of FDI from an *investor's perspective*: (Caves, 1971).

A) Horizontal FDI refers to undertaking for the purpose of horizontal expansion to produce goods and services roughly similar to those the firm produces in its home market. This type of FDI is called "horizontal" because of the multinational duplicates the same activities in different countries Lipsey 2003 (as cited by Protsenko, 2003). Horizontal FDI arises because it is too costly to serve the foreign market by exports due to transportation costs or trade barriers.

B) Vertical FDI: refers to those multinationals that fragment the production process geographically for the purpose of providing input goods to the parent company (backward vertical FDI) or to draw inputs from the parent company for own production (forward vertical FDI). It is called “vertical” because multinational enterprise separates the production chain vertically by outsourcing some production stages abroad.

C) Conglomerate FDI: involves the former two types of FDI (Caves, 1971).

From the *host country perspective*, FDI can also be classified into four:

A) Export –Oriented FDI: is described by Reuber (1973) as the type of investment that reflects a wide range of considerations such as the desire to develop secondary and more diversified sources of supply by way of obtaining lower-cost products to be used either as inputs or for sale elsewhere. Export increasing FDI is motivated by firms' desire to seek raw material and intermediary products. Host countries will increase their export of raw material and intermediary products to investing countries or other countries where the firm has other subsidiaries. Examples of this type of investment are found in the raw material sector. Generally, such foreign investors are mainly interested in extracting products from the host country and selling them abroad through established market channels. In making such investments, firms sometimes also create a supporting infrastructure such as housing, hospitals, and schools. This investment focuses on the needs of a particular market which is largely or entirely outside the host country (Reuber, 1973).

B) Market-seeking FDI: Unlike export-seeking FDI, the objective of this kind of FDI is to produce and sell the final output in the host countries market. In undertaking investment of this kind, investors consider the feasibility of reducing costs (in comparison with the cost of servicing the market as an export destination) and the potential growth in the size of the host country’s home market in the long run. The growth in the host country’s market depends on the general economic outlook in its economy. These types of FDI have several challenges and uncertainties that are paramount to the investment decision (Accolley, 2003).

In particular in the pace at which the new market will develop the ability of the firm to speed up this process and what share of the market the firm will be able to capture in the long run. For reason, many firms prefer to explore by exporting before making an actual investment decision (Accolley, 2003).

C) Government Initiated FDI: the government may provide the necessary investment incentive to attract foreign investment into its economy. These are accepted by investors whereas the market, as well as cost conditions, may have precluded them from investing in the host country under normal or no-incentive conditions. FDI may also be classified into expansionary and defensive types. Expansionary FDI seeks to exploit a firm-specific advantage in the host country. This kind of FDI benefited MNCs in increasing sales both in the host and investing countries. Defensive FDI seeks cheap labor or materials with the objective of reducing the cost of production (UNCTAD, 2002).

D) Acquisition and Green-Field Investment: Foreign direct investment can also be in the form of acquisitions and mergers (M and As) or green-field investment. Green-field investments are an investment in new assets. There is a general perception that entry of FDI through M and As of domestic firms does not necessarily add productive assets to the host country. It is generally perceived as resulting mainly to a change in ownership and shift in control from domestic to foreign firms, thereby increasing the risk of foreign domination of the economy. Green-field investment, on the other hand, increases the number of firms in existence and does not lead to market concentration upon entry UNCTAD (2000). However, notes that most of the shortcomings of acquisition and merger relate to the effects (UNCTAD, 2002).

2.1.4.3 Views on FDI

There are two opposing views as to the role of FDI in developing economies. On the one hand, it is argued that FDI benefits the host country, for instance by creating employment opportunities and bringing new technologies. In contrast, the other group argues that the adverse effects of FDI outweigh its benefits.

A) Pro-FDI Views

Foreign direct investment is an alternative source to fill the gap between savings and the required investment. Foreign firms bring not only financial capital but also managerial techniques as well as, entrepreneurial and technological skills that lack in LDCs and these skills can be transferred to domestic firms through different channels. The government's budget deficits can also be filled by profit-tax may be collected from transnational companies (Michael, 1977). Economic growth depends on the rate of investment which in turn largely depends on savings. However, gross domestic savings are too low in the least developed countries (LDCs).

FDI can play an important role by creating employment opportunities and by integrating the host-country economy into the world economy (OECD, 2002). The total amount of foreign exchange that can be obtained from export and net public foreign aid falls short of foreign exchange that is required by LDCS. FDI can also help to fill this gap by reducing part of the entire deficit in the balance-of-payments. Moreover, multinational companies manufacturing products that can be exported are able to generate net positive export earnings (Michael, 1977).

B) Anti-FDI Views

There are a group of scholars that strongly disagrees with the positive view on FDI that has been explained above. Their arguments are presented in the following. The first counter-argument says that Multinational Corporations (MNCs) increase income for low-income groups, which have a low propensity to save. If individuals do not save enough, the gap between savings and investments cannot be closed. Besides, foreign firms may also fail to reinvest the profit they generate in the host country; hamper the growth of domestic enterprises and domestic investment by importing the input and intermediate product from their subsidiaries in other countries. FDI might also inhibit the development of indigenous skills as a result of multinational companies' dominance over local enterprises (Michael, 1977). Certainly, the initial investment of foreign firms improves the current and capital account of the host country. However, in the long run, substantial import of intermediate and capital goods, repatriation of profit, interest, royalties and management fees may harmfully affect the foreign exchange position of the host country (OECD, 2002).

Transnational companies contribute to close the gap between locally collected tax and targeted revenue. However, governments often enter into exclusive agreements with foreign firms and provide tax holidays, tariff protections, and investment allowances. Due to these reasons, the taxes that can be collected become quite small. Moreover, these firms can avoid local taxation by transfer pricing techniques a method used to reduce local profit levels by paying artificially inflated prices to the intermediate products purchased from abroad subsidiaries (Lindert and Pagel, 2000).

2.1.4.4 Empirical evidence on FDI

Most empirical pieces of evidence show that huge FDI inflow to the host country attributes the economic growth of that country. Foreign direct investment creates new jobs, as investors build new companies in the target country. This leads to an increase in income and more purchasing power for the people, which in turn lead to an economic boost. Foreign direct investment can be an effective way to enter a foreign market. The effects on employment associated with the foreign direct investment are both direct and indirect. In countries where capital is relatively scarce but labor is abundant, the creation of employment opportunities either directly or indirectly has been one of the most prominent positive impacts of foreign direct investment (Kastrati, 2013).

Morisset (as cited by Naudé & Krugell, 2003:5) finds that more FDI flows to countries with larger local markets and/or natural resources. She concludes that aggressive liberalization, modern investment codes and strong economic growth are important prerequisites for increased flows of FDI to Africa.

Foreign direct investment can also make a positive contribution to a host economy by supplying capital, technology, and management resources that otherwise would not be available. Such resource transfer can stimulate the economic growth of the host economy (Kastrati, 2013). It can have important technological spillovers in host economies, especially if it takes a joint-venture from subject to local centers. Technology transfer has been a subject of considerable interest to many groups, such as government policymakers, international funding agencies, and business executives, because of the close relationship between technology transfer and economic growth (Yared et al., 2014).

Macroeconomic stability, efficient institutions, political stability, and a good regulatory framework have a positive effect on FDI in Africa. In her study, she also refers to several investor surveys that revealed that, firstly, factors that attract FDI to Africa are different from those that work in other regions, and, secondly, that the region is also structurally different from the rest of the world (Asiedu, 2004:4)

UNCTAD (2002) identified some of the national determinants of FDI inflows to Ethiopia. Among others, large domestic market and a unique geographical location, a unique history, national culture and tradition with a pool of highly educated and dedicated elite to draw upon as managers and advisors, with English (the language of business) widely spoken, a comparatively safe and less corrupt business and social environment and the capital city that hosts the headquarters of the Organization of African Unity, the Economic Commission for Africa and other regional organizations as well as a significant cosmopolitan middle class with experience in international business; Were among the factors that drive foreign investment in Ethiopia.

There are also concerns about potential drawbacks for both host and economic countries. The potential drawbacks of foreign direct investment include, the foreign direct investment would result in some kind of modern-day economic colonialism, which exposes host countries and leave them vulnerable to foreign company's exploitations (OECD, 2002). The government of Ethiopia should have to protect its citizens from modern-day economic slavery.

Foreign direct investment can also sometimes hinder domestic investment. Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another. Considering that, foreign direct investments may be capital-intensive from the point of view of the investor; consequently, it can sometimes be very risky or economically non-viable. Political changes can also lead to expropriation, which is a scenario where the government will have control over your property and assets (ConnectUs, 2018).

2.2 International Trade Theories

2.2.1 Mercantilist Theory

Mercantilism is one of the persistent classical theories to the study of international political economy. Mercantilism became popular and dominant in some European countries during the sixteenth, seventeenth and eighteenth centuries. Adam Smith coined the term "mercantile system" to describe the system of political economy which aims to generate wealth in a country by reducing imports and increasing exports. For the mercantilist, increasing exports more than imports is the most significant method for a nation to become rich and powerful (Salvatore, 2011). The mercantilist theory centers on the fact that countries should export more than they import and receive the value of trade surplus in the form of gold from those countries which experience trade deficits. Its central idea is that economic activities are and should be subordinate to the goal of state-building and the interest of the state. For mercantilists, the state is the basic unit of analysis. Thus, the mercantilist holds an organismic view of the state; the whole is greater or more important than its parts (Gilpin, 2016).

The objective of the mercantilist is to attain a “favorable” balance of trade that would bring gold and silver into the country and sustain domestic employment. A favorable balance of trade is considered as the only satisfactory condition of commerce. The creation and maintenance of such a favorable balance is not the responsibility of individual merchants alone and the government also carries a heavy obligation as well. The government is responsible for the prohibitions against foreign goods, subsidization of exports, restriction upon the export of precious metals, and the creation of monopolies among the trading companies. Additionally, the government must assist the local industry by imposing tariffs, quotas, and prohibitions on imports of goods to protect the local manufacturers. The government guarantees the nation for a stable inflow of gold as the means of making the state strong and powerful and it must establish laws and policies that are protectionist in nature which protect their business interests from foreign competition (HUAS, 2009).

Briefly stated the mercantilist doctrine, placing the nation-state at the center of its analysis, provides an explicitly political analysis of international economic relations. They concern the dominance of the national interest in economic policy, the central role of the state in directing economic activity and the importance of creating a favorable trade balance to promote growth and prosperity (Falkner, 2011). Economic relations are best described as a zero-sum game, in which different economies compete with each other for a given size of economic wealth, which is seen to consist of precious metals. The chief objective of all state intervention in the economy and international trade is for the accumulation of gold and silver (HUAS, 2009).

2.2.2 The Absolute Advantage Theory

In the 18th century, mercantilist policies became an obstacle to economic progress. Adam Smith (father of liberalism and economic science) brought the argument in his book “An Inquiry into the Wealth of Nations”, published in 1776, that the mercantilist policies favor producers and disadvantaged the interests of consumers (Smith, 1776).

Adam Smith’s Theory starts with the idea that export is profitable if you can import goods that could satisfy better the necessities of consumers instead of producing them on the internal market. The essence of Adam Smith's theory is that the rule that leads the exchanges from any market, internal or external, is to determine the value of goods by measuring the labor incorporated in them. In order to demonstrate its theory, Adam Smith analyzed for the beginning country A using one factor of production, the productivity of labor, evaluated in the necessary hours needed to produce a unit of measure of the products X and Y (Smith, 1776).

He used *Specialization in production and Advantage* is reasonable to the product for which they have an absolute advantage. After specialization, exchanging products, both countries can trade through Absolute Advantage. The opportunity cost is the number of measurement units of product Y to which the economy has to give up in order to produce one supplementary unit of product X (Smith, 1776).

2.2.3 The Competitive Advantage Theory

Michael Porter identified four stages of development in the evolution of a country: Development based on factors, Development based on investments, Development based on innovation and Development based on prosperity. The theory is based on a system of determinants, called by the author “diamond” the capacity of internal factors and the specifics of the domestic market (Porter, 1998).

2.2.4 The Comparative Advantage Theory

A rule of international specialization, depending on absolute advantage, excluded countries without absolute advantage from international trade. The D. Ricardo’s work “On the Principles of Political Economy and Taxation” (1817) developed the absolute advantage theory and proved that the existence of absolute advantage in the national production of any commodity is not a necessary precondition for the development of international trade: the international exchange is possible and desirable in the presence of comparative advantages (Krugman, 2005).

D. Ricardo's theory of international trade is based on the following preconditions: free trade, fixed costs of production, absence of international labor mobility, absence of transportation costs, lack of technical progress, i.e. the technological level of each country remains unchanged, full employment; there is one factor of production or labor (Krugman, 2005).

Comparative advantage theory states that if countries specialize in the production of the commodities that have relatively lower costs in comparison with other countries, a trade will be mutually beneficial for both countries, regardless of whether the product in one of them is more effective than in the other one. In other words, the basis for the emergence and development of international trade can be exclusively a difference in relative costs of production of the commodities, regardless of the absolute amount of these costs (Salvatore, 2011).

2.2.5 Heckscher and Ohlin Factor Endowment Theory

The neoclassical trade theory, which is based on the works of the Swedish economists Heckscher and his student Ohlin, emerged by focusing on 'factor endowments' variability as the source of trade. The factor endowment theory explains the reason why countries trade goods and services with each other. One condition for trade between the two countries is that the countries differ with respect to the availability of the factors of production. Thus, this theory identified variations in the relative factor endowments among nations as the basic cause or determinant of comparative advantage and international trade. For this reason, the Heckscher-Ohlin model is often referred to as the factor endowment theory (Krugman, 2005). According to factor endowment theory, a nation will export the commodity in which production requires the exhaustive use of the nation’s relatively abundant and cheap factor and import the commodity in which production requires the exhaustive use of the nation’s relatively scarce and expensive factor (Salvatore, 2011).

Countries should produce and export commodities that are abundant in their country and import commodities that are not easy to produce. In this theory, specialization in production and trade between countries generates a higher standard of living for the countries involved. The factor endowment theory allows bilateral trade flows between two countries which have variations in the relative factor endowments. It predicts that countries will specialize in the production of goods that require abundant and cheap factors and they will tend to export these goods. Also, countries import goods that require expensive factors (Baskaran et al., 2011). The factor endowment theory further states the relatively capital intensive nation will export the relatively capital intensive commodity. Likewise, the relatively labor abundant nation will export a relatively labor-intensive commodity. In this model, a country's advantage in production arises only from its relative factor abundance (Baskaran et al., 2011).

This theory extended the Ricardian theory to two factors (labor and capital), two goods and two countries having internationally uniform production functions (with crucial assumptions such as perfect competition, internal resource mobility, full employment, no trade impediments and transport cost, linear homogenous production function, etc.), where the rule of the game for each country is to export a product that intensively uses its abundant resource (Heckscher, 1919).

2.2.6 Tadeusz Rybczynski Factor Endowment Theory

The Rybczynski theorem was developed in 1955 by the Polish-born English economist Tadeusz Rybczynski. In his 1955 article, Rybczynski proved that in the two-factor, two-commodity case

> *the maintenance of the same rates of substitution in production after the quantity of one factor has increased must lead to an absolute expansion in production of the commodity using relatively' much of that factor, and to an absolute curtailment of production of the commodity using relatively little of the same factor* (Rybczynski, 1955).

The model demonstrates the relationship between changes in national factor endowments and changes in the output of the final goods within the context of the H-O model (Gilpin, 2016). It states that at constant relative goods prices, a rise in the endowment of one factor will lead to a more than proportional expansion of the output in the sector which uses that factor intensively, and an absolute decline of the output of the other good. The Rybczynski theorem displays how changes in an endowment affect the outputs of the goods when full employment is sustained.

It also shows that there is a positive relationship between changes in a factor endowment and changes in the output of the product that uses the factor intensively. It also shows there is a negative relationship between changes in a factor endowment and changes in the output of the product that does not use the factor intensively (Krugman, 2005). For instance, suppose that a given nation experiences an increase in capital equipment, then that would cause an increase in the output of capital-intensive goods and a decrease in the output of the labor-intensive good.

The theorem is useful in addressing issues such as investment, population growth, immigration and emigration within the context of the Heckscher-Ohlin model.

> Generally, The Rybczynski theorem states that *if x is labor-intensive and y is capital intensive, then for each p an increase in L leads to an increase in the equilibrium supply of x and a decrease in the equilibrium supply of y at prices p* (Marcus et al., 2009).

2.2.7 Paul Samuelson and Ronald Jones Specific Factors Theory

There are at least two reasons why trade has an important influence upon the income distribution: resources can't be transferred immediately and without costs from one industry to another. And industries use different factors and a change in the production mix a country offers will reduce the demand for some of the production factors whereas for others it will increase it. Paul Samuelson and Ronald Jones, two American economists, elaborated on a trade model based on specific factors (Krugman, 2005).

A country having capital abundance and less land tends to produce more manufactured products than food products, whatever the price, while a country with a territory abundance tends to produce more food. If the other elements are constant, an increase in capital will mean an increase in marginal productivity from the manufactured sector, while a rise in the offer of territory will increase the production of food to the detriment of manufacturers. When the two countries decide to trade, they create an integrated global economy whose manufacture and food production is equal with the sum of the two countries' productions. If a country doesn't trade, the production for a good equals consumption. The gains from trade are bigger in the export sector of every country and smaller in the sector competed by imports (Gilpin, 2016).

2.3 Theories of Foreign Direct Investment

2.3.1 Portfolio investment theory

The theory of portfolio investment (the neo-classical financial theory of portfolio flows) is one of the earliest explanations of FDI (Haile & Assefa, 2006). The base for this explanation lies in interest rate differentials between countries. Capital, according to this explanation, moves in response to changes in interest rate differentials between countries/regions and multinationals companies are simply viewed as arbitrageur of capital from countries where its return is low to countries where it is high. This explanation, however, fails to account for the across movements of capital between/across countries. In practice, capital moves in both directions between countries. In addition, that capital is only a complementary factor in direct investment and that this theory does not explain why firms go abroad contribute to the criticism of the neo-classical theory of portfolio investment (Harrison et al., 2000).

2.3.2 The Product Life Cycle Theory of FDI

This theory was first developed by Vernon in 1966. A new product is first produced and sold in the home market. At the early stage, the product is not standardized. i.e. per unit costs and the final specification of the product are not uniform. As the demand for the product increases the product will be standardized. When the home market is saturated, the product will be exported to other countries. The firm starts to open subsidiaries in locations where the cost of production is lower when the competition from the rival firms intense and the product reaches its maturity.

Therefore, FDI is the stage in the product lifecycle that follows the maturity stage (Dunning, 2008). Vernon’s product life cycle theory is a dynamic theory because it deals with changes over time. However, it seems that the theory is not confirmed by empirical evidence, as some multinational companies start their operations at home and abroad simultaneously (Chen, 1983).

2.3.3 Internalization theory

This theory tries to explain why multinational companies open subsidiaries in foreign countries than selling their technology. The theory was pioneered by Hymer (1976). As cited in Abiyot (2013), Hymer argued that the need to exercise control over operation is the main motives for FDI than the mere flow of capital. He states that for firms to engage in cross- border activities, they must possess some kind of monopolistic advantages. The advantages result from a foreign company’s ownership of patents, know-how, managerial skills and so on and these advantages are unavailable to local companies. His argument relies on the existence of market imperfections, such as the difficulty of marketing and pricing know-how, or in some cases markets may not exist for such products, or if they exist, they may involve huge transaction costs or time- lags. In such cases, it would be more efficient for the company to engage in direct investment than exporting or licensing. FDI will allow the companies to control and exploit their monopoly power to the full (Hymer (1976) as cited in Abiyot (2013).

2.3.4 The Eclectic Theory of FDI

John Dunning developed an eclectic theory of FDI, which is called the *OLI paradigm*. O, L and I refer ownership advantage, location advantage, and internalization conditions, respectively. Operating in a foreign country market has many costs and these “costs of foreignness” include a failure of knowledge about local market conditions, cultural, legal and many other costs. Therefore, foreign firms should have some advantages that can offset these costs. Ownership advantage is a firm-specific advantage that gives power to firms over their competitors. This includes an advantage in technology, management techniques, easy access to finance, economies of scale and capacity to coordinate activities. Unlike ownership advantages, location advantages are country-specific advantages. Transnational Companies (TNCs) in order to fully reap the benefit of firm-specific advantages, they should consider the location advantage of the host country. This includes accessibility and low cost of natural resources, adequate infrastructure, political and macroeconomic stability. As a consequence, the location advantage of the host country is one essential factor that determines the investment decision of TNCs. Internalization is multinational companies’ ability to internalize some activities to protect their exclusive right on tangible and intangible assets, and defend their competitive advantage from rival firms. Accordingly, all three conditions must be met before transnational companies open a subsidiary in a foreign country (Hosseini, 2005).

2.4 International Relation Theories that Explain Ethiopia-Turkey Economic Relations

2.4.1 Neo-Realism

The realist worldview was revived and revised with the publication of Kenneth Waltz’s 1979 *Theory of International Politics*, which replaced Morgenthau’s *Politics among Nations* as the standard-bearer for realists. Waltz argues that systems are composed of a structure and their interacting units. Political structures have three elements: an ordering principle (anarchic or hierarchical), the character of the units (functionally alike or differentiated), and the distribution of capabilities. Waltz argues that two elements of the structure of the international system are constants: the lack of an overarching authority means that its ordering principle is anarchy, and the principle of self-help means that all of the units remain functionally alike. Accordingly, the only structural variable is the distribution of capabilities, with the main distinction falling between multipolar and bipolar systems (Griffiths, 2007).

The neo-realist theorists such as Waltz and others argue that “international structure acts as a constraint on state behavior. This theory shuns classical realism’s use of human nature to explain international politics. Instead, neo-realist thinkers developed a theory that prioritizes structural constraints over agents’ strategies and motivations” (Williams, 2008).

This theory holds that international structure is “defined by its ordering principle, which is anarchy, and by the distribution of capabilities, measured by the number of great powers, within the international system. The anarchic ordering principles of international structure are decentralized which is composed of formally equal sovereign states” (Williams, 2008).

These sovereign states are deemed similar in terms of needs but not in capabilities for achieving what they want from economic cooperation. The positional placements of states in terms of abilities determine the distribution of capabilities. As Williams stated “the structural distribution of capabilities then limits cooperation among states. The desire and relative abilities of each state to maximize relative power constrain each other, resulting in a balance of power, which shapes international relations” (Williams, 2008).

Under the structure of anarchy, states can still make rational choices about their interests within a framework of incentives and constraints imposed by the world power structure. The neo-realist theory prefers “cooperation to conflict to solve economic problems, however when cooperation occurs, according to the neo-realists, power relationships are at work within the cooperative arrangement. The more powerful the states are the larger share they gain from any joint cooperation” (Henderson, 1998).

Traditionally, the neo-realist theory focuses on security and political issues. But nowadays, “the difference between high politics and low politics is blurred. This is because modernization has elevated low political issues to a higher priority as that of high political issues but differently, economic and political issues are difficult to differentiate one from the other” (Black, 1974:10).

2.4.2 Marxist Theory

According to the Marxist-Leninist theory, Capitalism creates all the problems being faced globally. It gives rise to war to further its own ends. Capitalism is constructed upon the two key principles of the pursuit of profit and the protection of private property. These principles allow the bourgeoisie to exploit the proletariat by paying them a wage that is less than the market value of the goods and services that they produce. For Marx, in a capitalist society, there can be no inherent social harmony. Similarly, he saw capitalism as composed of internal contradictions that would cause frequent crises (Kubalkova & Cruickshank, 1980).

The West, the chief architects and also beneficiaries of a world organized with capitalist ethos, always advocate for 'free markets' so as to continue their control over the oppressed and to continue to exploit them. The West is alleged of keeping poor countries in a position of subordination, dependency, and oppression by limiting investments to the extractive industries and by westernizing, suppressing, and bribing the new elites, who have an interest in modernizing their societies. In essence, the West always seeks new forms of keeping the peoples of economically underdeveloped countries in a state of permanent dependency.

Marx rejected the assertion of liberals that the exchange between individuals necessarily maximizes the welfare of the whole society. He views capitalism as an inherently conflictual system that should and would be inevitably overthrown and be replaced by socialism (Frieden et al., 1996). Marx also believes that classes are the dominant actors in the political economy. The society is dichotomized into two broad aggregates of individuals known as classes. These classes are the dominant class and the dominated class. Membership of these groups is determined by the individual's position in the relations of and ownership of the means of production. The relationship between these classes is that of antagonism. Hence Marx sees the political economy as necessarily conflictual (Akindele et al., 2003).

Marx was aware of the exploitative nature of foreign trade. He said: "*If the free-traders cannot understand how one nation can grow rich at the expense of another, we need not wonder since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another*". Clearly, Marx here is talking about the unequal exchange in international trade between developed capitalist countries and the underdeveloped countries. By exploiting the poor countries, the advanced capitalist countries have gone far ahead in the scale of development (Sau, 1977).

In examining the above mentioned theoretical patterns, in realizing Ethiopia-Turkey relations. For instance, in explaining Ethiopia-Turkey relation, neo-realism is an appropriate theory; as Turkey dominates Ethiopia economically and the relation between the two countries; there is cooperation, but as the neo-realists emphasis "when cooperation occurs, power relationships are at work within the cooperative arrangement" (Henderson, 1998). And, Marxists argue that trade between developed and developing nations drain off the resources from the poor to the rich state. In this scenario, poor states have little power to break free from the exploitative trade relations, while the legacy of colonialism and neo-imperialism have left the poor states structurally linked to the dominant states.

2.5 Africa- Turkey Relations

2.5.1 Africa- Turkey Historical Relations

Turkey's perception of Africa has historically been divided into the realms of North Africa and Sub-Saharan Africa. Turks have tended to view North Africa as Turkey's 'near abroad,' due to the fact that most countries in North Africa were part of the Ottoman Empire during the 15th and 16th centuries. Those links, along with those countries' Muslim populations, made this region largely familiar to Turkey and historically formed the basis for Turkey's "African" foreign policy (Kaya and Warner, 2012:3).

Turkey's relations with Africa may be divided into three periods. The first covers the Ottoman State's relations with Africa until the establishment of Turkey in 1923, during which the Ottomans had considerable ties with Africa (Ozkan, 2010:11). The years from 1923 to 1998 represent the second period when Turkey–Africa relations were at the lowest level. Since the end of the Cold War, relations with African countries has been increasing. Indeed, Ankara's first interest in developing serious relations with Africa dates back to 1998; however, this has become more evident only after the Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) assumed power in 2002 (Ozkan, 2008). Turkey's relations with African countries were speeded up after the former proclaimed the policy of 'Opening to Africa' in 2005. The new African policy marks the reorientation of Turkey's foreign policy towards Africa. Turkey's policy of opening up to Africa is not just the reflection of a transient political and economic expectation. On the contrary, it is the product of a process with strong historical and cultural aspects. It is, foremost, the expression and natural result of the firm feelings of friendship and partnership between Turkish and African peoples (MoFA Turkey, 2018).

Their social and cultural relations predate the founding of the Turkish Republic in 1923, Formal relations between Turkey and the African countries are established at consular and embassy levels. Turkey recognized all the new African states which gained their independence in the 1960s and established diplomatic relations with those countries. Today, Turkey has more than 40 representative offices as embassies in African countries. Similarly, the African countries have more than 30 representative offices as embassies and honorary consulates general in Turkey (MoFA Turkey, 2018).

2.5.2 Africa-Turkey Economic Relations

Turkey had no past colonial involvement with African countries, there has been an increasing revival in its relations with the continent since the end of the 1990s, reaching a peak after 2005, Turkish foreign policy started shifting its emphasis towards Africa, and as a new donor country its political and economic relations with African countries have intensified significantly (Bilgic and Nascimento, 2014:1).

Turkey's economic relations with modern African states is a product of a chronological account of past trade relations and activities created by the Ottoman Empire. Ottoman economic relations with Egypt were a proactive trade strategy that opened up new links to the economy of other African states in North Africa and Sub-Saharan Africa. With the reemergence of modern Turkey in the African economy after the Cold War, the traditional trade links established with North Africa was strategically extended to cover Southern, Central and West African states and their respective economic integration networks and regional organizations. Africa-Turkey strategic economic relations were firmed up by Turkey's domestic transformation aimed at diversifying its trade agreements with Africa in line with changes in the global political economy power configuration.

Turkey's opening to Africa has gained more importance in terms of opening up new markets as a way of reducing its dependence on traditional European and Russian trading partners. By opening up to Africa, Turkey has come to understand that in a rapidly changing global economy that strategic economic calculations and planning is a multidimensional tool to increase its status as a global economic player. In a broader perspective, Turkey's economic involvement in Africa is likely to increase in the near future, but Africa needs to create a viable industrial base in order to gain symbiotic pay-offs and increase its relevance in the global economy (Enwere and Yilmaz, 2014).

2.5.2.1 Africa-Ottoman Economic Relations

The Ottomans emerged with some strength in the African economic system when it controlled the lands of Egypt in 1517 before strategically expanding its economic tentacles deep into the interior of Africa. The Egyptian districts became strategically and economically important part of the Ottoman Empire because of its large population, fertile arable lands and trade links into Europe, Africa, and the Middle East as well as providing the sublime Porte which gave the Ottomans strategic control of the Nile valley and the East Mediterranean (Hazar, 2000).

Ottoman economic relation with Egypt was a proactive trade strategy that opened up inroads to the economy of other African states, particularly North Africa and sub-Saharan states. Libya, Tunisia, Egypt, and Algeria were parts of the Ottoman Empire and the Ottomans had trade relations with these countries. The Ottomans also played a strategic economic role in sub-Saharan Africa. Such states as Sudan, Eritrea, Ethiopia, Djibouti, Somalia, etc. had trade relations with the Ottomans. In Northern sub-Saharan, the Ottomans maintained economic relations and alliance with the Kanem Bornu Empire which was located in today's Northern Nigeria, Niger and Chad. The Kanem Bornu imported military equipment from the Ottoman Empire while exporting solid minerals (Hazar, 2000).

However, the Ottoman Empire operated an open economic system in its trade relations with Africa, which offered great economic benefits to both trading blocs. The Ottoman-Africa economic relation took the form of an economic community characterized by freedom of movement for both citizens and goods. Traders exploited and benefited greatly from the Ottoman monopoly of land routes. Goods such as gold and silk were exported to Africa from the east, as well as manufacturers from Europe while gold and animal skins were exported from Africa. Also, the Ottoman tolerance of the Christian and Jewish population stimulated tremendous economic activities and alliances. Similarly, the establishment of the first mosque in Lagos in 1894 prompted the Ottoman Empire to send an emissary to Lagos which not only established new religious links but opened up new economic collaboration and trade relations with today's Nigeria (Hazar, 2000).

The Ottoman Empire's economic hegemony and trade influence in Africa began to disintegrate in the late 19th century and was tacitly replaced with the European trade model and values. During the 19th century, Egypt adopted capitalist ideals, values, and technology from Europe and this led to tremendous improvement in agricultural productivity and increased economic activities in Africa. The resultant effect was the ultimate financial and economic dominance of the African economy by France, Portugal, and Britain, leading to the Institutionalization of colonialism. In addition, the economic dominance of Syria, Egypt, and Lebanon by the French and British powers constituted one of the decisive factors that reduced Ottoman economic control and influence in Africa. By the time of the First World War, the collapse of Ottoman economic hegemony in Africa was completed and their former African provinces emerged as modern states, often under a European colonial umbrella and became the peripheral states of Western capitalist powers (Enwere and Yilmaz, 2014).

2.5.2.2 Africa-Turkish Republic Economic Relations (1923-1998)

In 1923 the collapse of the Ottoman Empire led to the establishment of the Turkish Republic. The emergence of modern Turkey reduced Turkey-Africa economic relations to the lowest level because the Ottoman economic legacy in Africa was strategically wiped off by the Western values of colonialism and capitalism. But Africa and modern Turkey believed that the European modernization approach is the most viable path to economic development. Africa and Turkey lost sight of each other (Enwere and Yilmaz, 2014).

Turkey started to attach greater economic importance to Africa and economic relation was strategically renewed during the Cold War years. With the decolonization process in Africa in the late 1950s and early 1960s, Turkey recognized all the newly independent countries and established both diplomatic and economic relations with these states (Hazar, 2000). Turgut Ozal became the first Turkish prime minister to grant foreign aid to Africa in 1985 and this opened up a new horizon of economic partnership with modern African states (Enwere and Yilmaz, 2014). This helped to reduce the level indifference initially shown by most Turkish economic observers who saw the economic partnership with Africa as a waste of time, energy and resources. As a result of the Ozal economic strategy, trade and economic relations with Africa increased in a geometric proportion (ibid). The idea of trade with the African countries was impossible in Turkish society but today a number of Turkish businessmen invest in Africa with good economic earnings for Turkey. Towards the end of the 1980s, commercial contacts between private business firms in Turkey and Africa were established. As early as 1998, the Turkish government drafted a plan, called "Opening up to Africa". In the 1990s, Turkey's interest in Africa developed rapidly. In 2000, Turkey's dream of opening up to Africa became a reality and course of action was taken by the Turkish government. In 2003, Turkey's strategy of developing economic relations with Africa was established. This was followed by the government's announcement of 2005 as the "Year for Africa". Evidently, the opening up to Africa may be considered as a step towards globalization (Uchehara, 2008).

2.5.2.3 Turkey's 'Opening up to Africa' Policy

The Action Plan for opening up to Africa was prepared in 1998 with the participation of delegates from various ministries, agencies and the private sector. Turkish ambassadors in Africa and honorary consuls of African countries in Turkey were also present when relations with Africa were discussed at length. The debates helped to determine outstanding issues and various measures were suggested in order to expand Turkey–Africa relations (Hazar, 2000). This was part of Turkey's newly emerging multidimensional foreign policy vision, initiated by then foreign minister Ismail Cem, partly in response to the EU's failure to recognize Turkey as a candidate state for EU membership at its 1997 summit. In this document, Turkey sought to develop its future political, economic and cultural ties with African countries; it outlined some policy recommendations which became guidelines in the years to come (Ozkan, 2010).)

The Action Plan urged improving political, economic and cultural cooperation with Africa. In the diplomatic arena, it was suggested that the level of diplomatic representation in Africa be upgraded. For that purpose, initially, it was decided to open new embassies in Accra (Ghana), Abidjan (Cote d'Ivoire) and Harare (Zimbabwe). This was an important step, as three embassies had previously been closed for economic reasons (Ghana, Somalia, and Tanzania). Another measure was the accreditation of ambassadors directly from Ankara to some African countries where the opening of a resident embassy was not possible for financial reasons.

According to the Plan, Turkish diplomats from Ankara would occasionally be sent to African capitals as special envoys in order to develop bilateral relations. In the political sphere, the Action Plan proposed to develop Turkey's relations with African countries through high-level visits to and from African countries, and intensification of contacts with Africa within international organizations. Reciprocal inter-parliamentary visits and contributions to various UN technical and humanitarian assistance programs in Africa were also proposed. Economic measures proposed by the Action Plan were designed to create a framework between Turkey and Africa, with several agreements including trade and protection of investments, and the creation of a special technical assistance fund to be allocated for Africa listed as priorities (Ozkan, 2010).

The Action Plan also proposed several measures to improve cultural cooperation and interaction in the field of education such as the conclusion of cultural agreements, contacts between universities, and grant of scholarships. The invitation of African scholars to various international seminars and conferences was suggested, as was the establishment of an Institute of African Studies, in order to enlighten the Turkish public on the one hand and to better understand Africa and its problems on the other (Hazar 2000). Other ideas included cooperation for military training, a Turkish contribution to UN peacekeeping activities, and inviting Africans to military exercises in Turkey. In a sense, the Action Plan was a road map for developing relations with Africa.

Turkey's opening to Africa came into existence only in 2005, when Turkey announced 'the year of Africa' in March 2005. In January 2015, Turkish Prime Minister Recep Tayyip Erdogan visited Ethiopia and South Africa – the first official visit by a Turkish prime minister to a country south of the equator (Ozkan, 2010).

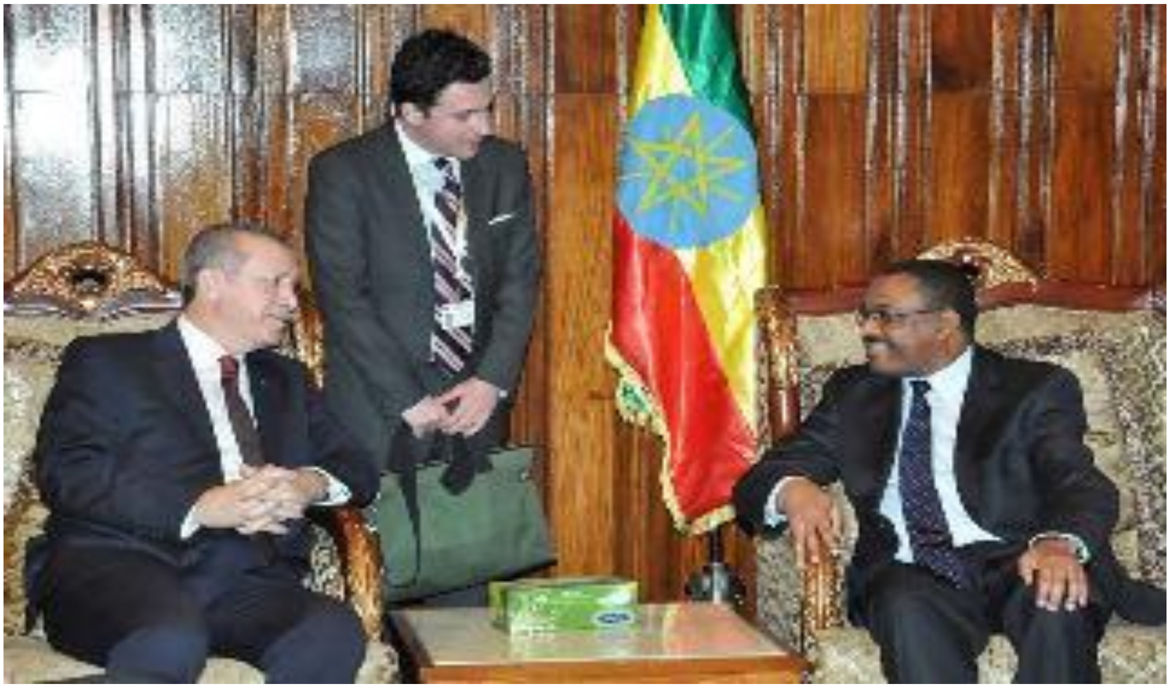

Plate 2.1: President Recep Tayyip Erdogan of Turkey visit to Ethiopia: January 2015

Source: http://www.ethiopianembassy.net/embassy-news/president-recep-tayyip-erdogan-of-turkey-visits-ethiopia-jan-22-2015/

2.5.3. Major Areas of Partnership

2.5.3.1. Access Platforms

In order to develop bilateral relations, major requirements are being there and an increased number of Turkish Embassies and Commercial Counselors in African countries. Turkish Airlines fly to 33 countries on the continent. Three Turkish international organizations namely, The Foundation for Human Rights and Freedoms and Humanitarian Relief (IHH) and the Turkish International Development Cooperation Agency (TIKA) are playing the most important roles in gaining prominence for Turkey in the region (Nagayo, 2015).

2.5.3.2. Trade

Turkey’s increasing role as a global economic player seems appealing and this drives the desire of African states to increase trade relations with Turkey especially in drilling, construction, and agriculture. Turkey’s agricultural sector turns out to be a symbol of attraction and interest among

African states facing food crises and perennial droughts. For this reason, Turkey-Africa bilateral trade cooperation always seeks to utilize and reproduce Turkish agricultural expertise and technology in Africa which has proved valuable in raising food under adverse conditions. Africa sees a more pragmatic and systematic effort to reduce the sudden incidence of the food crisis, which stimulated the quest for a more sustainable trade partnership with Turkey (Enwere and Yilmaz, 2014). Turkey's trade volume with Africa reached 20.6 billion dollars in 2017, which was 5.4 billion dollars in 2003. Turkish export reached 11.7 billion dollars while it was only 2.1 billion dollars in 2003 and the imports came to 8.9 billion dollars from only 3.3 billion dollars in 2003 (MoFA, Turkey, 2018).

2.5.3.3. Investments

Turkish investments in Africa reached 6.2 billion dollars in 2017 and the value of contracting projects undertaken by Turkish contractors in Africa recorded as 65 billion dollars. Turkey-Africa Economic and Business Forum held in İstanbul, on 2-3 November 2016 with the participation of Trade/Economy Ministers from 42 African countries was the primary output of this integration strategy. Inspired by the best practices from similar events, it was a successful program gathering public and private initiatives of Turkey and its African counterparts. Turkey-Africa Economic and Business Forum will be an excellent opportunity to update the current relations among the business people of participating countries and set new targets for the further development of our economic, commercial and business partnerships (MoFA, Turkey, 2018).

2.5.3.4. Humanitarian Aid

Turkey Red Crescent has started to support the migrants and refugees of Somalia. Besides food supply, a logistical service center has also been established in order to be more efficient. Apart from Somalia, the Turkish department of Red Crescent has been involved in the similar problems of Sudan, Mauritania, and Ethiopia. These countries received more than half of the total humanitarian aids provided by Turkey by the above-mentioned countries (Nagayo, 2015).

Turkish aid agency, the Cooperation and Development Administration of Turkey (TIKA) operates three offices located in Addis Ababa, Khartoum and Dakar as part of Turkey's development aid to Africa, in order to create in Africans a positive view towards Turkey. TIKA was initially established to help the transition of states in Central Asia, the Caucasus, and the

Balkans. But after 2003 it was strategically transformed into a soft power agency expanding its areas of global operation, influence, and power. One of the regions its strategic influence has covered is Africa, because of the innate quest to shape the structural allocation of African resources and the operations of African markets through the direct impact its humanitarian aids (Enwere and Yilmaz, 2014). However, Turkish aid mainly relies on Islamic countries or Islamic communities; showing its great religious interest.

2.5.3.5. Military and Security

Turkey's military and security interests in Africa include fighting piracy in the Red Sea region, maintaining stability in and beyond the Red Sea region such as Somalia and Sudan. Turkish government tried to work out general peace all over Somalia. Besides its security interest, Sub Saharan Africa is the destination for the military market of some Turkish companies (Beseny, 2012).

2.6 Ethiopia- Turkey Historical Relations

Ethiopia's relation with Turkey goes back to the Ottoman period. The Portuguese who tried to control the Red Sea shore exerted pressure on Ottoman to deal with the threat. This erupted a struggle between the Portuguese and Ottomans. The internal situation in the Ethiopian region invited both the Portuguese and the Ottomans to participate in the three-hundred-year-old Muslim Christian conflicts in the region. İn this struggle the Portuguese made an anti-Muslim alliance with the then central high land Christian kingdom of Ethiopia. The Portuguese sought to gain the support of the Christian dominated kingdom of Ethiopia to attack and end Muslims power in the region. This alliance alarmed the Ottomans and started to arm local Muslim forces that were fighting against the Christian kingdom (Abir, 2013).

In fact, this support of the Ottomans reached its pinnacle during Imam Ahmed ibn Ibrahim al-Ghazi (Ahmed Gragn) of Ethiopia- who made frequent battles against the central highland Christian kingdom. By the time, Gragn was launching a war against the Christian Highland Kingdom, the ottomans where already the masters of the Middle East. Many historians including the author of 'Ethiopia and the Middle East' describe the event as aggression against Ethiopia. For instance, while describing the success of forces of Islam, Haggai wrote; 'Gragn's conquest of Ethiopia needs no retelling. The kingdom of Ethiopia had been weakening as Islam unites, seeking its destruction and replacement' (Haggai, 1995). However, such perception bases itself on a historical bias that widely creates controversy about Ethiopian History. The incident tended to be a civil war between the emerging local Islamic Sultanate and the previously consolidated Christian kingdom of Ethiopia.

Portugal, later on, joined the internal war on the side of the Christian Kingdom where the war became proxy against the Ottoman. The first major confrontation between the two forces took place in 1529 where forces of Ahmed Gragn won the Christian Kingdom led by Lebne Dingil in the battle of *Shimbra Kure*. Before the battle of *Shimbra Kure* was fought Gragn has defeated the Christian forces at Baduki. The 200 troops from Ottoman Turk Zabid (a town in Yemen) were significant to get a victory over the Christian kingdom. Dr. Yusuf Sarinay in his analysis of Ottoman archives and Ethio-Ottman relations pointed this confrontation and the remarkable support of the Ottoman's:

> *Upon the Portuguese provocations on the people in Abyssinia, Ahmed bin Ibrahim declared war against the kingdom of Abyssinia in 1527. He gained great success with the Ottomans' support during this struggle. The Sultan and the Caliph Sultan Suleyman the Magnificent had been very pleased about this success and addressed him as the 'Sultan Ahmet El-Hakim be Vilayet-I Habesh' (*Sarinay, *2001 in* Sebsebe, 2015).

On the other hand, a Portuguese expeditionary mission headed by Christoper Dagama landed at Massawa in 1542 to save the Christian Kingdom. Finally, the Adal Sultanate was defeated by the Christian highland kingdom under Gelawdios and Portuguese soldiers in 1543 at the battle of *Woyna Daga*. The Portuguese were highly trained and had sophisticated weapons. The followers of Gragn retreated to the south. The conflict and hostility did not come to an end with the death of the leader, rather it continued.

This relationship between the Ottomans and Ethiopia further strengthened with the appointment of the Ozdemir Pasha as governor-general of Yemen in 1548. He expanded his domination in the red sea region and in 1555 he had founded the province of Abyssinia. In 1555 a man named Abdulvehab Efendi was appointed as the first Kadi of the province (Muhumed, 2015).

The Islamic Sultanate of Gragn collapsed and the remnants of War organized at Harar. Gragn's successor, Nur Aldin built a wall around the town and saved the town for Islam. Due to the loss of their leader and lack of Ottoman support and interest, the Sultanate of Harar remained in the wall without any further expansion. However, the Ottomans soon became interested in occupying parts of Ethiopia. By 1557, Ottomans had landed at Massawa. By that time, Ottomans had concerned with their strategic goals and did not attend Nur-Aldin and Harar. For the remaining decades of the century and throughout the 17th and 18th Centuries until the mid-1880s Ottoman continued to play an intensive role in Ethiopian politics from Massawa (Chekroun, 2012).

This Ottoman presence, which continued until the middle of the nineteenth century, is part of the policy of the Ottoman Empire for the control of the Red Sea but was not really a success. At the end of the nineteenth century, the wish of diplomatic relations replaced the spirit of conquest. The Ottoman occupation ended with the Italian Occupation of Massawa in 1885. The ambition of ottoman to establish the strongest Islamic state in history and the strategic importance of the Red Sea brought it in first direct contact with Ethiopia.

Despite some declines in later periods, Ethio-Ottoman relations restarted during the reign of Sultan Abdulhamid II. Emperor Menelik II of Ethiopia sent Ato Josef and Kont de Leonitif to Istanbul as Ambassador. The king also sent various gifts and also requested Ottoman support for the protection of Abyssinian properties in Jerusalem, especially the Monastery of Deiru's Saltana. Sultan Abdulhamid II sent a reply with some presents and also made efforts to solve the problem concerning the monastery in Jerusalem (Sebsebe, 2015).

The modern Diplomatic relations between Turkey and Ethiopia started in 1896 with the exchange of delegations during the rule of Sultan Abdülhamid II and Emperor Menelik II. In 1912, the first Ottoman-Turkish Consulate General in Harar was opened. This office played a significant role in enhancing their relations until the time their diplomatic relations grew to the Embassy level (MoFA Turkey, 2019).

During the period of Lij Iyasu (1913-1916), Ethiopia had good relations with Turkey. In 1915, on the birthday of the Sultan of Turkey, Lij Eyasu made a surprise appearance in his capital after yet another extended jaunt around the Empire and visited the Turkish mission to attend a celebration dinner. It is said that Lij Eyasu declared that as the Patriarch of Alexandria, who was the head of the Ethiopian church, was an Egyptian subject of the Sultan of Turkey, Ethiopians were also the religious subjects of the Sultan. He went on to proudly proclaim his own descent from the Prophet Mohammed and presented the Turkish minister with an Ethiopian flag with the words "Allah is Great, and Mohammed is his Prophet" embroidered in Arabic where the Lion of Judah would have been (Nagayo, 2015).

Lij Iyasu had aligned with Ottoman during WWI. In April 1916, Iyasu officially placed Abyssinia in religious dependence on the Sultan of Turkey as Caliph and sent to the Turkish consul-general at Harar an Ethiopian flag bearing the crescent and a confession of faith in Islam. About this time, he informed his Muslim confederates - who had been told that Germany and Austria had embraced Islam and had imposed that faith upon France - that he would lead them against the Allies as soon as a great German victory should be announced. However, Iyasu was removed from power before making an actual alliance with Ottomans (Nagayo, 2015).

The allied diplomats in Addis Ababa were extremely angered at this overture to the Turks, the nobles who had always seen the Turks as old enemies were furious, and the Orthodox Church hierarchy was scandalized. This unpredictable behavior of the Emperor-designate, which had at first amused the indulgent people as youthful hot blood, something the young heir would outgrow, was now seen as scandalous, reckless and horrifying. The Ethiopian Orthodox Church was beyond disturbed, the hierarchs were deeply angered. Consequently, Lij Iyasu was overthrown from power after defeat at the battle to the hands of old Showan nobility. Lij Iyasu was replaced by Zewditu as a prince and Ras Tafari Mokonen as heir (1916-1930) who later on (1931) crowned as Emperor Haile Selassie I after systematically defeating his power contenders.

The first Embassy of the Republic of Turkey's in Sub-Saharan Africa was opened in Addis Ababa, in 1926 only three years after the modern Turkey Republic was proclaimed. This makes Turkey the sixth country to open its embassy in Ethiopia. In 1931, Turkey was among few countries that participated in the coronation of Emperor Haile Sellasie I. However, When the Turkish delegation arrived, the Armenian youths staunchly refused to play the Turkish anthem causing the Emperor to be very embarrassed and quite angry. The Emperor decided to put the matter before the senior princes and nobles in the council to decide how to punish the Armenians for disobeying the monarch. When the council demanded an explanation from the band, the Armenians tearfully replied that it was against their conscience to honor those who had butchered their fathers and mothers (Nagayo, 2015).

Finally, the council agreed that it was too much to expect the Armenians to honor the representative of Turkey, so they recommended that they not be punished. The Emperor agreed and the Armenians were allowed to disobey the Emperor and refuse to play the Turkish National Anthem. Despite that incident that faced the Emperor at his coronation event a relation between Turkey and Ethiopia showed progress at least until the Italian Occupation of the later in 1935.

One manifestation of their cordial relation during the period was that Ethiopia opened its Embassy in Turkey in 1933. Unfortunately, only two years after the opening of the Embassy, Emperor Haile Selassie left the country to London following the Italian occupation of the country. During this time, Turkey had maintained good relations with Italy, which in turn led to the deterioration of relations with Ethiopia. Following this, in 1938, Haile Selassie wrote a letter to President Kemal Ataturk of Turkey blaming the latter for recognizing Italy as sovereign authority in Ethiopia. The letter highlights that Ethiopia-Turkey relations slowed down during the Italian occupation of the country (1936-1941). Despite this, Ethiopia-Turkey diplomatic relations remained cordial after liberation. As a result, the emperor visited Turkey for the second time in 1959 (Nagayo, 2015).

In short, during the Imperial period Turkey Ethiopia relations were both conflictual and cordial. Before the Italian occupation, the countries maintained good relations. In this regard, there is no good evidence that the Emperor's visit to Turkey. However, their relations turned down during occupation and, a decade after liberation. Apart from Turkey's recognition of the Italian occupation of Ethiopia, the increased influence from Britain during the 1940s and strong alliance with the USA after 1950 were the other factors that kept Ethiopia-Turkey relations at a lower phase. The Emperor's visit during the late 1950s marked the restoration of their relation.

During the Derg regime (1974-1071), Ethiopia and Turkey relations were not cordial. Cold war ideological division negatively influenced their relations. By officially adopting socialism as a national guiding principle, the Derg regime allied itself with Eastern bloc led by USSR. Contrary to this, Turkey maintained good relations with the USA that was a leader of the western capitalist bloc (Nagayo, 2015).

Due to opposing alignment cold war, their relations were not able to be improved. As a result, The Embassy of Ethiopia in Ankara was closed in 1984 by the Communist Derg regime (MoFA Turkey, 2019). This incident signaled the final seizure of diplomatic relations between the two countries. In short, during the Derg regime, the bilateral relations were not good. It was only after the end of the cold war (1991) that the countries were able to restore their diplomatic relations.

Generally, in this chapter, the major concepts, theories and historical developments to Africa-Turkey and Ethiopia-Turkey historical relations are discussed. The next chapter addresses Ethiopia-Turkey contemporary relations in brief.

CHAPTER THREE

ETHIOPIA-TURKEY CONTEMPORARY RELATIONS

This chapter deals with Ethiopia-Turkey contemporary relations. This chapter is divided into four sections. The first section discusses Ethiopia-Turkey political and military relations. The second section examines Ethiopia-Turkey cultural and social relations. The third section emphasizes Ethiopia-Turkey economic relations and the last section discusses the responsible factors for Ethiopia-Turkey economic relations.

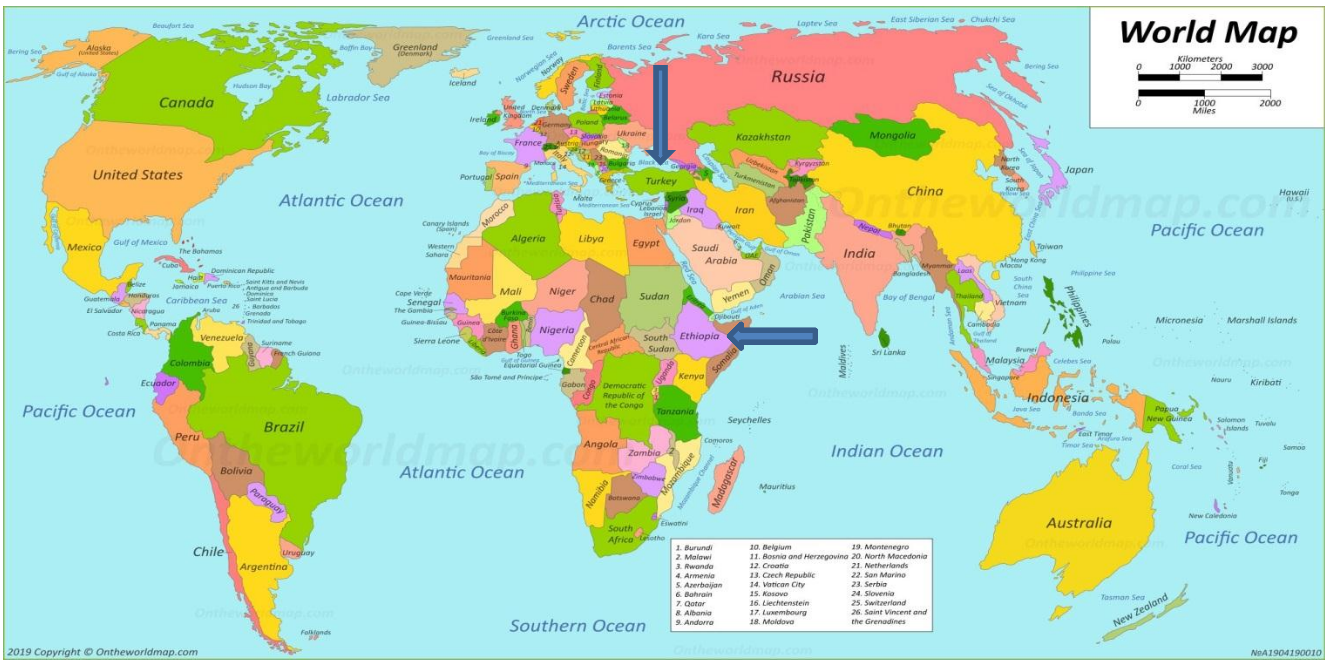

Figure 3.1: Geographical location of Turkey and Ethiopia

Source: http://ontheworldmap.com/world-map.jpg

3.1 Political and Military Relations

Ethiopia-Turkey political and military relations have been operationalized by the creation of various institutions and organizations to facilitate growing interactions. Firstly, Ethiopia-Turkey political relations encompass diplomatic institutions of the two countries, these diplomatic institutions often serve as a direct bridge between two states, include Embassies, Consular offices, Honorary Consulates and similar institutions serving as the springboard for economic, social and political relations of the two countries. Ethiopia and Turkey have bilateral political consultations. The Protocol of Cooperation signed between the MFA of Ethiopia and Turkey in 2000, laid a framework for the political consultation between the two countries in 2000. Additionally, mutual visits between the two countries at various levels have been significant steps that contributed to the development of the relations.

Plate 3.1: Turkish president welcomes Ethiopian president, October 2018

President Mulatu Teshome with President Erdogan in a two-day official visit to Turkey

Source: https://www.ena.et/en/?p=3604

Secondly, unilateral international cooperation agencies such as TIKA are important to facilitate relations. TIKA is a governmental and non-profit organization established in 1992 under the management of the Prime Minister and Ministry of Foreign Affairs. TIKA has strong relations to all kinds of strategic institutions in Turkey, international organizations like UNIDO, UNDP, OECD, and finally yet importantly, it has operational units mainly in the countries where humanitarian camps were established (Beseny and Oláh, 2012). TIKA opened its offices in Africa. Its first African Office was opened in 2005 in Addis Ababa. Since then it has expanded to other countries.

Thirdly, multilateral forums including, Turkey's cooperation with IGAD is a subset of the former's engagement with Africa through the TAP framework. Peace and Security have been one of the elements of cooperation in TAP (ISS, 2008). The partnership allows Turkey's direct and active involvement in peace and security activities of Africa at least through three major engagements. Firstly by playing a role through multilateral and bilateral diplomacy in the settlement of conflicts and disputes in Africa; secondly, through cooperation with the international and regional organizations such as AU and Regional Economic Commissions (RECs) and thirdly, participation in peacekeeping missions in Africa (Africa-Turkey Ministerial Review, 2013). Turkey-IGAD cooperation mainly focuses on pacifying sub-region.

Ethiopia and Turkey are playing a significant role in peace and security of the Horn of Africa by working through bilateral relations with affected countries, by partnering regional frameworks such as AU and IGAD, and through supporting AU and/or UN Peace Keeping Missions in the region such as UNMISS, UNMID, and AMISOM.

Ethiopia and Turkey relations also include bilateral military cooperation in various fields. The legal base for Ethiopia-Turkey bilateral military cooperation was laid in 2006 when Military Cooperation Agreement was signed between the two countries. The agreement established a general framework of cooperation in six military fields. The two parties agreed to cooperate in, Military Training and Education, Defense Industry, Air and Land Forces, Logistics, History, archives and publications, and museology. However, official justifications for the avoidance of the agreement were not presented from both sides as a result, nearly seven years of failure of ratification of the treaty was witnessed. On the other hand, a new agreement in the military field between the two countries signed in 2013, named Military Industry Cooperation. The agreement was signed between the Ministries of Defense of the two countries in Istanbul to "provide for cooperation in the field of the defense industry, improving the defense industry capabilities of the countries, production, and procurement of defense goods and services as well as related technical and logistic support in the field" (The Reporter, 2015).

3.2 Cultural and Social Relations

Ethiopia and Turkey have close cultural and social relations. Bilateral Social and cultural relations encompass all kinds of people-to-people interactions made outside official State affairs. Ethiopia-Turkey relations are based on different agreements. In these relations, the first treaty between Ethiopia and Turkey was the Agreement of Cooperation in the field of health signed in 2000. The Agreement aims to develop cooperation in the fields of health and medicine between the two countries. The agreement contains eight articles that deal with areas of future cooperation, modalities of working together, roles and responsibilities of each party with respect to the implementation of the Agreement. The Ministry of Health of the FDRE and the Ministry of Health of the Republic of Turkey have been assigned for the implementation of the Agreement. The Agreement was signed in Ankara, on March 13, 2000, and was ratified on 8th April 2003 (Federal Negarit Gazeta: Proclamation No. 325/2003).

Secondly, Ethiopia and Turkey have signed an agreement named Ethiopia-Turkey Agreement on Cooperation in the Fields of Culture, Education, Science, Mass media, Youth and Sports. The agreement has the objective to strengthen the friendly relations existing between the two countries. In addition, it has been the manifest desire of the two countries' to expand their mutual knowledge and understanding through the encouragement of relations and cooperation in those fields. The agreement was signed on 25th June 2004 in Addis Ababa and ratified by the Ethiopian side one year later on 30th June 2005(Federal Negarit Gazette, 2005: Proclamation No. 462/2005). Towards the realization of the agreement implementation program was formulated in 2013.

The other Agreement between Ethiopia and Turkey is an agreement on cooperation in the field of tourism. The Agreement was signed in Ankara on 8th February 2007 and ratified by Ethiopian side on May 22, 2008 (Federal Negarit Gazette, 2008: Proclamation No. 577/2008) and aims at developing and strengthening cooperation between the countries in the field of tourism through bilateral cooperation between their tour operators and other specialized bodies with a view to attracting and promoting travel from third countries as well as travel between their countries.

Plate 3.2: An agreement between Ethiopia and Turkey in Culture and Tourism:

President of TIKA, Mr. Serdar Cam and Dr. Hirut Kassaw, Minister of Culture and Tourism

Source: https://fanabc.com/english/2019/01/ethiopia-turkey-agree-to-strengthen-cooperation-in-culture-tourism/

Education is the other area of partnership; Ethiopia has strong relations with Turkey in the area of Education. The bilateral cooperation in Education includes; General Education, Technical and Vocational Education, and Training, Higher Education and Scientific Research. Turkey has been granting scholarships to Ethiopian students, in higher education, undergraduate, graduate, postgraduate and other categories.

3.3 Ethiopia- Turkey Economic Relations

There were commercial ties between Ethiopia and Turkey. Trade of coffee and slaves remained important factors for the earliest economic ties between the ancient Ottoman Empire and Ethiopia. Coffee received higher importance since it was introduced first to Yemen and then to Ottoman during the 15th and 16th respectively. Coffee remained an important trade item, in volume and value even when the trade-in spices from the Far East revived during the 1540s (Abir, 2013). Thus inclusion of coffee to the Red Sea trade route rapidly increased the volume of trade and hence revenue from it.

Contemporary economic cooperation between Ethiopia and Turkey has been based on legal and institutional frameworks. The legal framework constitutes agreements reached between the two countries with respect to economic cooperation. Institutional frameworks include both governmental and private agencies created by agreements to promote Ethiopia-Turkey economic relations.

Plate 3.3: officials from Ethiopia and Turkey signing bilateral trade agreements: December 2016

Source: https://www.aa.com.tr/en/africa/ethiopia-turkey-sign-5-cooperation-agreements-/715920

Economic relations are the most important element in Ethiopia-Turkey relations. Institutions show the strength of the economic interdependence of the two countries. Business firms represent economic institutions. There are over two-hundred-forty of Turkey's business firms operating in Ethiopia. In addition, Turkey has a business community office in Addis Ababa since 2005. These are some of the economic institutions working to benefit bilateral relations. Ethiopia and Turkey have seen robust and rapid development in bilateral economic cooperation. Trade is one of the most important elements of Ethiopia-Turkey economic relations. According to the Turkish Ministry of foreign affairs Exports from Turkey to Ethiopia were 439.7 million USD while the imports from Ethiopia were 35.31 million USD. The overall trade volume in 2017 between the two countries reached 347.8 million USD (MoFA, Turkey, 2019).

Foreign Direct Investment is the other key economic indicator of Ethiopia-Turkey relations. Currently, Turkey is one of the leading countries that are investing in Ethiopia. The total amount of investments by the Turkish firms in Ethiopia is around 2.5 billion USD. Currently, Turkish firms employ one of the highest numbers of workers in the private sector in Ethiopia (MoFA, Turkey, 2019).

Both countries' share of imports and export is expanding year after year. Commercial and economic ties between Turkey and Ethiopia are well developing. Thus, the size and items of bilateral trade show how much the two countries are economically interdependent. To enhance and strengthen further participation of business-to-business relations, the Ethiopian-Turkey Trade and Investment Forum has been put in place. Such a business-to-business meeting between Ethiopian and Turkish business communities has enhanced the trade and investment ties of the two countries (Nagayo, 2015).

3.4 Factors for Ethiopia-Turkey Economic Relations

After the setting up of diplomatic relations between Ethiopia and Turkey, it has seen an overall relationship between the two countries. A number of mutual visits have been commenced by high-level officials of the two countries, which has led to a number of cooperation agreements between the two countries that cover a wide area of cooperation such as agriculture, trade, investment, education, technology, culture, and military affairs.

After the seizure of power by the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) in 1991, Economic and commercial relations are the most important aspects of the bilateral relations between Ethiopia and Turkey. The commercial ties between Ethiopia and Turkey have developed through the signing of various bilateral treaties, memorandum of understandings and exchange of protocols (Mehreteab, 2019). Some of these agreements are discussed below.

Agreement on Economic and Technical Cooperation and Trade: A Cooperation Agreement between Ethiopia and Turkey was an Agreement on Economic and Technical Cooperation and Trade signed on September 9, 1993, in Izmir, Turkey. This agreement discovers a pathway for other bilateral agreements that have been reached between the two countries. Correspondingly, many of the treaties, memorandum of understandings and protocols signed after that date refer to this treaty. Consequently, this treaty is the first to Ethiopia-Turkey economic relations.

Memorandum of Understanding in 1997: The two countries have exchanged MOUs in areas of bilateral relations. Ethiopia and Turkey signed a Memorandum of Understanding in 1997 to further promote and facilitate the Agreement on Economic and Technical Cooperation and Trade signed 1993 in Izmir, Turkey. The MOU gives the two countries the responsibility to create a conducive environment to enhance bilateral trade partnership. For instance, the sixth point of agreement deals with issues of bilateral trade.

The sixth point of the agreement reads:

> *In order to strengthen the trade relations between the two countries, both parties shall encourage the establishment of closer cooperation and contacts between their respective Chambers of Commerce. Both sides shall also encourage and facilitate the exchange of visits of businesspersons and trade missions between the two countries, and each other's participation in trade fairs and exhibitions to be held in either country.*

Joint Commission on Economic, Trade and Technical Cooperation (JEC): The Joint Commission can be regarded as one of the effective mechanisms of evaluation for Ethiopia-Turkey economic relations. Since it is serving as a regular forum established by agreement (though not on fixed time interval), the JEC has taken a strong institutional shape.

The Joint Commission was established in accordance with the Agreement on Economic, Technical Cooperation and Trade signed 1993, in Izmir, Turkey. The first Joint Commission meeting in 1998 during the MoU signed in 1997, the second meeting was conducted in 2000.

The third Joint Commission meeting took place in 2005. Even though the agenda items of JEC vary from time to time, trade, technical and finance cooperation has been the focus of their meeting. The last meeting was held in 2012.

Agreement concerning the Reciprocal Promotion and Protection of Investment: An Agreement concerning the Reciprocal Promotion and Protection of Investment, which was signed in 2000 and ratified in 2003 (FDRE, 2003: Proclamation No. 323/2003) is the second treaty in the area of investment and trade. Economic cooperation between Ethiopia and Turkey, particularly with respect to investments by investors of one Party in the territory of the other Party, is the objective of this treaty.

The prime issues of the agreement are promotion and protection of investments, treatment of investors, matters of expropriation and compensation, repatriation and transfer, and subrogation and about settlements of disputes related to investment. This agreement in total consists of nine articles that deal with issues related to a bilateral investment partnership.

Agreement for the Avoidance of Double Taxation with Respect to Taxes on Income: In March 2005, Ethiopia and Turkey have signed an Agreement for the Avoidance of Double Taxation with Respect to Taxes on In-come This agreement was ratified on March 6, 2005 (FDRE, 2005: Proclamation No. 480/2005).

Agreement to mutual cooperation in the fields of Energy, Mining, and Hydrocarbon

Agreement to mutual cooperation in the fields of Energy, Mining and Hydrocarbon signed on December 21, 2016. In the agreement, Turkey will cooperate with relevant Ethiopian institutions to upgrade their skill sets in geothermal and coalfield surveys. Turkey also agreed to provide technical support to build the capacity of Ethiopia’s small-and-medium enterprises. Also, both sides agreed to strengthen the technical and capacity building cooperation between the Ministry of Industry of Ethiopia and the Ministry of Economy of Turkey to strengthen the manufacturing sector’s productivity, competitiveness and export capacity. The two countries also agreed to enhance their efforts to promote their products in each other’s markets, establish a sustained mechanism for the exchange of trade and investment information, and narrow trade imbalances (Anadolu Agency, 2016).

A Protocol on Technical, Scientific and Economic Cooperation in the field of Agriculture: A Protocol on Technical, Scientific and Economic Cooperation in the field of Agriculture was signed on February 8, 2007. The protocol aims to establish technical cooperation between the two countries in the field of agriculture and includes activities of capacity building. The agreement was ratified by Ethiopia on the 10th, of January 2008 (Federal Negarit Gazetta, 2008: Proclamation No. 562/2008).

The protocol proclaims to establish cooperation in the field of agriculture, food industry, animal husbandry and rural affairs between the two countries. The cooperation comprehend exchanges of information, research results, and experts in the fields, In addition, the protocol enables to organize training and conferences; to establish direct joint activities between their respective institutions and to encourage direct joint ventures of cooperation between their private sectors with a view to achieve agricultural marketing in both the countries as well as in other markets.

The 2005 Cooperation in Maritime agreement: Another MoU was signed in 2005 between the two countries regarding cooperation in the Maritime agreement. The two countries agreed to establish a network for the exchange of information related to the maritime transport; to encourage the transfer of technology in the field of shipping activities and to boost cooperation in the field of professional training of shipping personnel and the exchange of expertise (FDRE, MoFA, 2005). The prime aim of the MoU is to contribute to the development of the commercial and economic relations between the two countries through cooperation in maritime fields.

Ethiopia-Turkey Trade and Investment Forum: The establishment of the forum realized the institutionalization of relations between Turkey and Ethiopia. Ethiopia-Turkey Trade and Investment Forum invite high officials and businesspersons from Ethiopia and Turkey to discuss issues of bilateral investment and trade. Discussions of the Forum focus on the identification of investment and trade opportunities, the exploration of priority areas of investment and trade, the enhancement of the bilateral complementary and mutually beneficial economic and trade cooperation and ways to elevate the bilateral trade ties of the two countries (MoFA, 2014).

Ethiopia-Turkey Trade and Investment Forum play a critical role in strengthening bilateral trade and investment partnerships for two major reasons. The first contribution of the forum is that it creates both business-to-business and inter-sectorial relations. Each year, hundreds of business delegations from Ethiopia and Turkey attend the forum, which creates an opportunity for businesspersons to a network to each other through business-to-business interactions. The second is that the forum serves as a stage to discuss the major challenges and prospects of bilateral trade and investment. This would help to identify bottlenecks surrounding the bilateral investment and trade. This, in turn, would help concerned authorities of both countries to work together towards curbing bottlenecks.

Turkish office of Commercial Counselor/ attaché: The Turkish office of Commercial Counselor is the extension of the Ministry of Economy of Turkey. The purpose of the office is to guide Turkish businesspersons on commercial economic activities and giving information about the investment environment in Ethiopia. These include investment opportunities, laws/regulations, custom, import, and export (Sedat, 2019). the office works with other stakeholders from Ethiopia such as MFA, Investment Commission, Ministry of Energy; Culture, Defense, Industry, Trade; ECCSA, Ethiopian Textile development Institute and other relevant institutions (Sedat, 2019).

The current actual data and details on trade and FDI between the two countries will be analyzed and discussed in the next chapter briefly.

CHAPTER FOUR

ETHIOPIA-TURKEY TRADE AND INVESTMENT RELATIONS FROM 2006-2018

In this chapter, the Ethiopia-Turkey economic relations are analyzed by taking trade and FDI as points of analysis. This chapter is divided into two sections. The first section examines Ethiopia-Turkey trade relations from 2006-2018. This section provides a broad picture of data regarding Ethiopia's import products from Turkey and Ethiopia's export products to the Turkish market including the trade balance analysis. The second section discusses Turkish FDI in Ethiopia from 2006-2018.

4.1 Ethiopia-Turkey Trade Relations

4.1.1 Ethiopian Exports to the Turkish Market

As can be seen from Table 4.1 below almost all of Ethiopia's export earning derives from primary agricultural products. From these primary products, the major export items from Ethiopia to Turkey in 2017/18 are; oilseed followed by pulse, textile and garment products, coffee, spice, leather products, and others.

Table 4.1 Top Ten Export commodities from Ethiopia to Turkey in 2010 E.C (2017/18)

No.	Items	VOLUME in Ton	VALUE/ USD
1	Oil Seed	21,946.50	27,718.00
2	Pulse	14,362.00	11,121.52
3	Textile and Garment	2,249.64	7,794.75
4	Coffee	126.90	456.76
5	Spice	160.00	250.57
6	Others	198.71	208.10
7	Flower	6.90	121.70
8	Leather Products	5.79	73.36
9	Finished Leather	1.16	31.62
10	Chemicals & construction materials	25.05	14.28

Source: Ministry of Trade, (2019).

Though the export sector is still dominated by a few primary products, the contribution of value-added products such as flowers, finished leather products, and chemicals & construction materials became foreign exchange earners for the country (See table 4.1). Additionally, the value of manufactured exports is at a low rate. (See Appendix II for a three year top ten export items to Turkey).Generally, the contribution to foreign exchange earnings of manufactured export has been limited and manufactured exports concentrated on a few consumer goods yet.

4.1.2 Ethiopia's Imports from Turkey

Ethiopia mainly imports plastics and article thereof, machinery and mechanical appliance, iron and steel, articles of iron or steel, rubber and articles thereof, electrical machinery and equipment and parts, miscellaneous manufactured articles, aluminum and articles thereof, furniture, copper and articles thereof and many other manufactured products.

Table 4.2 Top Ten Import Items from Turkey to Ethiopia in 2010 E.C (2017/18)

No.	Items	VOLUME in kg	VALUE/ USD
1	Plastics and article thereof	137,691,983.89	201.998.560.93
2	Machinery and mechanical appliance	127,532,157.55	128,335,020.18
3	Iron and steel	102,613,684.96	43,307,253.41
4	Articles of iron or steel	8,550,485.21	22,367,756.89
5	Rubber and articles thereof	1,549,210.60	8,580,714.48
6	Electrical machinery and equipment and parts	914,943.28	8,281,477.46
7	Miscellaneous manufactured articles	2,030,129.94	6,861,033.18
8	Aluminum and articles thereof	926,282.52	6,053,859.07
9	Furniture	452,519.54	5,211,315.64
10	Copper and articles thereof	575,241.43	3,833,859.85

Source: Ministry of Trade, (2019)

The import basket of Ethiopia indicates that Ethiopia mainly imports manufactured products like machinery, iron and steel and others. (See Appendix III for a three year top ten import items from Turkey). The composition of Ethiopia's import is highly dominated by manufacturing and related products and trade imbalance remains a structural problem in the trade relations between the two countries.

4.1.3 Balance of Trade between Ethiopia and Turkey, 2006-2018

Table 4.3 Summary of Trade Balance between Ethiopia and Turkey (2006-2018)

Year	Export to Turkey in Mill. USD	Import from Turkey in Mill. USD	Ethiopia- Turkey Trade Balance
2006	13.16	102.06	-88.90
2007	27.85	147.86	-120.01
2008	38.79	160.93	-122.14
2009	29.38	256.63	-227.25
2010	32.15	226.99	-194.84
2011	44.55	346.73	-302.18
2012	49.80	499.16	-449.36
2013	77.15	481.62	-404.47
2014	68.02	399.67	-331.65
2015	42.34	515.41	-473.06
2016	23.93	573.54	-549.61
2017	41.82	599.02	-557.20
2018	34.44	321.07	-286.63
Total	523.38	4,630.69	-4,107.3

Source: ITC calculations based on Ethiopian Revenue and Customs Authority (ERCA) and Turkish Statistical Institute (TURKSTAT) statistics (2019).

Bilateral trade between Ethiopia and Turkey had exceeded $350 million in 2018. However, in this trade relation between the two countries, the chronic trade deficit has remained the dominant feature of Ethiopia's external trade in the past thirteen years with Turkey. Table 4.3 above summarizes the trade balance from the period 2006 to 2018. With relatively small exports and sizable imports, the trade deficit has generally been widening throughout these periods.

As a result, the deficit in trade balance went from -88.90 million USD in 2006 to -286.63 million USD in 2018. This shows that the current account deficit has worsened from year to year. As shown in table 4.4 bilateral trade volumes over the last 13 years show fluctuations from year to year.

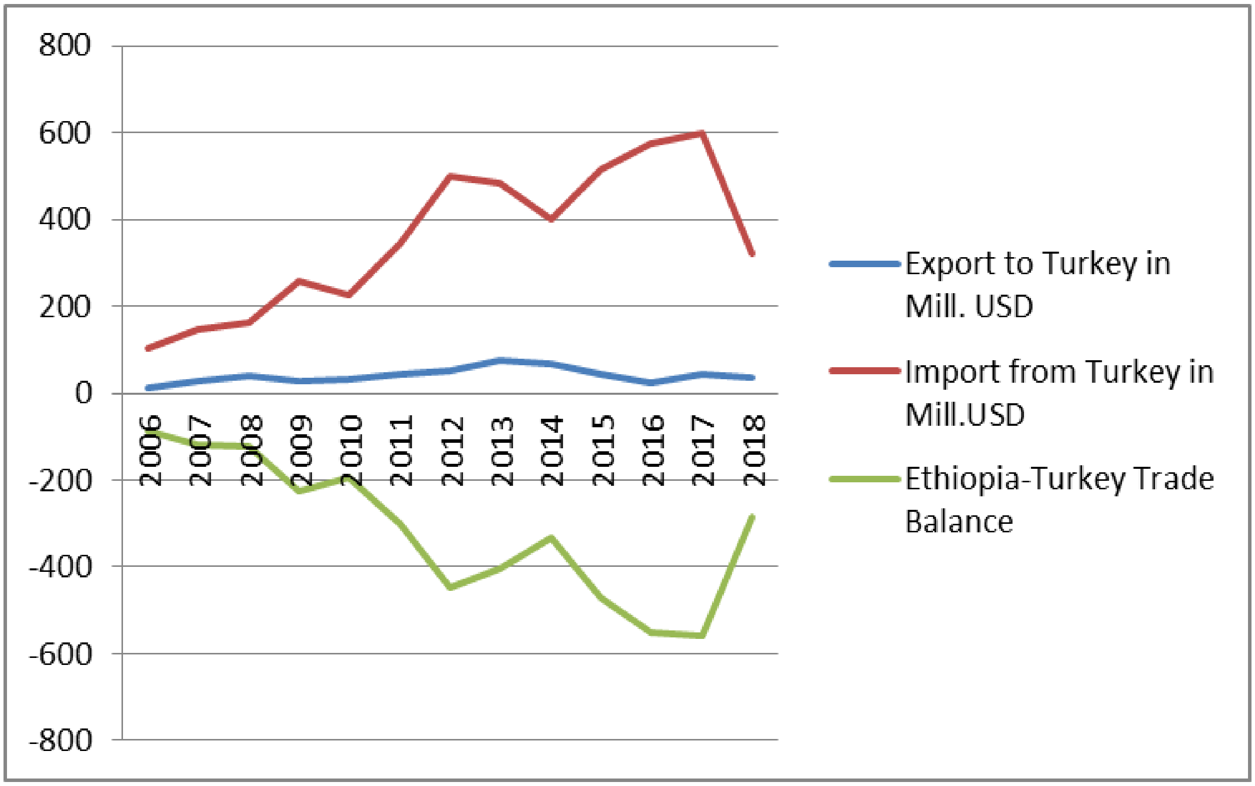

Figure 4.1: Trade Balance between Ethiopia and Turkey 2006-2018

Source: ITC calculations based on Ethiopian Revenue and Customs Authority (ERCA) and Turkish Statistical Institute (TURKSTAT) statistics (2019).

For some years the export value fell. For instance, for the years 2009, 2014, 2015, 2016, 2017 and 2018 showed a decrease. On the other hand, the highest annual import ($599.02 million) was registered in 2017 while the lowest import ($102.06 million) was registered in 2006. However, for the years 2010, 2013, 2014 and 2018 the import size fell from the preceding years.

As shown in table 4.3 and figure 4.1 the bilateral Trade data shows that the highest deficit ($-557.20 Million) was registered in 2017. On the other hand, the lowest deficit ($-88.90 million) was registered in 2006 showing unfavorable growth of trade for Ethiopia. (See Table 4.3. for overall trade balance from 2006 to 2018.)

Turkish ambassador to Ethiopia Ms. Yaprak Alp, on her interview with the Ethiopian Herald, stated that "Our trade level is not where we want it to be. The aim of Turkey and Ethiopia was to increase trade to $1 billion per year. But in terms of 2018, it was only 355million USD. Turkey's suggestion is to have a preferential trade agreement between Turkey and Ethiopia, which would increase trade. It always does so in our experience. We believe in free trade and we know that Ethiopia does too. So we want to start these negotiations once again on the preferential trade agreements, in order to increase trade in a balanced manner." (Haftu, 2019). The commercial counselor Mr. Sedat also shares the idea of Ambassador Alp in my interview with him.

In reference to the interview with Mr. Assefa Mulugeta (Director General Export Promotion Directorate General) and Ms. Munteha Jemal (Director General for Foreign Trade and Tourism Promotion Affairs) from the Ministry of Trade and Ministry of Foreign Affairs respectively, discussed the main reason for trade imbalance is due to a high price difference between import and export; Ethiopia mainly exports agricultural products of low price and imports high priced manufactured goods. So, Ethiopia is needed to focus on diversifying the composition of exports and increase the number of value-added products. In line with this, the government is working on increasing the volume of its exports, suspension of tariffs mainly on agricultural products, attracting more FDI and focusing on developing the manufacturing sector to gradually shift from the export of primary products to produced goods, and encouraging small and medium scale enterprises and capacity building can be a possible remedy to overcome the trade imbalance between the two countries.

Generally, in the total trade between Ethiopia and Turkey, Ethiopia suffers a significant trade deficit with Turkey due to the composition of items between the two countries. Over the years, export and import basket has not changed significantly between the two countries, Ethiopia exports primary agricultural products, such as oilseed, pulse, coffee, spice, leather products, flowers and others to Turkey, whereas Turkey exports plastics and article thereof, machinery and mechanical appliance, iron and steel, articles of iron or steel, rubber and articles thereof, electrical machinery and equipment and parts, miscellaneous manufactured articles, aluminum and articles thereof, furniture, copper and articles thereof and many other manufactured products to Ethiopia. In comparison with Ethiopia's export of primary commodities, whose prices are volatile and render the local economy vulnerable, its imports are composed of capital and consumer goods. Therefore, Trade relations between Ethiopia and Turkey are unequal and asymmetrical. The widening deficits in favor of Turkey need the attention of both governments in order to sustain the trade relationships between the two countries.

4.2 Turkey Foreign Direct Investment Inflows to Ethiopia

The analytical scope of this section includes a trend study of Turkish FDI to Ethiopia as measured by capital size and the total number of projects, its regional distribution, and employment creation.

4.2.1 Regional Distribution of Turkey's FDI in Ethiopia

Starting from February 2006 to December 2018, there are a total of Two Hundred Thirty-Two (232) Turkish owned projects in Ethiopia. Table 4.5 shows that Turkish investment in different phases: pre-implementation, implementation, and operation. The capital of the operational projects is 10,769,987,000.00 Birr and from the Turkish projects licensed out of which, 48 are on pre-implementation status. During the same time, 129 projects had been operational while the remaining 55 are on implementation status. In terms of job creation, these projects created 17,030 permanent and 8,662 temporary job opportunities (EIC, 2019).

In Ethiopia, Turkish FDI projects are distributed across all regions except Benshangul Gumuz, and the Harari Regional States and almost half of the Turkish investments are located in Addis Ababa. Out of Two Hundred Thirty-Two (232), One hundred and fourteen (114) are found in the Capital. Oromia is the second-largest destination for Turkish FDI in Ethiopia. There are seventy Turkish investment projects in the Oromia Regional State and this region leads all states having a total capital of 6,075,362,000.00 Birr. But this region is the first from all regions in terms of job creation; it created 12,921 permanent and 2,578 temporary job opportunities. On the other hand, Seventeen (17) projects are multiregional while the remaining are distributed across the six regional states and Dire Dawa city administration. In Gambella and Tigray regions, the Turks have already started doing business through the number of projects, the capital they invested, and the job opportunity they created is smaller when we compare with other regions.

Turkish FDIs are distributed across most Regional States of Ethiopia. However, as mentioned earlier, the majority of the investment projects are concentrated around the capital. This is partly due to the lack of developed infrastructures in other regions and partly due to the availability of a skilled workforce in the capital and its surrounding region (See Figure 4.2 and Table 4.4).

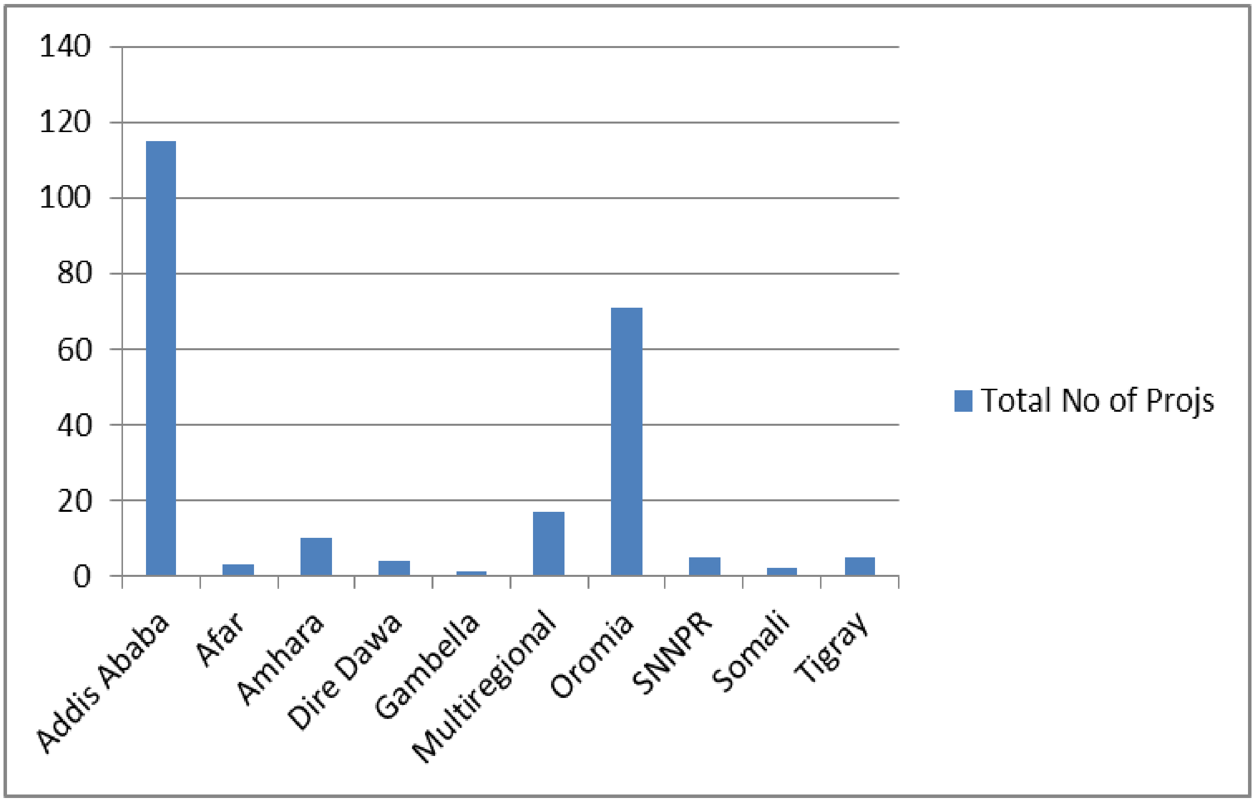

Figure 4.2: Regional Distribution of Turkish FDI 2006-2018

Source: The Ethiopian Investment Commission, (2019).

Table 4.4 Regional Distribution of Turkish FDI in Ethiopia

Summary of Licensed Turkey Investment Projects

by region and investment status

Since February 27, 2006 - December 14, 2018 G.C

Region of Investment	Total No of Projects	Pre-Implementation	Implementation	Operation			
		No of Projects	No of Projects	No of Projects	Capital in '000' Birr	Permanent Employment	Temporary Employment
Addis Ababa	115	25	22	68	2,082,194	2,333	4,571
Afar	3	2		1	6,000	170	30
Amhara	10	4	4	2	67,944	139	20
Dire Dawa	4	1	2	1	1,064,287	800	
Gambella	1			1	15,592	10	0
Multiregional	17		3	14	1,389,582	357	438
Oromia	70	12	20	38	6,075,362	12,921	2,578
SNNPR	5	3		2	16,000	258	1,000
Somali	2	1	1				
Tigray	5		3	2	53,027	42	25
Total	**232**	**48**	**55**	**129**	**10,769,987**	**17,030**	**8,662**

Source: The Ethiopian Investment Commission, (2019).

4.2.2 Turkey's FDI by Investment Sectors and Capital in Ethiopia

Table 4.5 below depicts Turkish investment by sector starting from 2006 to 2018. Here one can see that Turks are much investing in the manufacturing sector. In implementation and operational phases in terms of capital as well as a number of projects, the manufacturing sector takes the lead having 149 projects registering 8,841,353,000.00Birr. The manufacturing sector also leads in terms of job creation; 15,758 on permanent and 3,857 on temporary status out of the total Turkish investment created 17,030 on permanent and 8,662 on temporary employment opportunities.

The other major sectors that Turkish companies have been investing include; 39 projects in construction contracting including water well drilling, 15 of them are in pre-implementation stage and 11 are on implementation stage and the rest 13 are operational projects with a capital of 1,715,312,000Birr by creating 546 permanent and 2,804 temporary job opportunities. Real estate, machinery, and equipment rental, and consultancy service is the other sector that Turkish investors involve with 26 projects, from these projects 16 are operational with a total capital of 86,665,000Birr whereas 4 projects are in the pre-implementation stage and 6 projects are in implementation stage with 217 temporary and 201 permanent employees. Agriculture is the other sector with a total of 7 projects and capital of 80,000,000Birr. Five projects on resort hotels, motels, and lodges and restaurants with a capital of 23,123,000Birr and creating a job opportunity for 70 people and, four projects on education, from these 2 are operational and the rest 2 are on the implementation stage.

Table 4.5 Summary of Licensed Turkey Investment Projects by Investment Sectors and Capital in Since February 27, 2006 – December 14, 2018 G.C

Summary of Licensed Turkey Investment Projects by sector, capital and investment status

Since February 27, 2006 - December 14, 2018 G.C

Sector	Total No of Projects	Pre-Implementation	Implementation	Operation			
		No of Projects	No of Projects	No of Projects	Capital in '000' Birr	Permanent Employment	Temporary Employment
Agriculture	7	2	3	2	80,000	270	1,029
Manufacturing	149	24	33	92	8,841,353	15,758	3,857
Education	4	-	2	2	23,534	210	720
Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants	5	1	-	4	23,123	45	25
Tour Operation, Transport and Communication	1	1	-	-	-	-	-
Real estate, Machinery and Equipment Rental and Consultancy Service	26	4	6	16	86,665	201	217
Construction Contracting Including Water Well Drilling	39	15	11	13	1,715, 312	546	2,814
others	1	1	-	-	-	-	-
Total	**232**	**48**	**55**	**129**	**10,769,987**	**17,030**	**8,662**

Source: The Ethiopian Investment Commission, (2019)

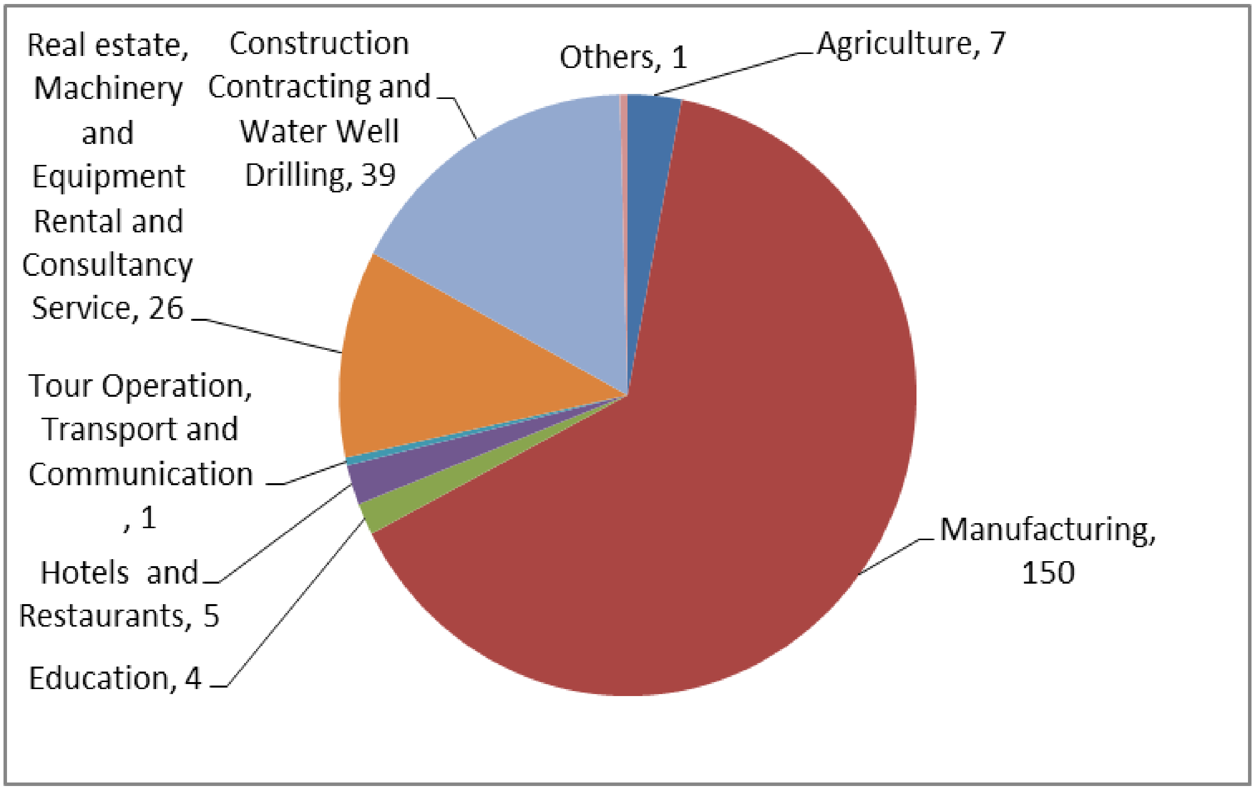

Figure 4.3: Turkish FDI by Investment Sectors

Source: The Ethiopian Investment Commission, (2019)

There were three main factors that attributed to the FDI inflow from Turkey to Ethiopia especially after 2006. Firstly, the 2005 policy of' 'Year of Africa' put Africa under Turkish investment radar. As a result, Turkish investors began to study and start businesses in Africa. Ethiopia was one of the few African countries that became the destiny for Turkish investors. Ratification of two investment-related bilateral agreements; Reciprocal Promotion and Protection of Investment and, the Agreement for the Avoidance of Double Taxation with Respect to Taxes on Income in 2003 and 2005 respectively are the major reasons for the increase in FDI during the above years. Secondly, the opening of the Ethiopian Embassy in Ankara in 2006 facilitated investment promotion and recruitment Hence there was an increase in the number of investors coming to Ethiopia. Besides the opening of the embassy, the 2008 Turkey-Africa Partnership was another major contributing factor for the progress registered over the years. In addition, ratification of the Protocol on Technical, Scientific and Economic Cooperation in the field of agriculture in 2008 contributed to an increased investment partnership, which manifested itself in continued FDI inflow from Turkey to Ethiopia. These Turkish investments could have a significant impact in dealing with the trade imbalance. Turkey is one of the leading countries that are investing in Ethiopia. Ambassador Alp also commented on the investment relations, she stated that “The economic aspects may be the most vibrant part of our relations currently. Turkey is now one of the biggest investors in Ethiopia with 2.5 billion USD of investment. New companies continue to invest” (Haftu, 2019).

According to the interview with Mr. Ahemednur Yusuf, Director One-Stop Service Directorate in EIC, stated, the Economic development approach considers foreign direct investment in combination with the local investment to be an advantageous source of foreign capital and economic development of the country. For the reason that, foreign direct investment brings technology and access to employment, which have been lacking in Ethiopia for a long period of time, so the positive outcomes that result from the Turkish foreign direct investments and its experience of bringing out its people from severe poverty, are important for Ethiopia’s economic as well as industrial development.

In finalizing the discussion on Turkish FDI to Ethiopia, these Turkish investments take the third highest in terms of capital next to china and Saudi Arabia, and the fifth-highest in the total number of FDI projects next to China, India, Sudan and USA in Ethiopia (EIC, 2019). As indicated in table 4.5 its regional distribution mainly focuses on the capital city of the nation and the nearby regions, the manufacturing sector is the type of industry that is easiest for Ethiopia to absorb. The sector has shown high rates of job creation in Ethiopia. The Turkish manufacturing companies have permanently employed over 15,758 fulltime Ethiopian employees at this moment but still low in numbers in a country where millions are unemployed.

CHAPTER FIVE

PROSPECTS AND CHALLENGES IN ETHIOPIA-TURKEY ECONOMIC RELATIONS

Turkey is one of the most strategic trade and investment partners in Ethiopia. In line with this, Turkish businessmen constitute one of the largest groups of foreign investors in Ethiopia. The Turkish market is also one of the major destinations for Ethiopian products. This chapter discusses the prospects and challenges in the relations between the two countries.

5.1. Prospects in Ethiopia-Turkey Economic Relations

The major prospects between the two countries economic relation include;

I. Low Labor Cost

Country's factor endowment is commonly understood as the amount of land, labor, capital, and entrepreneurship that a country possesses and can exploit for different sectors. The Rybczynski theorem (1955) explained that increasing the level of the labor supply will lead to the rising production of the good which uses that factor intensively (Rybczynski, 1955). In addition to cheap labor, the out-put labor ratio/labor productivity also determines the inflow of FDI.

According to The Global Economy report (2018), in Ethiopia, the labor force is estimated at 52.63 million people in 2018, and labor remains readily available and inexpensive.

II. Natural Resources

Dunning (1993) states, the need to secure economic and reliable sources of mineral and primary products for the industrializing nations of Europe and North America, natural resources were the major reason for the expansion of FDI. Berhanu (1999) noted that countries that have sufficient deposits of minerals can attract foreign investors particularly those involved in the exploitation of natural resources. Dunning expressed in his theories of location advantages that, accessibility and low cost of natural resource, adequate infrastructure, political and macroeconomic stability are basic factors that should be fulfilled before engaging in cross border activities (Dunning, 1993).

Ethiopia has a favorable climate, comparatively abundant land, and labor as well as reasonably good water resources that created ample opportunities for agriculture and flower farming production (Ayelech and Helmsing (2010)). According to International Energy Agency (IEA) report; the country has 122 billion cubic meter surface water, 2.6 billion cubic meter groundwater, 12 river basins, 18 natural lakes including the Rift Valley lakes and a potential of 3.7 million hectares irrigable land (IEA, 2014).

III. Investment Guarantees and Protection

The Constitution of Ethiopia and the Investment Proclamation and the legal system protect private property. Ethiopia is a member of the Multilateral Investment Guarantee Agency (MIGA) which issues guarantees against risks to entrepreneurs that invest in signatory countries.

The investment guarantee and protection; includes

A. **Guarantee against expropriation;** Ethiopia is a member of the World Bank-affiliated Multilateral Investment Guarantee Agency which issues guarantees against non-commercial risks to enterprises that invest in signatory countries. The Investment Proclamation provides an investment guarantee against measures of expropriation and nationalization that may only occur for public interest and in compliance with the requirement of the law. Where such expropriations are made, the Government provides adequate compensation corresponding to the prevailing market value of the property and such payment is effected in advance.

B. **Remittance of funds**; Foreign investors are granted to make principal and interest payment of external loans, payments related to technology transfer agreement, profits and dividend acquiring investment and proceeds from the sale or liquidation of an enterprise out of Ethiopia in convertible foreign currency at the prevailing exchange rate on the time of remittance.

IV. Investor-Friendly Policies and Incentives

The government also gives incentives for investors who are interested to invest in Ethiopia. According to the information obtained from the Ethiopian investment commission and an interview with Mr. Ahmednur Yusuf, Director One-Stop Service Directorate in EIC, incentives in Ethiopia have two categories: the investment incentives and export incentives.

INVESTMENT INCENTIVES

A. Exemption from import customs duty: One hundred percent exemption from the payment of import customs duties and other taxes levied on imports is granted to an investor to import all investment capital goods, such as plant, machinery, and equipment, construction materials, as well as spare parts worth up to 15% of the value of the imported investment capital goods.

B. Exemption from the payment of income tax: Any income derived from an approved investment in new manufacturing, agro-industry and information and communication technology (ICT) development or agriculture is exempted from the payment of income tax, depending upon the volume of export and the location in which the investment is made. Supplies at least 75 percent of his product or service to an exporter, as a production or service input, will be a grant from 5 to 7 years income tax exemption.

C. Carry forward of losses: Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period.

D. Remittance of Funds: Foreign investors are entitled to make the following remittances out of Ethiopia in convertible foreign currency at the prevailing rate of exchange on the date of remittance: Profits and dividends accruing from investment, principal and interest payment on external loans, payments related to a technology transfer agreement, proceeds from the sale or liquidation of an enterprise, proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor, and expatriate employees may remit in convertible foreign currency, unspent salaries and other payments accruing from their employment in hard currency.

E. One-Stop-Shop Service: Foreign investors obtain pre-and post-approval services from the Ethiopian Investment Commission (EIC). In addition to facilitation and promotional services, the EIC offers the following services under the one-stop-shop arrangement: issuance of Investment permit in 4 hours, issuance of commercial registration certificate in 4 hours, issuance of business license in 4 hours, issuance of work permit in 1 hour, registration of technology transfer agreement in 2 hours, registration of export-oriented non-equity based foreign collaboration in 1 hour and facilitation of the acquisition of land and utilities.

F. Loan Provision: The development bank of Ethiopia gives loans to investors. Though DBE has been criticized for lacking investor centered and effective policies in place and with enormous criticisms staged against the bank. The bank gives a 50% loan for foreign investors who come with a 50% investment capital.

EXPORT INCENTIVES

The Government of the Federal Democratic Republic of Ethiopia has introduced a number of export and investment incentive schemes, which creates an enabling environment and competitiveness for investors and manufacturer exporters. The incentives schemes introduce in this context are described in the following sections. The incentives are three types: the export trade duty incentives, cost-sharing schemes, and exporters prize awards.

A. Export Trade Duty Incentives: The objectives of the export trade incentive scheme is to improve the foreign currency reserve of the country by enhancing export trade and to enable exporters access inputs at world market price so that they will be able to compete on equal footing with their competitors.

The Export Trade Incentive Scheme shall apply to raw-materials and commodities re-exported after having been imported upon payment of duties, raw-materials imported or produced locally to be used in production of export commodities, goods to be used for packing and containing export commodities, imported oil, lubricants and other energy-generating substance used by producers which are wholly engaged in manufacturing commodities for export and locally originating or imported raw materials for use in the production of goods which are in turn employed as input to produce commodities for export market.
The duty incentive schemes established include duty draw-back scheme, voucher scheme, and bonded manufacturing warehouses.

Duty Draw-Back Scheme: Duty Draw-Back means a scheme by which duty paid on raw material used in the production of commodities is refunded upon exportation of the commodity processed and shall include refund of duties paid on goods re-exported in the same condition for being not in conformity with purchase order specifications, damaged, short delivery or not in market demand.

Duty Draw-Back Rate means when the export of raw material of commodity on which duty to be drawn-back is ascertained, if re-exported in the same condition 95% or if exported after being processed or used for packing and containing 100%, of the duty paid shall be refunded, having calculated the amount of duty payable on each commodity produced locally and exported thereafter, the customs and revenues authority shall pay the duty to the bank account of the beneficiary, or pay the beneficiary by cheque.

Voucher Scheme: A Voucher or Voucher Book is a document printed by the Customs and Revenues Authority, to be used for recording the balance of duty payable on raw materials imported for use in the production of goods for the export market.

Bonded Manufacturing Warehouse Scheme: In this scheme, the customs official and the exporter shall jointly lock the licensed warehouse, the exporter who imports raw materials shall complete transit formalities at the port of arrival, and the raw materials shall directly be transferred to the warehouse. All necessary customs formalities shall be completed at the warehouse, the raw material to be used for production must be removed in presence of customs official, the product shall be registered and transferred to the warehouse and shall be exported after all customs export formalities have been completed. Beneficiaries of the bonded manufacturing warehouse scheme are producers wholly engaged in exporting their products who are not eligible to use the voucher scheme and who have a license that enables them to operate such warehouse.

B.Cost-sharing scheme

The government supports and encourages organizations engaged or planned to engage in export-focused activities through the cost-sharing scheme. The directive is meant to exempt income tax to be paid on salaries of foreign professionals and experts hired by these persons or organizations. The objective of the scheme is to support and encourage managerial and technical skill capacity building efforts being done by export-focused organizations hiring foreign professionals and experts by exempting income tax paid on their salaries.

The following procedure of Hiring Foreign Expert is part of the scheme: The Foreign expert should submit his experience and educational testimonies that indicated his competence to carry on the duties and the salary amount he is demanding, the foreign experts to be hired should confirm that they can achieve the results indicated on the project proposal within the contract period, should indicate this by activity time table (action plan) and strategies to be followed to perform detailed activities. The foreign expert or the company administering the expert should sign a contractual agreement with the applicant that the activities shall be accomplished as per the action plan indicated.

C. Exporters Prize Awards

In order to encourage and recognize the good performance being made by exporters, the Council of Ministers of the Federal Democratic Republic of Ethiopia has issued regulations. The objective of the export prize shall be to acknowledge the efforts and achievements scored by persons involved in the export sector and thereby create a result-oriented completive environment to ensure further improvements in the export sector performance.

According to the regulations, the following export prizes are instituted: excellent export performance prize, new export products prize, export product buyers prize, export product input suppliers prize, and export support prize. Awarded of export prizes shall be entitled to preference to get service under equipment lease or financial lease schemes, cost-sharing support to efforts being made to meet international standards and thereby get accreditations and access to Exporters Credit Guarantee and many more special privileges (EIC, 2017, Ahmednur, 2019).

5.2. Challenges in Ethiopia-Turkey Economic Relations

The major challenges between the two countries economic relation include;

I. Import of Manufactured Goods and Export of Primary Agricultural Products

Foreign trade became increasingly important to the Ethiopian economy, but as it can be seen in Table 4.1 and Appendix II, Ethiopian foreign trade with Turkey depends on a few agricultural products. Ethiopia exports oilseed, pulse, textile and garment, coffee, spice, flower, leather products, and others. As Shiferaw (1995) argues "the structure of Ethiopia's export is a direct reflection of the underdeveloped economy. As one of the least developed countries, its exports are highly dominated by a small number of agricultural commodities." Moreover, as can be seen from Table 4.2 and Appendix III, Turkey's export products to Ethiopia are primarily manufactured goods. What is immediately clear from observing Ethiopia's export profile is the country's dependence on the export of primary commodities, and this has its own drawbacks from the point of view of trade share.

II. Corruption

The reports of Transparency International (TI) puts Ethiopia among the highly corrupt countries its ranks in the TI's reports from one year to the next. Ethiopia was ranked 116, 120, 113, 111, and 110 out of 176 countries in the TI's 2010, 2011, 2012, 2013 and 2014 reports, respectively. The TI's 2016 report ranks Ethiopia 108 out of 176 countries. In this report, the country scored 34 out of 100 which put it in the category of highly corrupt countries. The 2018 index, which ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people, uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean. More than two-thirds of countries score below 50 on this year's CPI, with an average score of just 43. Ethiopia ranked 114th scoring 34 out of 100 (TI, 2018).

III. Lower Human Capital Development

The concept of human capital refers to the abilities and skills of the human resources of a country. Human capital is one of the fundamental factors for economic growth. The basic components of the Human Development Index are life expectancy at birth, expected years of schooling, mean years of schooling and Gross National Income per capita. The Human development classification/ Index value categorize countries as very high (0.800 or greater), high (0.700–0.799), medium (0.550–0.699) and low (Less than 0.550). Based on this, Human Development Index 2018 ranks Ethiopia and Turkey at 173rd with 0.463 HDI and 64th with 0.791 HDI out of 189 countries respectively, indicating poor human development in Ethiopia and high human development in Turkey. Ethiopia continued to be considered as a least-developed country (LDC) in human capital. The country has traditionally been among the most educationally disadvantaged in the world, and the majority of its population had little access to schooling. Different scholars have argued that human capital development is vital for trade development and in attracting foreign investment. Ethiopia scored very poorly human capital development which directly affects the bilateral trade and investment relations between the two countries.

IV. Infrastructure problems

Inadequate Infrastructure has been considered as a major hindrance for enhancement of trade and investment. In recent years, Ethiopia has made significant progress in infrastructure and it has developed Ethiopian Airlines and associated regional air transport hubs. It also has launched an investment program to upgrade its network of trunk roads and is establishing a funding mechanism for road maintenance. Even if Ethiopia has made significant progress in some infrastructures in recent years, Infrastructure facilitates, particularly, transport and power have remained major problems for Ethiopia, which directly affects the FDI inflows and movement of trading goods.

V. Companies Failure to Service their Debts

As Fasika (2019) on her analysis on Turkish investments stated; "The top five companies holding the highest portfolios of non-performing loans at the Development Bank of Ethiopia are all Turkish owned. Together with one other Turkish company, six foreign companies owe the Development Bank an aggregate of 8.7 billion Birr non-performing loans. These companies failed to service their debts, and the bank has repossessed the plants of three companies already, including the defaulted Ayka Addis." Abebe Abebayehu, chief of the EIC, also commented on Fortune, "Most of the companies have management problems. Due diligence and project evaluations, as well as feasibility studies were not properly carried out by government agencies when these companies started investing here." On my interview with Mr. Kifle, Strategy, change and communication Directorate Director at DBE, also issued the above problems are existing in the process and, the total failure of loans is around 39% and they take different measures on companies who are late to pay their debt, measures like management intervention, early warnings and project rehabilitation and legal measures finally.

VI. Weak export capacity in terms of volume

When Mr. Sedat Erdogulu, the Turkish commercial counselor, explained why the trade balance is in favor of Turkey in its trade relationship with African countries in general and Ethiopia in particular, Mr. Sedat thought that the root cause of the trade imbalance is incapability of countries to export commodities. Ethiopia's limited export destinations and market access have its own adverse effect on the country's trade. Additionally, Ethiopia's industrial structure is dominated by a relatively small number of government-owned firms and conglomerates which features a high degree of concentration and is characterized by relatively high administrative barriers to entry.

Other challenges mentioned by the interviewees include; incomplete marketing network, insufficient supporting organization (weak capacity of educational organizations, backward quality inspection and standardization), quality of products (sending low quality product which is different from the sample), since current machines are mostly fitted with sophisticated electronic devices not maintenance-friendly and non-availability spare part, lack of warehouse - if the producer does not have sufficient warehouse that can accommodate his produce significant amount of the product will be liable to lose and insufficient export incentives.

Finally, this chapter discussed the major prospects and challenges in Ethiopia-Turkey economic relations. The next chapter addresses the conclusions of the study.

CHAPTER SIX

CONCLUSION

6.1. Conclusion

Ethiopia and Turkey have long historical relations dating back to centuries. Both countries have long-standing economic and commercial relations. This study assessed the economic relations with particular reference to the trade and FDI based on findings from 2006 to 2018. The signing of different treaties and agreements gave a smooth ground for Ethiopia-Turkey relations. Regarding trade, Trade relations between the two countries, trade balance consistently remained in favor of Turkey. Ethiopia suffers a significant trade deficit with Turkey due to the composition of items between the two countries. Thus, Ethiopia exports primary agricultural products and raw materials, whereas Turkey exports mainly manufactured goods. In comparison with Ethiopia's export of primary commodities, whose prices are volatile and render the local economy vulnerable, its imports are composed of capital and consumer goods. The trade imbalance remains a structural problem in the trade relations between the two countries. The study conclude that trade relations between Ethiopia and Turkey are unequal and asymmetrical. The widening deficits in favor of Turkey need the attention of both governments in order to sustain the trade relationships between the two countries. In order to benefit more from economic relations with Turkey, Ethiopia needs to devise and stress mitigation strategies that would reduce its long-term economic vulnerability.

On the FDI inflow from Turkey to Ethiopia, Turkish investments could have a significant impact in dealing with the trade imbalance and Turkish investments take the third highest in terms of capital next to china and Saudi Arabia, and the fifth-highest in the total number of FDI projects next to China, India, Sudan and the USA in Ethiopia. FDI brings technology and access to employment, which have been lacking in Ethiopia for a long period of time, so the positive outcomes that result from the Turkish foreign direct investments and its experience of bringing out its people from severe poverty are important for Ethiopia's economic as well as industrial development.

Natural resources, low labor wage, investment guarantees, and investor-friendly policies and incentives are the prospects listed under this study. This paper has also pointed out the challenges for the future of Turkey-Ethiopia relations. There have been many challenges to the bilateral relationship between the two countries. The major challenges are the import of manufactured goods and export of primary agricultural products which resulted in massive trade imbalance and favored Turkey, corruption, lower human capital development, companies' failure to service their debts and infrastructure problems are listed.

Generally, Turkish economic activity in Ethiopia may produce opportunities for the country's economic development if the Ethiopian government craft and implement policies that can promote the desired outcomes.

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APPENDIX

APPENDIX I: List of People Interviewed/ Key Informants

Interviewee	Date of Interview	Position	Institution
Ms. Muntha Jemal	May 2, 2019	Director General for Foreign Trade and Tourism Promotion Affairs	FDRE Ministry of Foreign Affairs
Mr. Mehreteab Mulugeta	May 2, 2019	Director General European and European Union Affairs	FDRE Ministry of Foreign Affairs
Mr. Ahmednur Yusuf	April 25, 2019	Director One-Stop Service Directorate	Ethiopian Investment Commission
Mr. Hunde Belay	May 24, 2019	Import Management Directorate Director	FDRE Ministry of Trade
Mr. Assefa Mulugeta	May 2, 2019	Director General Export Promotion Directorate General	FDRE Ministry of Trade
Mr. Kifle Hayleyesus	April 24, 2019	Strategy, Change, and Communication Directorate Director	The Development Bank of Ethiopia
Mr. Sedat Erdogdu	May 23, 2019	Commercial Counsellor	The Embassy of the Republic of Turkey

APPENDIX II: Top 10 Export commodities from Ethiopia to Turkey from 2007-2009 E.C

2007	No.	Items	VOLUME in Ton	VALUE/ USD
	1	Textile and Garment	5,223.14	19,748,259.53
	2	Oil Seed	11,073.94	18,480,358.69
	3	Pulse	8,090.46	3,847,479.80
	4	Others	209.00	1,212,016.40
	5	Spice	338.00	720,405.00
	6	Coffee	56.40	264,790.10
	7	Meat and Meat Products	90.15	129,278.40
	8	Cereals	258.00	97,020.00
	9	Finished Leather	5.22	90,921.25
	10	Processed Oil Seed	24.00	47,985.00
2008	**No.**	**Items**	**VOLUME in Ton**	**VALUE/ USD**
	1	Oil Seed	12,901.90	13,762,306.90
	2	Textile and Garment	3,819.59	10,661,415.24
	3	Pulse	9,893.80	4,940,968.23
	4	Others	336.29	1,112,211.61
	5	Cereals	570.20	532,122.00
	6	Coffee	114.02	312,144.01
	7	Spice	111.00	293,380.00
	8	Natural Gum	17.00	86,596.81
	9	Finished Leather	3.56	68,283.37
	10	Flower	0.44	9,755.18
2009	**No.**	**Items**	**VOLUME in Ton**	**VALUE/ USD**
	1	Oil Seed	12,542.00	13,851,860.74
	2	Pulse	10,579.00	8,584,447.66
	3	Textile and Garment	2,617.16	7,872,012.40
	4	Coffee	76.80	208,618.51
	5	Finished Leather	1.27	32,589.75
	6	Metal	9.15	28,597.90
	7	Processed oil seed	27.00	21,600.00
	8	Flower	0.96	18,768.88
	9	Others	6.00	17,395.00
	10	Mineral Products (Other than gold & Tatalite ore)	0.00	15,581.98

Source: Ministry of Trade (2019).

APPENDIX III: Top 10 Import commodities from Turkey to Ethiopia from 2007-2009 E.C

2007	No.	Items	VOLUME in Kg	VALUE/ USD
	1	Articles of iron or steel	155,988,216.69	172,107,478.67
	2	Machinery and mechanical appliances	147,449,726.13	153,296,636.47
	3	Iron and steel	102,833,572.08	69,287,545.96
	4	Plastics and articles thereof	4,708,676.31	9,744,267.06
	5	Electrical machinery and equipment and parts	667,336.55	3,729,827.77
	6	Textiles	742,019.47	3,339,634.43
	7	Explosives	2,157,696.71	2,647,668.48
	8	Rubber and articles thereof	522,876.85	2,611,083.26
	9	Paper and paperboard	307,985.52	1,326,321.57
	10	Aluminum and articles thereof	188,807.12	931,226.31
2008	**No.**	**Items**	**VOLUME in Kg**	**VALUE/ USD**
	1	Articles of iron and steel	188,248,252.24	236,432,386.16
	2	Iron and steel	101,597,800.21	60,143,141.74
	3	Machinery and mechanical appliances	2,504,312.74	21,244,883.37
	4	Precious metals stones and imitations	14,874,864.03	8,212,220.45
	5	Electrical machinery and equipment and parts	648,512.55	6,436,769.65
	6	Plastics and articles thereof	4,140,290.47	6,013,841.76
	7	Pulses	5,928,010.02	4,471,265.01
	8	Textiles	537,814.61	2,282,382.04
	9	Explosives	2,092,565.30	2,230,291.47
	10	Furniture	375,504.86	2,092,126.51
2009	**No.**	**Items**	**VOLUME in Kg**	**VALUE/ USD**
	1	Articles of iron and steel	171,327,474.38	192,451,494.66
	2	Machinery and mechanical appliance	131,097,597.88	178,239550.92
	3	Iron and steels	149,879,876.34	63,405,095.84
	4	Fertilizers	60,000,000.00	33,060,000.00
	5	Precious metals, stones, and imitations	33,234,138.29	17,908,463.24
	6	Pulses	19,994,143.50	14,123,081.58
	7	Plastics and articles thereof	5,657,004.18	9,600,676.04
	8	Copper and articles thereof	1,262,448.00	8,247,072.68
	9	Explosives	4,078,743.40	5,559,409.65
	10	Electrical machinery and equipment and parts	431,434.62	4,746,835.93

Source: Ministry of Trade (2019).

V. **Interview Questions for officials in the Development Bank of Ethiopia**

1. How much Projects activities done, planned or operating by Turkish investors?
2. What unique services does the bank give for foreign investors in general and for Turkish investors in particular?
3. How many Turkish companies/firms are linked with DBE? licensed, operating, negotiating etc
4. How much amount of loan does the bank gave to Turkish based investments?
5. Any non-performing loans by these Turkish firms? How much?
6. What are the reasons for these non-performing loans?
7. Finally, What are challenges and/or prospects of your relation with these firms? What would you propose to reduce challenges and tap on the prospects?

The Student has got available information from our Bank.

Kifle Hayleyesus
Strategy, Change and Communication Directorate Director

Thank you very much for every information you provide me!

	የውጭ ጉዳይ ሚኒስቴር MINISTRY OF FOREIGN AFFAIRS	ቀን: ሚያዝያ 17 ቀን 2011 ዓ/ም Date: ቁጥር: ____ Ref. no.
Rev. No.____	የሰው ኃብት ማኔጅመንት ዳ/ጄኔራል Human Resource Management D/G	ፊርማ ϕelwcዓ

ለ፡ አውሮፓ አገሮችና የአውሮፓ ህብረት ጉዳዮች ዳይሬክቶሬት ጄኔራል

ጉዳዩ፦ ትብብር ስለመጠየቅ፣

የአዲስ አበባ ዩኒቨርስቲ የሶሻል ሳይንስ ኮሌጅ የፖለቲካል ሳይንስና አለም አቀፍ ግንኙነት ት/ክፍል የሁለተኛ ዲግሪ ተማሪ የሆኑት አቶ ዳግማዊ አየለ "Ethio-Turkish Economic Relations: An Assessment on Trade and FDI since 2006" በሚል ርዕስ ላይ የመመረቂያ ጥናት ጽሁፍ እየሰሩ በመሆኑ ለጥናቱ የሚያስፈልግ መረጃ እንዲያገኙ ትብብር እንዲደረግላቸው ተቋሙ ኢፕሪል 22 ቀን 2019 ዓ.ም በተጻፈ ደብዳቤ ጠይቋል።

በመሆኑም ተጠቃሹ ለጥናት ስራቸው የሚረዳ መረጃ ከስራ ክፍላችሁ እንዲያገኙ የተለመደ ትብብር እንዲደረግላቸው እንጠይቃለን።

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II. Interview Questions for officials in the Turkish Embassy

1. Ethiopia-Turkey historical relations in brief?
2. What are different reasons for the improved economic activity of the Turkey in Ethiopia after 2006?
3. What reasons attract Turkish firms to invest in Ethiopia?
4. With which institution/s do you have strategic partnership/working together?
5. How much Projects activities done, planned or operating by Turkish investors?
6. In which sectors they are engaged? How much they are effective?
7. What are the Challenges and prospects in Ethiopia-Turkey relations?
8. What role/activities does your consular contribute to Ethiopia and Turkey relations?

This student has come to our Office and

Sedat ERDOĞDU
Commercial Counsellor

Thank you very much for every information you provide me!

I. Interview Questions for officials in the FDRE Ministry of Foreign Affairs

1. Historical relations in brief; How do you evaluate the relation of the two countries in the three regimes of Ethiopia, i.e., in Haile Sellassie, Derg, and after 1991?
2. What sort of measures does your ministry take/will take to increase Ethiopian export products so that country will exploit huge Turkish market?
3. Why Turkey is important to Ethiopia? What are the major areas of their relations?
4. How do you generally describe their economic relations? What are different reasons for the improved economic activity of Turkey in Ethiopia particularly after 2006?
5. What factors enabled the bilateral relations to be found on such status?
6. Are there other institutions, other than embassy, that represent Ethiopia-Turkey relations; which ones and what roles they are playing?
7. Are there some issues of disagreement/misunderstanding either in bilateral or multilateral interactions? If any, how did/do you deal with them?
8. What are challenges and/or prospects of their relations? What would you propose to reduce challenges and tap on the prospects?

Meh[illegible] Mulugeta
[illegible]eral
European and [illegible] Affairs

Munteha Jemal Seid
Director General for Foreign
Trade & Tourism Promotion
Affairs

Thank you very much for every information you provide me!

IV. Interview Questions for officials in the FDRE Ministry of Trade

1. Which countries are the leading trade partners of Ethiopia?
2. How would you describe Ethiopia-Turkey trade relation?
3. When did it start, and how is it going?
4. What are different commodities that Ethiopia exports to the Turkish market and it imports from this country?
5. Are these items different from trade items with other countries?
6. Data reveal that Ethiopia's export to Turkey is highly dependent on few agricultural products and this is considered as a major factor for the countries trade deficit. What measures have been taken to diversify exports?
7. Although there has been growth in Ethiopia's overall export performance, the country still maintains serious trade deficit with Turkey. What is done and is there any proposed policy direction which can help to deal with the problem?
8. What do you think are other mechanisms at least to decrease such exaggerated trade imbalance?
9. What are the different factors that help for the improvement of trade exchanges between the two countries?
10. Are there missed opportunities in the partnership? What are the causes? What do you think should be done to tackle the problem?

Hunde Belay Dibaba
Import Management
Directorate Director

Assefa Mulugeta
Director General Export
Promotion Directorate General

Thank you very much for every information you provide me!

III. Interview Questions for officials in the Ethiopian Investment Commission

1. What is the importance or benefits of FDI to Ethiopia?
2. In general, which countries are leading in FDI inflow? Which sector is most attractive?
3. What are the contributions of EIC in attracting FDI?
4. How important is Turkish FDI to Ethiopian industrialization? Are there significances of Turkish FDI?
5. How is the trend since 2006?
6. What are the different factors that help for the improvement of investment relations between the two countries?
7. What unique characteristic does the Ethiopia-Turkey relation have?
8. How many Turkish companies/firms are licensed, operating, negotiating etc / total number of Turkish investments?
9. In which sectors they are engaged?
10. What are challenges with regard to Turkish investors in particular?
11. Are there some complaints and disagreements with Turkey's firms so far?
12. Why is Ethiopia focus on Turkey to share developmental experiences?
13. What reasons attract Turkish firms to invest in Ethiopia?
14. What are the gains and pains Ethiopia achieve from the Ethiopia-Turkey relationship? Or From Turkish FDI?

The prospective M.A students have taken the available information from the Ethiopian Investment Commission.

25/4/2019

Ahmednur Yusuf
Director One Stop Service
Directorate

Thank you very much for every information you provide me!