

ADDIS ABABA UNIVERSITY
COLLEGE OF SOCIAL SCIENCES
DEPARTMENT OF POLITICAL SCIENCE AND INTERNATIONAL
RELATIONS

ASSESSING THE POST-1991 ETHIO-INDIA ECONOMIC RELATIONS: A
STUDY ON TRADE AND AGRICULTURAL INVESTMENTS

BY

BELAYNEH LETA MAMUYE

ADDIS ABABA

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BELAYNEH LETA MAMUYE

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To the memory of my Father, Leta Mamuye Ayanna

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List of Acronyms

ADB	African Development Bank
ADLI	Agricultural Development Led- Industrialization
AGOA	African Growth and Opportunities Act
BIPPA	Bilateral Investment Promotion and Protection Agreement
DFTP	Duty Free Tariff Preference Scheme
DTAA	Double Taxation Avoidance Agreement
EPRDF	Ethiopian People’s Revolutionary Democratic Front
EU	European Union
EXIM	Export-Import
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GSP	Generalized System of Preference
H-O	Heckscher-Ohlin Model
IFIs	International Financial Institutions
IMF	International Monetary Fund
ITEC	Indian Technical and Economic Cooperation
JTC	Joint Trade Committee
LDCs	Least Developing Countries
MIGA	Multilateral Investment Guarantee Agency
MoA	Ministry of Agriculture
NAM	Non- Aligned Movement
NGOs	Non-Governmental Organizations
OAU	Organization of African Unity
OCED	Organization for Economic Cooperation and Development
OI	Oakland Institute
ONGC	Oil and Natural Gas Corporation

PLC	Private Limited Company
SAPs	Structural Adjustment Programs
SSC	South-South Cooperation
TEAM-9	Techno-Economic Approach for Africa-India Movement
TGE	Transitional Government of Ethiopia
UN	United Nations
UNDP	United Nations Development Program
UNSC	United Nations Security Council
US	United States
WB	World Bank

Abstract

Ethiopia has had long-standing bilateral relations with India. Trade and commercial contacts between the two countries flourished during and since the ancient Axumite Empire. India achieved its independence from British colonial rule in August 1947. After one year of its independence, India has established official diplomatic relations with Ethiopia. However, the year 1991 was the turning point in the relations between the two countries. After 1991, the bilateral relations manifest in terms of economics and trade. The main objective of this study is to critically examine the Post-1991 Ethio-India economic relations. It aims to assess the bilateral trade relations between the two countries and Indian agricultural investments in Ethiopia. To study these issues, the study has used qualitative research methodology. Data have been collected both from primary and secondary sources. Available literatures were reviewed to discuss about historical relations and bilateral economic relations between the two countries. Additionally, in-depth interviews were conducted with officials from Ethiopian Investment Commission, Ministry of Foreign Affairs, Ministry of Trade, and Agricultural Investment Land Administration Agency for the collection of primary data. The findings from data analysis show that the economic relationships between the two countries are in favor of India in trade and agricultural investments. After critical analysis of trade data between Ethiopia and India, this paper has found that Ethiopia has chronically run a negative balance in its trade with India. Ethiopia's trade deficit can largely be explained by the unequal terms of trade between agricultural commodities (the country's major exports) and capital goods (the country's major imports). With regard to agricultural investment, Indian agricultural investments have both positive and negative impacts on local peoples where they are operating. Indian Agriculture investments in Ethiopia created permanent and temporary job opportunities for Ethiopians; it has also increased government revenues, and has brought foreign currency and technology transfer. On the other hand, Indian investments in agriculture do not alleviate food insecurity in Ethiopia and it has also caused the displacement of smallholder farmers and the degradation of natural resources. In response to trade imbalance, Ethiopia needs to focus on diversifying the composition of its exports and improving the business climate through infrastructural development, building strong institutions and reducing bureaucratic problems. Indian agricultural investments in Ethiopia also need encouragement, support and critical follow up in order to provide the expected benefits for Ethiopians.

Key Concepts: Globalization, Economic Cooperation, South-South Cooperation, FDI and Trade

Chapter One

Introduction

1.1 Background of the Study

Globalization is a common phenomenon that leads to intensification of worldwide interconnectedness through trade, investment, finance, migration and diffusion of culture.¹ In the 21st century, the world economy can be considered as a global economic system, which is characterized by international division of labor, internationalization and integration of production and exchange that operates on the principle of market economy.² In global economic system, there is a mutual interdependence of the various national economies.

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.³ Trade has become a decisive issue largely because countries' economies are now more open to flows of imports and exports than ever. This has occurred because of technological changes as well as consequent changes in government policies.⁴ Beginning from the close of World War II, trade has become a more important aspect of International Relations.⁵ According to Rourke, "*the expansion of trade increased interrelationships between international economic activities and domestic economic circumstances*".⁶

¹David, Held *et al*, *Global Transformations: Politics and Culture* .1999. John Wiley and Sons Ltd.

²Tbilisi State University, International Economic Relations Department, *An Introduction to International Economic Relations*. 2014. Tbilisi Publishing House

³Vijayasri.G.V , *The Importance of International Trade in the World*. 2013.International Journal of Marketing, Financial Services & Management Research, Vol.2, No. 9.Online available at www.indianresearchjournals.com

⁴V. Milner, Helen, *International Trade on the Hand Book of International Relations*. 2013. SAGE. Los Angeles

⁵Gilpin, Robert, *The political economy of international relations*. 1987. New Jersey: Princeton university press

⁶Rourke, John T, *International Politics on the World Stage* (4thed) .1989.U.S.A: The Dushkin Publishing Group,Inc p.435

Contacts between India and Africa existed during ancient times when Indian merchants have conducted relatively extensive trade activities along the eastern coast of the African continent.⁷ According to Runoko, “*close relationships between Africa and early India have existed for more than two thousand years*”.⁸

India has close relationships with African countries in terms of historical, cultural, geographical, political, economic and commercial aspects. India and Africa were both injured parties of colonial oppression and they became co-workers in anti-colonial struggles.⁹ Following its Independence, India has been playing a crucial role with regard to the struggles against colonialism and racism in the international system.¹⁰

However, there were little diplomatic relations between Ethiopia and India until 1948. After its Independence, India quickly established diplomatic relations with Ethiopia and its diplomatic mission led by Sardar Sant Singh was sent to Ethiopia. According to Ethiopian Ministry of Foreign Affairs,

*“It was in July 1948 that Ethiopia and India first established diplomatic relations at the level of legations. Full Diplomatic Relations were established in 1950 with assignment of Mr Amanuel Abrham as the first Ambassador of Ethiopia to India”.*¹¹

Ethiopia was the first country from Africa which opened its Embassy in India, New Delhi. Ethiopia and India carried close cordial relations during the long reign of Emperor Haile Selassie.¹² The bilateral relations were strong during the Imperial Regime. However, after the overthrow of the Imperial Regime by the military Junta in 1974, the bilateral relations were limited to cooperation in international forums like Non Alignment Movement.

⁷C. Raja Mohan, “*India and the Balance of Power,*” .2006. Foreign Affairs , no. 4

⁸Runoko, Rashidi, The African Presence in India, available at <http://www.cwo.com/~lucumi/india.html>

⁹Manoj, Kumar, “*India-Ethiopia Relations: 1990-2006*” .2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

¹⁰Fantu Cheru and Cyril Obi, *The rise of China and India in Africa: Challenges and opportunities and Intervention* .2010. Zed Books. London/New York

¹¹ Ethiopian Ministry of Foreign Affairs, ‘Ethio-India Bilateral Relations’ .2015. p.1

¹²Manoj, Kumar, “*India-Ethiopia Relations: 1990-2006*” .2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

During the Ethiopian-Somali War, between July 1977 and March 1978, India supported Ethiopia's right to defend itself and told the Somalian government to respect the OAU charter.¹³ After Ethiopian People's Revolutionary Democratic Front (EPRDF) took power in 1991, relations have gradually improved with increasing diplomatic contacts, trade and investment in Ethiopia's economy.¹⁴ Economic and Diplomatic relations between Ethiopia and India began with a trade agreement in 1997. Today, through South-South cooperation both nations are cooperating in various areas of trade and commerce. The recent visit of higher officials of the two countries to sign bilateral agreements for fastest economic growth has strengthened the linkages between Ethiopia and India in a multi-dimensional sense.¹⁵

1.2 Statement of the Problem

The rise of South has become a stimulus for expanding South-South economic ties, most notably, in trade and Foreign Direct Investment (FDI). After mid 1990's nations like China, India, Brazil, Indonesia and Vietnam have begun to emerge as alternative foreign relations partners to various African countries. These rising economies have established new forms of engagement under the framework of 'South to South cooperation'.¹⁶ India 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. Ethiopia is one of the fifty four African countries and its foreign policy and strategy are extremely influenced by this new form of International Relations.¹⁷ As a result of South-South economic ties, Ethiopia and India are cooperating in various areas of trade and investment.

¹³Embassy of Federal Democratic Republic of Ethiopia, New Delhi, 'Ethio- India Historical Relations'. 2011

¹⁴Ethiopian Ministry of Foreign Affairs, 'Ethio-India Bilateral Relations'.2015. p.1

¹⁵Ethiopian Economics Association report on *A Survey of the Economic and Trade Relationships between China, India and Ethiopia*.2009. Ethiopia. Addis Ababa

¹⁶South to south cooperation is employed to refer to a broad set of phenomena involving relations among developing countries from the emergence of temporary coalitions in multilateral negotiations to private investment flows (UNDP, 2008)

¹⁷Muzeyen Hawas, 'Ethiopia and the rising powers: post-cold war Ethio-Turkish relation'. 2015. Journal of Academic Elegance

According to Ethiopian Ministry of Foreign Affairs, “*Ethio- India Economic relations have steadily increased in the last two decades, since the EPRDF came to power*”.¹⁸

According to Tsegaye, “*Ethiopia is vulnerable to droughts and it is considered as one of the most food-deficient and aid-dependent countries in Africa. Therefore, investments in agriculture are critical for building self-sufficiency in food grains, employment generation and poverty alleviation*”.¹⁹ The Ethiopian government argues that foreign investment in agriculture will bring economic development and may eventually reduce hunger and poverty. It also claims that investments are necessary to modernize agriculture, to bring new technologies, and to create employment opportunities.²⁰

Investigations by the Oakland Institute (OI) and other Non-Government Organizations (NGOs) show that large-scale plantations bring limited benefits for the local populations.²¹ According to the 2008 World Development Report, *three out of every four poor people in developing countries live in rural areas, and most of them depend directly or indirectly on agriculture for their livelihoods*.²²

Currently, literatures are fragmented and no comprehensive document is available on the assessment of the Post-1991 Ethio-India economic relations with particular reference to trade and agricultural investments. Therefore, this paper has attempted to fill the gap in the literatures by providing a comprehensive study about the economic ties between Ethiopia and India.

¹⁸ Ethiopian Ministry of Foreign Affairs, ‘Ethio-India Bilateral Relations’.2015. p.1

¹⁹Tsegaye Tadesse ‘Ethiopia Sets Aside Land for Foreign Investors’. 2009. Available at [http:// in reuters.com](http://in.reuters.com) p.1

²⁰Oakland Institute, *Report on Indian Agricultural investment in Ethiopia* .2013.

²¹ *Ibid*

²²World Development Report, Agriculture for Development. 2008. Available at [http://siteresources.world bank.org](http://siteresources.worldbank.org)

1.3 Objective of the Study

1.3.1 General Objective

The general objective of the study is to critically examine the Post-1991 economic ties between Ethiopia and India with particular reference to trade and agro-investments.

1.3.2 Specific Objectives

This study aims to:

- analyze the contributing factors responsible for the growing economic relations between Ethiopia and India in the Pre and Post-1991 period
- assess the growing trade and investment relations between Ethiopia and India
- examine the Post-1991 trade balance between Ethiopia and India
- examine the impacts of India's agricultural investments on food security in Ethiopia; and
- suggest recommendations emanating from the findings of the study

1.4 Research Questions

1. Why Ethio- India economic relations have steadily increased before and after 1991?
2. What are the different areas of cooperation in Ethio- India relations?
3. What are the major factors which contribute for the trade deficit for Ethiopia in its trade with India?
4. How Indian Agricultural investments have affected food security in Ethiopia?
5. What are the suggestions to minimize the negative trade balance between Ethiopia and India? And what are the ways to minimize the adverse impacts of Indian Agricultural investments in Ethiopia?

1.5 Significance of the Study

This study has a fundamental value to anyone who is interested in similar area and it would serve as a spring board for further study in the area. Since there is only scanty literature, this study has tried to fill the gap in literatures and it also may provide new insights with regard to the overall Ethio- India economic relations. Additionally, this study has made positive contributions on how the trade deficit to Ethiopia can be tackled and how Ethiopia can get better benefit from its economic ties with India.

1.6 Methodology and Methods of Data Collection

1.6.1 Methodology of the study

Methodologically, the study has employed qualitative approach, which is a more descriptive approach. Qualitative research is a research approach that is concerned with offering specialized techniques for obtaining in-depth responses about what people think, do and feel.²³ Qualitative approach is concerned with subjective assessment of attitudes, opinions and behaviors. Such an approach to research generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis.²⁴ Accordingly, to study the Post-1991 Ethio-India economic relations, the comments, views, and suggestions of experts familiar with Ethio-India economic relations are considered as the main inputs for the study.

1.6.2 Methods of Data collection

To carry out this study, the researcher has used both secondary and primary sources of data. The study has used secondary sources of data from books, journal articles, research papers, newspapers, and other documents. Accordingly, an in depth analysis of books, articles, official documents and reports, working papers and selected Internet sources are critically used. Documentary reviews were triangulated with unstructured in-depth interviews with officials from different organizations.

²³Silverman, D., *Doing Qualitative Research*. 2005. London: Sage

²⁴Kothari, C. R. , *Research methodology: Methods and Techniques*. 2004. New Delhi

To realize the India's involvement in the agricultural investments and the issue of trade relations between the two countries, in-depth interviews were conducted with officials from the Ministry of Foreign Affairs (Mr.Ameha Hailegeorgis), Ministry of Trade (Mr.Tages Mulegeta), Agricultural Investment Land Administration Agency (Mr.Daniel Zenebe) and Ethiopian Investment Commission (Mr.Tadesse Gashaw). Additionally, an in-depth interview has been conducted with Professor K. Mathews in the Department of Political Science and International Relations at Addis Ababa University.

1.7 Scope of the Study

Ethio-India Economic relations are very broad; nonetheless this study has focused on the study of Trade and Agricultural investments. The study is delimited to an assessment of the Post-1991 Ethio-India economic relations with particular reference to Trade and Agricultural investments. The reason for the selection of the above two sectors is that Trade and Agricultural investment have driven Africa's relations with India in general and Ethio-India relations in particular.

1.8 Limitations of the study

In the conduct of the study, the researcher has faced some difficulties. The first constraint for the study is shortage of pertinent materials to conduct the study. Secondly, lack of willingness from the Indian side. It was better if some views were reflected from the Indian side. However, the researcher's effort to do so failed, because they are unwilling to discuss with the researcher and they did not want to provide pertinent information with regard to the bilateral economic relations between the two countries. According to Shri Vijaya Kumar, first secretary of Indian Embassy in Ethiopia, they don't have an authority to provide any information for the purpose of research and it is better to use the websites of the embassy in order to get any information. Last but not least, the financial limitation is also a challenge for the conduct of the study.

1.9 Structure of the Study

This study is organized into five chapters. The first chapter deals about introduction which includes: background of the study, statement of the problem, objectives of the study, scope of the study, significance of the study and methodology of the study. The second chapter presents review of literature, theoretical framework and conceptual framework. It has described the concept of economic cooperation, South-South cooperation, balance of trade and Foreign Direct Investment (FDI). The literature review also covers Indo-Africa historical relations, India-Africa trade relations and Indian investments in Africa. Additionally, it defines and clarifies international trade theories that are relevant to Ethio-India economic relations. These theories include: Mercantilist, Liberal and Marxist theories. The third chapter deals with the historical background to Ethio-India relations under ancient, medieval and contemporary periods. Chapter four gives a broad overview about the Post-1991 Ethio-India economic relations with a particular emphasis on trade and agricultural investment. This chapter has discussed about the crucial factors for the improvement of the bilateral relations between the two countries. It further explains the bilateral trade relations between Ethiopia and India. It critically looks the issue of trade imbalance and factors which contribute for this trade imbalance. Additionally, this chapter deals with Indian agricultural investments in Ethiopia in detail. Finally, in chapter five, the paper provides concluding remarks and recommendations. It focuses on the key findings and policy recommendations.

Chapter Two

2. Literature Review, Theoretical Framework and Conceptual Framework

2.1 Definition of Terms and Concepts

2.1.1 Economic Cooperation

The term “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):

*Economic cooperation is a broad concept which includes cooperative measures in trade, investment, banking, financial assistance, industry, agriculture etc., between and among countries.*²⁵

However, it does not mean that these definitions by different authors have mutually exclusive meanings. They all may have something in common. Enrique (as cited in Tefera) defines Economic Cooperation as an element of international cooperation that seeks to create favorable conditions which are essential to enhance the processes of trade and financial integration in the international arena.

²⁵ Tefera Amare, “*Post-1991 Ethio-China Economic Cooperation with particular focus on Trade and Road construction*.” 2011.MA Thesis, Addis Ababa University. p.10

Rajan defines Economic Cooperation in terms of trade and finance. Accordingly, economic cooperation is a policy measure that facilitates cross-border trade and financial flows by removing different obstacles.²⁶

In the case of the bilateral ties between Ethiopia and India, the term “Economic cooperation” has been largely used to encompass the investment, trade and economic assistance between the two countries. Hence, it shall be understood that economic cooperation is much broader than specific co-operation in terms of trade, investment or any other specific sector of economy.

2.1.2 South-South Cooperation (SSC)

Various scholars and organizations have defined the concept of South-South cooperation in various ways. South-South Cooperation has been loosely defined as an exchange of expertise between governments, organizations and individuals in developing nations. South-South co-operation has a long history, and it emerged most notably at the Bandung Conference in 1955. The concept of “South-South Cooperation” originated in South-East Asia and has been used for decades as a basis for cooperative efforts between countries in the South to promote trade and investment. From its inception, the idea of South-South co-operation was very much based on a model of solidarity among developing countries and collective self-reliance through various co-operation agreements to address common development challenges.²⁷

United Nations Development Program (UNDP) has formally defined South-South cooperation as a broad framework for collaboration among countries of the South in the political, economic, social, cultural, environmental and technical aspects.²⁸ The United Nations Population Fund (UNFPA) has defined South-South Cooperation as a “*means of development by an exchange of knowledge, experience, technology and information and capacity development between and*

²⁶ Ramkishan.S. Rajan, ‘Asian Economic Cooperation and Integration: Sequencing of financial Trade and Monetary Regionalism’. 2004. Available at [http:// WWW.freewebs.com](http://WWW.freewebs.com)

²⁷ OECD (Organization for Economic Co-operation and Development), Trade related South-South Cooperation: India.2012.

²⁸The United Nations Development Program (UNDP), ‘South-South Cooperation: The same old game or a new paradigm?’ Poverty in Focus. 2008. Available at <http://www.ipc undp.org/Pub>

*among developing countries through governments, civil society organizations, academic institutions and national institutions”.*²⁹

According to Buenos Aires Plan of Action (Paragraph 5):

*South-South cooperation is a vital force for initiating, designing, organizing and promoting co-operation among developing countries so that they can create, acquire, adapt, transfer and pool knowledge and experience for their mutual benefit and for achieving national and collective self-reliance, which are essential for their social and economic development.*³⁰

South-South Cooperation refers to cooperation among developing countries in terms of technical and economic aspects through exchange of experts, sharing best practices, and develops a sense of ownership of the development process. It also serves as a deriving factor for developing countries to expand their development options and economic links. South-South Cooperation is a crucial tool for establishing new partnerships, creating more equitable forms of global interdependence and global governance.³¹

Johan and Mans defined South-South cooperation as “*the processes, institutions and arrangements designed to promote political, economic and technical cooperation among developing countries in pursuit of common development goals*”.³² South-South Cooperation is multidimensional in scope, including cooperation in the areas of trade, investment, the exchange of knowledge, skills and technical expertise between developing countries. It can be bilateral, intraregional and interregional cooperation as well as multilateral collaboration among developing countries. Nowadays the framework of “south-south cooperation” has become an important element in international cooperation and developing countries share knowledge, skills, expertise and resources in order to meet their development goals. Recent developments in South-South cooperation have increased the volume of South-South trade, South-South flows of foreign

²⁹United Nations Population Fund (UNFPA), ‘South-South Cooperation Strategy’.2011.p.2

³⁰ UNDP, ‘The Buenos Aires Plan of Action’. 1994. New York. p.6

³¹ *Ibid*

³²Johan, Bulow and Mnas, Widenborg, “Sino-African Relations: Neo-colonialism or “South-South” cooperation?”.2013.Lund University, Department of Political Science. p.5

direct investment, and movements towards regional integration, technology transfers, sharing of experts, and other forms of exchanges.³³

The South-South cooperation initiative and agenda is guided by the principles of respect for national sovereignty, national ownership and independence, equality, non-conditionality, mutual benefit and non-interference in domestic affairs.

2.1.2.1 Objectives of South-South Cooperation

According to Buenos Aires Plan of Action, the basic objectives of South-South cooperation are interdependent and mutually supportive. These objectives are to:

- foster the self-reliance of developing countries by enhancing their creative capacity to find solutions to their development problems;
- promote and strengthen collective self-reliance among developing countries through the exchange of experiences and the development of their complementary capacities;
- strengthen the capacity of developing countries to identify and analyze their main development issues and formulate the necessary strategies to address them;
- increase the quantity and enhance the quality of international development cooperation through the pooling of capacities to improve the effectiveness of the resources devoted to such cooperation;
- create and strengthen existing technological capacities in the developing countries in order to improve the effectiveness of developing countries to absorb and adapt technology and skills to meet their specific developmental needs;
- increase and improve communications among developing countries, leading to a greater awareness of common problems and wider access to available knowledge and experience as well as the creation of new knowledge in tackling development problems; and

³³ United Nations, *Economic development in Africa: Report on South-South Cooperation: Africa and the New Forms of Development Partnership*. 2010. United Nations publications

- recognize and respond to the problems and requirements of the least developed countries and enable developing countries to achieve a greater degree of participation in international economic activities and to expand international cooperation for development.³⁴

South-South Cooperation (SSC) contributes to economic advances in southern nations of Africa, Asia and America. However, SSC faces challenges from the northern powers and has political problems, trade barriers, unequal benefits and ineffective coordination among them.

India has become one of the leaders in advocating the principle of South-South cooperation, especially in its economic ties with Africa. It has also become one of Africa's leading trading partners. India has taken several steps to enhance trade and investment in Africa, including the Focus Africa Program, the Techno-Economic Approach for Africa-India Movement (TEAM-9) initiatives and India-Africa Forum³⁵. Indeed, India has been sharing its expertise and development experience with other developing countries in the bilateral, regional or multilateral framework since its Independence.³⁶

2.1.3 Import and Export of Goods and Services

In the modern world no country is completely self-sufficient. Due to this fact, countries cannot live in isolation. They are interdependent in order to mutually share their prosperity, technical knowhow and undertake trade through selling their surplus products. There is always a need for trade because the countries have different capabilities and they specialize in producing different things. To compensate for what they do not produce, they have to involve in trade with other countries. International trade refers to 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.

³⁴ UNDP, 'The Buenos Aires Plan of Action'. 1994. New York p.6

³⁵ Beri, Ruchita, 'Evolving India-Africa Relations: Continuity and change'. 2011. South African Institute of International Affairs

³⁶ OECD (Organization for Economic Co-operation and Development), Trade related South-South Cooperation: India. 2012.

One of the fundamental principles of international trade is that one should buy goods and services from a country which has the lowest price and sell its goods and services to a country which has the highest price.³⁷

There are misunderstandings among scholars regarding the meaning of the terms *import* and *export*. The United Nations (UN) has adopted a working definition for these two terms. According to 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 export.³⁸

According to Dridi and Zieschang(as cited in Tefera), there are two major approaches to explain the meaning of the terms import and export: non-residents perspective and residents' perspective. Non-residents' perspective defines imports as the non-residents' supply of goods and services to the residents of an economic territory. It also explains exports as the non-residents' use of goods and services produced by residents. Accordingly, imports and exports are treated as "resources/supply" and "uses" respectively.³⁹ On the other hand, from the resident perspective, exports of an economic territory are considered as outputs of the residents whereas imports of an economic territory are viewed as an input of residents. Generally, Imports are goods and services that are made in a foreign country and bought by a country's residents while exports are goods and services that are sold to a foreign resident by a domestic resident or business.

2.1.4 Balance of Trade

A country receives payments from other countries for its export and makes payments to other countries for its imports. The difference between total receipts on account of export of goods and total payment on account of import of goods and services is called Balance of Trade.

³⁷ Vijayasri.G.V, 'The importance of International Trade in The World'.2013. International Journal of Marketing, Financial Services & Management Research. Online available at www.indianresearchjournals.com

³⁸ United Nations,2003

³⁹ Tefera Amare, "*Post-1991 Ethio-China Economic Cooperation with particular focus on Trade and Road construction*".2011.MA Thesis, Addis Ababa University

Balance of Trade refers to the difference between the value of exports of goods and values of imports of good. The World Bank has adopted a more comprehensive definition to the term. Accordingly, 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. 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”.⁴⁰

2.1.5 Foreign Direct Investment (FDI)

Foreign Direct investment (FDI) can be defined as an investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor.⁴¹ In other words, FDI is defined as an incorporated or unincorporated enterprise in which a foreign investor owns 10 percent or more of the ordinary shares of or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.⁴²

According to *Organization for Economic Co-operation and Development* (OECD), foreign direct investment also reflects the objectives of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise).⁴³

⁴⁰ World Bank, *World Development Indicators* .2002. The World Bank Development Data Group

⁴¹ L. K. Vong, ‘FDI: Concepts and Relevance to Macao’. 2004. Research and Statistics Department

⁴² Arne Bigsten, *et al*, ‘Definition of Foreign Direct Investment (FDI) Terms’, Issues paper.2009

⁴³ OECD, *The Concept and Benchmark Definition of Foreign Direct Investment*. 1996.3rd ed, Oxford: Oxford University Press

The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and significant degree of influence on the management of the enterprise. The IMF committee on balance of payment has come up with more acceptable definition for direct investor and direct investment enterprise. A direct investor may be an individual, an incorporated or unincorporated private or public enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which have a direct investment enterprise, operating in a country other than the country of residence of the direct investor. The Committee defined direct investment enterprise as an enterprise (institutional unit) in the financial or non-financial corporate sectors of the economy in which a non-resident investor owns 10 percent or more of voting power of an incorporated enterprise or the equivalent of unincorporated enterprise.⁴⁴

2.1.5.1 Impacts of Foreign Direct Investment

The global FDI flows have motivated exhaustive debates on their impact on host economies. Brooks suggests that in addition to increasing output and income, FDI has been providing the following benefits for the host countries:

- (i) Foreign firms have been playing a crucial role through providing technological transfer for host countries. They are providing technological assistance to their domestic suppliers or customers, and providing technical training for workers who may subsequently move to take care of local firms.
- (ii) Foreign Direct investment facilitates competition in the host economy. The entrance of a new foreign firm in the host economy would tend to increase in the sectoral productivity and reduces the domestic price. In addition, the existence of foreign-owned firms may motivate domestic firms to operate more efficiently.
- (iii) Foreign Direct investment typically results in increased domestic investment. FDI is essential in order to improve domestic investment and there is one to one correspondence between FDI and domestic investment.

⁴⁴ IMF 'Balance of Payment Manual'. 1993. 5th edition. Washington D.C

- (iv) Foreign Direct investment gives advantage in terms of export market access arising from economies of scale in the marketing of foreign firms or from the ability to gain market access abroad.
- (v) Foreign investment can bridge a host country's foreign exchange gap. Investment often requires imported inputs. If domestic savings are insufficient to support capital accumulation to achieve a target growth, or barriers exist in converting domestic currencies into foreign exchange to acquire imports, foreign inflows can help ensure that foreign exchange will be available to purchase imports for investment.⁴⁵

However, it should be noted that not all direct investments will lead to technological transfer or positive spillovers. There might be potential drawbacks such as, a deterioration of the balance of payments as profits are expelled, a lack of positive relationship with local communities, the potentially harmful environmental impact of FDI, especially in the extractive and heavy industries, social disruptions of accelerated commercialization in less developed countries, and the effects on competition in national markets.⁴⁶

2.2 Literature Review

This section deals with the review of some literatures on Indo-Africa historical relations and India's economic engagement in Africa with a particular emphasis on trade and Investment.

2.2.1 Indo- Africa Historical Relations

There has been a proliferation of literature in recent years attempting to explore Indo-Africa historical relations. Naidu stated that India and Africa have been linked for millennia by migrations, trade and cultural exchanges. He further explained that India is not a newcomer to Africa; India and Africa enjoy a long-standing historical relationship.⁴⁷

⁴⁵ Brooks, Douglas H. *etal*, 'Foreign Direct Investment: Trends, TRIMS, and WTO Negotiations'. 2003. Asian Development Review, Vol. 20 No.1 p.5

⁴⁶ OECD, 'FDI for Development: Maximizing benefit, Minimizing cost'.2002. Paris. OECD Publication Service

⁴⁷ Naidu, Sanusha, 'India's Africa relations: In the Shadow of China?'. 2010. In Cheru, F. and Obi, C. Editors, *The Rise of China and India in Africa: Challenges, Opportunities and Critical Interventions*. Zed Books and the Nordic Africa Institute: London | New York p.34

Runoko stated that, “*close relationships between Africa and early India have existed for more than two thousand years*”.⁴⁸

India’s first contact with Africa started during ancient times when Indian merchants moved to countries along the eastern coast of the African continent.⁴⁹ For Eve, India – Africa trade relations date back to the first century when ancient India began to trade with the Kingdom of Axsum.⁵⁰ Based on the above literatures, one can conclude that India and Africa have long historical relations dating back to ancient times.

However, the formal diplomatic relations between India and Africa were minimal until 1948. Ethiopia has become the first African country to establish formal diplomatic relations with India. Thus, in a strict sense, the diplomatic ties between India and Africa date back to 1950s when Indo-Ethiopian relations were established.

There are also other literatures which reveal the close ties between India and Africa during colonial period. For instance, Manoj argued that India and Africa were both victims of colonial oppression and they became co-workers in anti-colonial struggles.⁵¹

Cheru and Obi argued that following its Independence, India has been playing a crucial role in the International System with regard to the struggles against colonialism and racism.⁵² India cultivated cordial relationships with African countries during their liberation struggles and fight against racism by providing support for those African states under colonialism. That friendship has, therefore, shown steps for progress for consecutive decades. Beri also supports the above arguments.

⁴⁸ Runoko Rashidi, ‘The African Presence in India’ , an Ethiopian Journal. <http://www.cwo.com/~lucumi/india.html>.

⁴⁹ The African Development Bank Group, *India’s Economic Engagement with Africa*, 2011. Africa Economic Brief Volume 2, Issue 6

⁵⁰ Eve. Zvichanzi Nyemba et al, ‘India’s Trade and Investment Engagement with Zimbabwe: Prospects for growth and partnership, in a globalized international system’. 2013. International Journal of Research in Social Sciences

⁵¹ Manoj, Kumar, *Indo-Ethiopian Relations: 1990-2006*. 2010. School of International Studies, Jawaharlal Nehru University

⁵² Fantu Cheru and Cyril Obi, *The rise of China and India in Africa: Challenges and opportunities and Intervention*, 2010. Zed Books. London/New York

According to her, India has claimed to be a leader of the third world and its African policy was guided by the principles of non-interference, non-alignment, anti-colonialism, and anti-imperialism.⁵³

India has played a positive role in the Bandung Conference of 1955 which was considered as a critical event to promote and strengthen Asian–African cooperation and solidarity. The Bandung Conference brought together the developing nations of the two continents and became a crucial event for the emergence of the Non-Aligned Movement. NAM is a movement aimed towards supporting Independence from power blocks and reflecting the voice of the developing or third world countries. The conference's stated aims were: to promote Afro-Asian economic and cultural cooperation and to oppose colonialism. Since, then the bilateral and multi-lateral relations between the two continents have increased.⁵⁴

After India's Independence, the first four and a half decades of its engagement with Africa were mainly focused on political aspects with ideological and idealistic principles. However, since the end of the cold war, India has introduced economic liberalization program and its foreign policy has shifted from non-alignment and idealism to more pragmatic policies that emphasize on attracting investment and expanding trade with the African continent.⁵⁵

Muzeyen supports the above argument. According to him, for much of the cold war, India's own regional and domestic pressures made it inward looking. With economic liberalization in the 1990s, India's policy-makers realized the significance of a foreign policy that emphasized on its economic ambitions.⁵⁶

⁵³ Beri, Ruchita, 'Evolving India-Africa Relations: Continuity and change'.2011. South African Institute of International Affairs

⁵⁴ Dikshit, S., Nehru and Africa, Nehru Centenary Volume. 1989. Oxford: Oxford University Press

⁵⁵ Bhattacharya, Sanjukta 'Engaging Africa: India's interests in the African continent, past and present'. 2010: In Cheru, F and Obi, C.(Eds), *The Rise of China and India in Africa: Challenges, Opportunities and Critical Interventions*, London, Zed Books and The Nordic Africa Institute

⁵⁶ Muzeyen Hawas, 'Ethiopia and the rising powers: post-cold war Ethio-Turkish relation'. 2015. Journal of Academic Elegance

Since India's liberalization program, Indian companies began to look for investment possibilities and new markets outside India, particularly in eastern and southern African states.⁵⁷

India's booming economy, the appetite of its public and private sector enterprises for investment overseas, and its leadership in science and technology, have together shaped its policy towards Africa.⁵⁸

Lalit Mansingh argued that *India's foreign policy particularly focuses on the following key issues: particular attention to economic aspects including possibilities of trade, investments and energy security.*⁵⁹ According to Pham, *India's Africa strategy is based on the 'quest for resources, business opportunities, diplomatic initiatives and strategic partnerships', which is seen in the emerging trade, investments and developmental assistance relations that Delhi is crafting with African countries.*⁶⁰ Beri notes that after the end of cold war, India–Africa relations increasingly became governed by economic interests. As a result, India as an emerging economic power has sought to engage in Africa in the areas of trade and investment.⁶¹

Today, Economic interest is a vital issue for India and the economic engagement provides the most powerful evidence of India's increasing interests in Africa.⁶² India has taken several steps to enhance trade and investments in Africa, including the Focus Africa program which was initiated by India in 2002 in order to strengthen trade and investment ties with Africa and in 2004 the government of India has initiated TEAM-9 project in order to enhance commercial relations with eight West African states. Additionally, India-Africa Forum Summit provides the platform for deeper engagement between India and the countries of the African continent.⁶³

⁵⁷ Kragelund, Peter, 'India's African Engagement'. 2010.

⁵⁸ Beri, Ruchita, 'Evolving India-Africa Relations: Continuity and change'.2011. South African Institute of International Affairs

⁵⁹ L. Mansingh(2009), 'Notes Towards India's New Africa Policy, Africa Quarterly, vol. 48. pp:18-23

⁶⁰ Pham, J. P. (2007) 'The Indian tiger's African safari', *Family Security Matters*. p.1

⁶¹ Beri, Ruchita, 'Evolving India-Africa Relations: Continuity and change'.2011. South African Institute of International Affairs

⁶² Vines, A. 'India's Africa Engagement: Prospects for the 2011 India-Africa Forum'. 2010. Programme Paper. Chatham House, London.

⁶³ Gupta, Arvind, 'India -Africa Relations in the Changing Geopolitical Environment'. 2011. In Beri, R. *Evolving India-Africa Relations: Continuity and Change*. South African Institute of International Affairs, Johannesburg

The first 'India-Africa Forum Summit', which was held in New Delhi in April 2008, marked a new era of cooperation, with the Indian government assuring support to African countries through bilateral, regional, and continental initiatives.

It concluded a declaration on 'Africa-India Framework for Cooperation' -- an ambitious set of commitments to advance the breadth and depth of an Indian-African partnership. The second India-Africa Forum Summit was held in Addis Ababa in 2011 and produced the Addis Ababa Declaration and the Framework for Enhanced Cooperation.⁶⁴ The third India-Africa Forum Summit was held in New Delhi in October 26-29, 2015 and concluded with introducing "India-Africa Framework for Strategic Cooperation". The third India-Africa forum Summit is one platform used by Indian private sector in its economic diplomacy with Africa.⁶⁵

In the twenty-first century, India–Africa relations have moved beyond those based merely on 'ideas and services' to a more pragmatic relationship that involves India's political, economic and security interests in convergence with and responding to Africa's developmental needs.⁶⁶ Thus, many factors have played a crucial role in the growth of India-Africa relations over the past decades. However, there are other factors like India's energy deficit, its ambition to attain a position in the reformed United Nations Security Council (UNSC), rising insecurity in the western Indian Ocean region and the Indian diaspora have been the major inputs for Africa's growing importance in India's foreign policy.⁶⁷

As far as literatures on India's economic engagement are concerned, they explain that India's economic engagements in Africa are due to three major aspects: Trade, investment and aid.

⁶⁴ Johan, Bulow and Mnas, Widenborg, "Sino-African Relations: Neo-colonialism or "South-South" cooperation?".2013.Lund University, Department of Political Science

⁶⁵ Lucey, Amanda, *et al*, 'India-Africa Relations: The role of the private sector'. 2015. Institute for Security Studies, Nairobi, Kenya

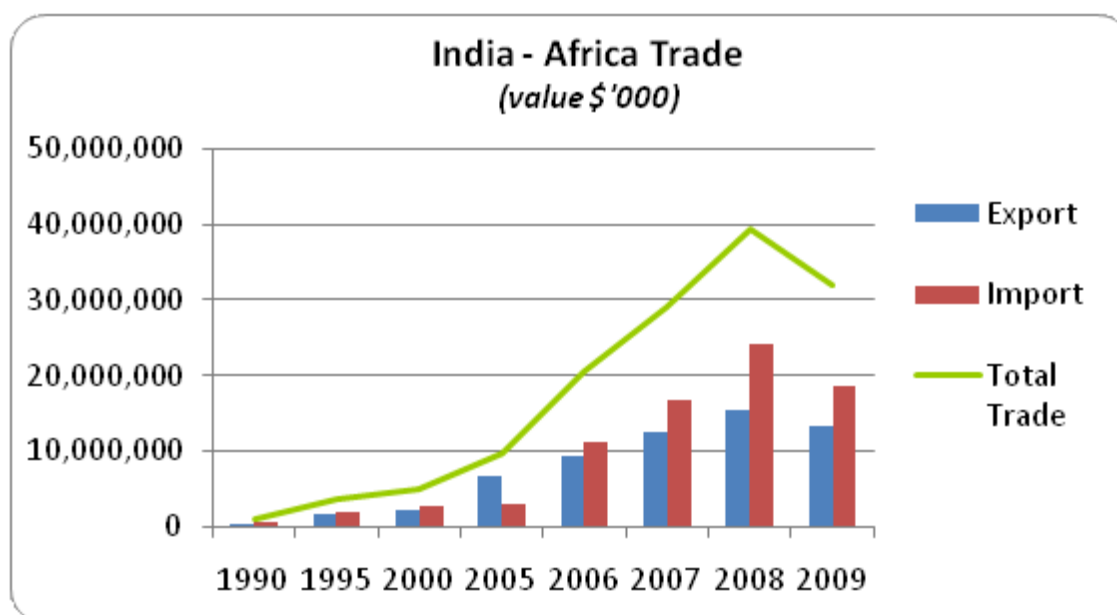
⁶⁶ Ibid

⁶⁷ Beri, Ruchita, 'Evolving India-Africa Relations: Continuity and change'.2011. South African Institute of International Affairs

2. 2.2 India-Africa Trade Relationship

There are long- established trade relations between Africa and India. According Carmody, currently India is the fourth largest trading partner for Africa, next to EU, China and US.⁶⁸ Africa’s bilateral trade with India has seen a positive dimension and has increased rapidly during the past two decades. It has witnessed a massive growth from a mere US\$1 billion in 1990 to US\$3 billion in 2000, reaching up to the level of US\$ 52.81 billion in 2010-11 and rising up high to the level of US\$ 70 billion in 2012-13. Following the adoption of “Focus Africa” program, which was launched by the Government of India, India’s trade relations with Africa took a new direction and the program has enhanced the bilateral ties in the areas of trade and investment.⁶⁹ Additionally, the bilateral trade has been inspired by India’s Duty-Free Tariff Preferential scheme (DFTP) which was declared in April 2008 for 49 least developed countries (LDCs) and 33 African countries are benefited from the scheme.⁷⁰

Diagram 2.1 Indi- Africa Trade



Source: The African Development Bank Group, 2011

⁶⁸ Carmody, p., *The new scramble for Africa* .2011. Cambridge: Polity.

⁶⁹ Rishika, Nayyar and Aggarwal, Priti, ‘Africa-India’s New Trade and Investment Partner’. 2014. International Journal of Scientific and Research Publications: New Delhi.

⁷⁰ The African Development Bank Group, ‘India’s Economic Engagement with Africa’. 2011.

The above figure shows that the India-Africa trade has steadily increased since India's economic liberalization program. India –Africa trade relations are dominated by imports of natural resources from the African continent. Imports from Africa constitute predominantly crude petroleum and minerals, which show India's demand for energy resources to support its rapidly growing economy. The top six commodities are oil 60%, gold 15%, phosphoric acid 3.8%, coal 3.5 %, liquefied natural gas 2.7% and shelled cashew 2.6%. These together constitute 87% of total African exports to India.⁷¹ Contrastingly, India's exports to Africa are diverse from medium to low technology finished products and include manufactured goods, machinery, transportation equipment, food and pharmaceutical products.⁷²

The more sound and realistic assumption is that India's growing trade and its recent engagement in Africa is driven by motives to secure energy sources and markets for its products. India imports 75% of its oil from the politically volatile Middle East region. Thus, finding alternative suppliers to diversify its oil sources is crucial to its energy security and Africa is an attractive option. These days India is increasingly engaging with African oil producing countries, namely Nigeria, Sudan, Côte d'Ivoire, Equatorial Guinea, Ghana, and Angola.⁷³ Consequently, West Africa is India's number one trading partner due to the existence of oil in the region. Southern Africa is the second largest trading partner because of its abundance of mineral wealth followed by North Africa and lastly East Africa. There are contrasting views regarding India's engagement in Africa. Naidu argued that, despite the India-Africa relationship being resource-extractive in nature, India has recently become actively involved in Africa in terms of industrial manufacturing, bilateral agreements, lines of credits, economic diplomacy and development assistance which are essential to enhance the economic development of African countries.⁷⁴

⁷¹ Confederation of Indian Industry (CII), 'India-Africa: South-South, Trade and Investment for Development'. 2013

⁷² Van Niekerk, h., 'Africa-India trading relationship'. 2013. TRALAC, Available online at <http://www.tralac.org/>

⁷³ D. Sharma and D. Mahajan, 'Energizing Ties: The Politics of Oil', South African Journal of International Affairs, Vol. 14, No. 2, 2007.

⁷⁴ Naidu, Sanusha, 'India's Africa relations: In the Shadow of China?'. 2010. In Cheru, F. and Obi, C. Editors, *The Rise of China and India in Africa: Challenges, Opportunities and Critical Interventions*. Zed Books and the Nordic Africa Institute: London | New York

On the other hand, Anwar argued that, even if India's engagement in Africa provides an opportunity for the political and socio-economic development of the continent, India's current trade relationship with Africa seems like a colonial trade relationship between Africa and colonial powers. He further explained that a similar kind of relationship is developing between India and Africa where raw materials are exported to India while manufactured goods are imported back to Africa. Therefore, this kind of trade relationship between the two continents is characterized by unequal trade relations that drained Africa's resources thus leaving the continent impoverished.⁷⁵

2.2.3 Indian Investments in Africa

The India–Africa investment relationship dates back to the 1960s. A textile mill established by the Birla Group in Ethiopia was the first Indian outward investment in Africa. Subsequently, several Indian firms invested in African countries such as Nigeria, Kenya and Sudan ; but the scale of these investments was small. In the contemporary era, investments in Africa from India have grown and are spread in different regions of Africa.⁷⁶ Many Indian companies have invested in Africa in recent years, for a possible sources of raw materials and energy sources to support India's industrial growth. To name some of the Indian companies which have made deep rooted investments in Africa, the Tata group since 1976 is prevalent in the sectors of hotel, mining, technology, transport, information and telecom.

Similarly, the Bharti Airtel group in the tele communication sector has made immense investments. Additionally, Indian companies such as Kirloskar Brothers Limited, Mahindra and Mahindra, Fortis, Escort and Apollo have begun looking to the continent of Africa as a source of raw materials and markets.⁷⁷

⁷⁵ Anwar Mohammed Amir, 'Indian Foreign Direct Investments in Africa: A Geographical Perspective'. 2014. Bulletin of Geography. Socio-economic Series No. 26

⁷⁶ Chakrabarti, Sukalpa and Ghosh, Ishita, 'FDI in Africa: A Comparison of the Indian and Chinese Experience'. 2014. Symbiosis International University, Pune, India: Elsevier Ltd.

⁷⁷ Cheru. F and Obi. C, 'India- Africa Relations in the 21st century'. 2011. Available at <http://pambazuka.org/en/category/features/74100>

It is evident that Indian investments in Africa have increased dramatically in the last ten years. According to International Monetary Fund (IMF) estimates, in less than a decade leading up to 2011, Indian investment in Africa rose from US\$ 9.2 billion to US\$ 14.1 billion, that is 22.5 percent of Indian outward foreign direct investment (FDI).⁷⁸ Overall it is evident that the contemporary Indian investments in Africa are large in scale and diverse in nature- from oil, minerals, agriculture, forestry, renewable and non-renewable energy and services.

Table 2.1 Indian Investments in Africa by Sub Sectors

Sectors	Percentage
Professional Service	5%
Financial Intermediation	5%
Agriculture, Fishery and natural resources	6%
Food, Beverage and Tobacco	12%
Chemicals, Plastics and Rubber	31%
Marketing, Sales and Distribution	17%
Others	24%

Source: Africa Development Bank Group, 2011

India is resourceful to expand its scope of engagement with Africa. Indian investments in Africa are driven by a complex set of political, economic, cultural and ideological factors and actors, both the Indian government and the private sector. There are both ‘push’ and ‘pull’ factors that contribute towards the rise of Indian investments in Africa.⁷⁹

⁷⁸ IMF, ‘New Growth Drivers for Low-Income Countries: The Role of BRICs’. 2011. Available at <http://www.imf.org/external/np/pp/eng/>

⁷⁹ *Ibid*

A large proportion of Indian investments in Africa are largely driven by India's food and energy security, demand for natural resource coming from rapidly growing Indian economy.⁸⁰ Much of the current focus on Africa among Indian policy makers is towards improving the food security condition at home in terms of both production and access to food grains, and diversifying sources of natural resources (oil and minerals), as well as securing new market outlets.

The political and economic volatility among the Arab states and US dominance on oil in the region instigates India to look for sources beyond the Middle East. Iran, India's reliable source of oil for long, has been under economic sanctions by Western states. India is continuously pressurized to stop its dealings with Iran. However, New Delhi continues to source oil from Iran since there are no long term alternative sources available for supply of oil to India. Therefore, India's quest to meet its growing energy demand means that Africa has become an important trading partner because of its huge reserves of crude oil.⁸¹

To meet the country's growing energy needs, India's Oil and National Gas Corporation (ONGC) acquired shares in oil exploration ventures in Libya and Nigeria, which account for 15 percent of India's oil imports. Indian oil companies are also venturing into Angola, Burkina Faso, Equatorial Guinea, Ghana, Guinea Bissau, and Senegal.⁸² Beyond energy security, India's quest for African natural resources is driven by growing concerns among the policy makers on food security conditions in India. In Africa, Indian private firms were able to purchase land with ease, due to several reasons. First, in many parts of Africa, land is a state subject and the ownership rests with the communities or government/leaders. This makes it easier for private firms to buy land in Africa.

⁸⁰ Rowden, R., 'India's Role in the New Global Farmland Grab: An examination of the role of the Indian Government and Indian Companies engaged in overseas Agricultural Land Acquisitions in Developing Countries'. 2011. A report produced in collaboration with GRAIN and the Economics Research Foundation, New Delhi.

⁸¹ Confederation of Indian Industry(CII),*India-Africa: South-South, Trade and investment for development*.2013.

⁸² The African Development Bank Group, 'India's Economic Engagement with Africa'. 2011.

Secondly, the price of land per hectare in India is many times higher than in Africa.⁸³ There are major factors which derive India's foreign investment in Agriculture: India's food security concern, mounting water shortage and profit motive.⁸⁴ In addition to the above push factors that are deriving Indian companies to go abroad, it is important to note that there are strong pull factors that drive this trend. For instance, there are invitations of developing countries for Indian firms to invest in their countries.

The Indian private sector has responded to the call from African governments to invest more in the African agricultural sector in order to raise the productivity of peasant farmers, raise income levels and reduce poverty in the process.⁸⁵ As a result, Indian firms both private and public have sought actively to buy large amounts of land in Africa and this land acquisition deals done by Indian firms in the continent recently received widespread attention. Overall, India is the world's fifth largest investor country in terms of land deals.⁸⁶

One of the most well-known Indian firms, which has been the subject of media attention to acquire land in Africa is Karuturi Global Ltd, is the world's largest producer of cut roses. Karuturi has acquired 300,000 hectares of land in Ethiopia's Gambella Province and 11,000 hectares in Bako, Ethiopia.⁸⁷ Another major Indian firm with interests in African land is Siva Group which has bought large amounts of land, estimated to be about 756,000 hectares, in various African countries including Sierra Leone, Liberia, DR Congo and Cameroon for palm oil plantations.⁸⁸

⁸³ Carmody, p., 'A global Enclosure: The Geo-logics of Indian Agro-Investments in Africa'. 2013. Vol. 24 (1).

⁸⁴ Rowden, R., 'India's Role in the New Global Farmland Grab: An examination of the role of the Indian Government and Indian Companies engaged in overseas Agricultural Land Acquisitions in Developing Countries'. 2011. A report produced in collaboration with GRAIN and the Economics Research Foundation, New Delhi

⁸⁵ Modi, Renu, 'The Role of India's Private Sector in the Health and Agricultural sectors of Africa'.2010, In Cheru, F and Obi, C.(eds) *The rise of China and India in Africa: Challenges, opportunities and critical interventions*, London | New York, Zed Books and The Nordic Africa Institute

⁸⁶ Ethiopian Review, 'Colonizing Ethiopia through land grabs'.2011.Available online at <http://www.ethiopianreview.com/index/32023>

⁸⁷ GRAIN, 'who is behind the land grabs'. 2012. Available online at <http://www.grain.org/article/>

⁸⁸ *Ibid*

Some scholars viewed India's Agricultural Investment in Africa positively. They argued that India's foreign investment in land would create job opportunities for locals, improving the living conditions, reduce poverty and increase national GDP of the host countries. They realized that Foreign Agricultural Investment is essential for economic development, poverty reduction in targeted areas, job and income creation, technological transfers, know-how spillover effects and infrastructural improvements.⁸⁹

On the other hand, there are also Non- Governmental Organizations (NGOs) that view India's Agricultural Investment in Africa negatively. The Oakland Institute claims that Foreign Agricultural Investment will not provide genuine job opportunities and reduce poverty. Rather it affects the local population negatively through taking their lands. The expropriation of local landholders and the loss of adequate access to land supposedly result in negative consequences for local food supply (food security) and for the environment which directly affect the living conditions of the local people.

2.3 Theoretical Framework

According to Burchill, "*Theories enable us to conceptualize and contextualize both past and contemporary events. They also provide us with a range of ways to interpret complex issues. Theories help to think critically, logically, and coherently.*"⁹⁰ There are numerous theories of International Relations and no single theory exclusively explains the complex nature of inter-state relations. Walt noted, "*no single approach can capture all the complexities of contemporary world politics and economics*".⁹¹ However, there are three major theories that try to explain international economic and trade relations: Mercantilist theory, Liberal theory and Marxist theory.

⁸⁹ Cotulla, Nat Dyer, and Sonya, 'Land Grab or Development Opportunity? Agricultural Investment and International Land Deals in Africa'. 2009. (London and Rome: IIED, FAO, and IFAD, available at <http://www.fao.org/docrep/fao/011/ak241e/>)

⁹⁰ Burchill, Scott, 'Realism and Neo-realism', in *Theories of International Relations*, ed. Andrew Linklater. 2001. New York: Palgrave Company.p.13

⁹¹ Walt, Stephen M., *International Relations: One World Many Theories*.1998. Washington D.C.: Carnegie.

2.3.1 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.⁹² 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 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.⁹³

The objective of the mercantilist is to attain a “favorable” balance of trade that would bring gold and silver into the country and to sustain domestic employment. A favorable balance of trade is considered as the only satisfactory condition of commerce.⁹⁴ 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 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.⁹⁵

⁹² Dominick, Salvatore, *International Economics: Trade and Finance*. 2011. John Wiley and Sons (Asia). Ltd. Singapore.

⁹³ Robert, Gilpin, *The political economy of International Relations*. 1987. Princeton University Press, Princeton, New Jersey.

⁹⁴ Hamburg University of Applied Sciences, ‘Theory and Practice of International Trade’.2009.

⁹⁵ *Ibid*

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.⁹⁶ The mercantilist further holds that economic relation is conflictual and essentially a zero-sum game.⁹⁷ Economic relations is 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.⁹⁸

2.3.2 Liberal International Trade Theories

2.3.2.1 Comparative Advantage Theory

In his 1817 book on the Principles of Political Economy and Taxation, David Ricardo has introduced the theory of comparative advantage. According to Ricardo, a nation has a comparative advantage over its trading partner in the production of goods and services in which its marginal cost or opportunity cost is lower than that of its trading partner.⁹⁹ Ricardo states that although one nation is less efficient than the other nation in the production of two commodities, there is still a basis for mutually beneficial trade. The less efficient nation should specialize in the production and export of the commodity in which its absolute disadvantage is smaller (this is the commodity of its comparative advantage) and import the commodity in which its absolute disadvantage is greater (this is the commodity of its comparative disadvantage).¹⁰⁰

⁹⁶ R. Falkner, 'International political economy'.2011.University of London, London School of Economics and Political Science. United Kingdom.

⁹⁷ Zero- sum game defined as a situation in which a gain for one side entails a corresponding loss for the other side.

⁹⁸ Hamburg University of Applied Sciences, 'Theory and Practice of International Trade'.2009.

⁹⁹ Paul R. Krugman, *International Economics: Theory and Policy*. 2006. Daryl Fox. United States of America.

¹⁰⁰ Dominick, Salvatore, *International Economics: Trade and Finance*. 2011. John Wiley and Sons (Asia) pte. Ltd. Singapore

In other words, David Ricardo states that other things being equal, a country tends to specialize in and exports those commodities which have maximum comparative cost advantage or minimum comparative disadvantage. Similarly, a country imports those commodities having relatively less comparative cost advantage or greater comparative disadvantage. David Ricardo agreed that international differences in productivity of labor and technology give a clear reason for trade to take place. Trade between two countries can benefit both countries if each country exports the goods in which it has a comparative advantage. He further argues that the essence for international trade is not the absolute difference in cost but comparative difference in cost.¹⁰¹ Using his famous example of Portugal and England, Ricardo stressed that trade between countries could increase the well-being of the two countries because they can specialize in the production in which they have a comparative advantage.¹⁰²

Comparative advantage theory in spite of all limitations has remained as a basic principle of international trade. Adoption of the principle of comparative advantage or comparative cost would ensure that a country would achieve greater economic welfare through participation in foreign trade than through trade protection.¹⁰³ Today when the world is moving towards greater liberalization and globalization, each country specializes in production of goods and services based on comparative cost advantage and enter into international trade. Therefore, the essence of Ricardo's comparative advantage theory is that both countries could gain from free trade, if they specialize in the production of goods and services in which they have comparative advantage.

¹⁰¹ Paul R. Krugman, *International Economics: Theory and Policy*. 2006. Daryl Fox. United States of America

¹⁰² Alemayehu Geda, *Fundamentals of International Economics for Developing Countries: A Focus on Africa*. 2010. Addis Ababa University and African Economic Research Conso.

¹⁰³ Robert, Gilpin, *Global Political Economy*. 2001. Princeton University Press. Princeton, New Jersey

2.3.2.2 Factor Endowment Theory

The neoclassical trade theory, which is based on the works of the Swedish economists Heckscher (1919) and his student Ohlin (1933), 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 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 factor endowment theory.¹⁰⁴ According to factor endowment theory, a nation will export the commodity which production requires the exhaustive use of the nation's relatively abundant and cheap factor and import the commodity which production requires the exhaustive use of the nation's relatively scarce and expensive factor.¹⁰⁵

Countries should produce and export the 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.¹⁰⁶ 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 the relatively labor-intensive commodity. In this model, a country's advantage in production arises only from its relative factor abundance.¹⁰⁷

¹⁰⁴ Paul R. Krugman, *International Economics: Theory and Policy*. 2006. Daryl Fox. United States of America

¹⁰⁵ Dominick, Salvatore, *International Economics: Trade and Finance*. 2011. John Wiley and Sons (Asia) pte. Ltd. Singapore

¹⁰⁶ Thushyanthan, Baskaran *et al*, 'The Heckscher–Ohlin model and the network structure of International trade'. 2011. *International Review of Economics and Finance*.

¹⁰⁷ *Ibid*

This theory extended the Ricardian theory to two factors (labour 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.¹⁰⁸

Generally, the factor endowment theory can be explained in action by observing the two countries that differ from each other in terms of the relative strength of their inputs. Country X can provide cheaper and more abundant labor while country Y can offer relatively cheaper and greater capital. In this scenario, country X will produce goods that are labor intensive, while country Y will produce goods that are capital intensive. Hence, country X will import capital from country Y and in return country Y will use country X's labor market.

2.3.2.3 Specific Factors Theory (SF)

The specific factors model was developed by Paul Samuelson and Ronald Jones. Ronald Jones has developed a three-factor, two-goods, two-country model with neoclassical production function (3X2X2), and the additional factor being specific to particular sectors. In this model, one factor, usually labor, is assumed to be mobile between industries within each country and two of the other factors being specific to each of the particular industries in which they are employed. The model is usually presented by the specific factor (i.e. capital and land) being specific to each sector (i.e., the manufacturing and agricultural sectors) and labor being common in both sectors.¹⁰⁹ A *specific* factor is one that is permanent in an industry or is immobile between industries in response to changes in market conditions.

The specific factors model allows for the existence of factors of production besides labor. Labor is assumed to be freely mobile between the two industries whereas capital is assumed to be specific and completely immobile to a particular industry in which it can be used only in the production of particular goods.¹¹⁰

¹⁰⁸ Heckscher, E.F. 'The effect of foreign trade on the distribution of income'.1919. *Ekonomisk Tidskrift*.

¹⁰⁹ Robert, Gilpin, *Global Political Economy*. 2001. Princeton University Press. Princeton, New Jersey

¹¹⁰ Paul R. Krugman and Maurice, Obstfeld, *International Economics: Theory and Policy*.2003. Pearson Education, Inc. United States of America

In order to examine the specific factors model, suppose that a nation that is relatively labor abundant produces two commodities, commodity x which is labor intensive and commodity y which is capital intensive. Both commodities are produced with labor and capital, but labor is mobile between the two industries while capital is specific to each industry. That is capital used in the production x cannot be used in the production of y and vice versa.¹¹¹

Conclusion reached by the specific factors model is that trade will have an ambiguous effect on the nation's mobile factors, benefit the immobile factors specific to the nation's export commodities or sectors and harm the immobile factors specific to the nations import competing commodities or sectors. In short, in specific factors model, factors specific to export sectors in each country gain from trade whereas factors specific to import competing sector lose. Mobile factors that can work in either sector may either gain or lose.¹¹²

2.3.2.4 N. Factors 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”*.¹¹³

The model demonstrates the relationship between changes in national factor endowments and changes in the output of the final goods within the context of H-O model.¹¹⁴ 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 affects the outputs of the goods when full employment is sustained.

¹¹¹ Dominick, Salvatore, *International Economics: Trade and Finance*. 2011. John Wiley and Sons (Asia) pte. Ltd. Singapore

¹¹² *Ibid*

¹¹³ Rybczynski, T.M, 'Factor Endowment and Relative commodity Prices'. 1955. *Economica*, Vol.xxII. pp.337

¹¹⁴ Robert, Gilpin, *Global Political Economy*. 2001. Princeton University Press. Princeton, New Jersey.

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.¹¹⁵ 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 good 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 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 .*¹¹⁶

2.3.3 Marxist Theory

According to Marx, all history is the history of class struggle between the ruling class and the dominated class. As it relates to states, the key actors in international relations were divided by Lenin into two groups: the oppressed and the oppressor.¹¹⁷ Thus, the oppressed (the workers or the developing countries) continue to create value and the value is not returned to them, but the capitalists at the center take away this wealth to themselves. 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.¹¹⁸

¹¹⁵ Paul R. Krugman, *International Economics: Theory and Policy*. 2006. Daryl Fox. United States of America

¹¹⁶ Marcus M. Opp *et al*, 'Rybczynski's Theorem in the Heckscher-Ohlin World: Anything Goes'. 2009. *Journal of International Economics*.p.2

¹¹⁷ Kubalkova, V & Cruickshank, A. A, *Marxism-Leninism and Theory of International Relations*. 1980. London: Routledge

¹¹⁸ *Ibid*

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 exploiting 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.¹¹⁹ Marx also believes that classes are the dominant actors in 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.¹²⁰

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.¹²¹

¹¹⁹ Frieden, Jeffrey A. and David A. Lake. (eds), *International Political Economy: Perspectives on Global Power and Wealth*. 1995. Third Edition. New York: St. Martin's Press

¹²⁰ S.T. Akindele *et al*, 'A Theoretical Examination of the Perspectives on Political Economy'. 2003. Journal of Social Sciences

¹²¹ Ranjit, Sau, 'Towards a Marxian Theory of International Trade and Capital Flow'. 1997. Economic and political weekly. <http://www.jstor.org/stable/4365856> Accessed: 21-12-2015 p.2

Generally, 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. Unlike Liberals, Marxists believe that the multinational corporations represent merely the latest expression of capitalist exploitation and imperialism. Like the nation states, the multinational corporations are instruments of bourgeoisie class to dominate and exploit the less developed economies.¹²²

2.4 Conceptual Framework

Mercantilist stresses on the role of power in the rise of markets and the conflictual nature of international economic relations. The mercantilist holds that economic relations are conflictual and essentially a zero-sum game. The nationalist perspective gives emphasis on economic and technological competitions which have been at the center of inter-state relations in the post-cold war period.

African Development Bank (ADB) stressed the importance of free trade that it *“carries the surplus part of a nation for which there is no demand among them, and brings back in return something else for which there is a shortage and demand. It gives value to their flourishes, by exchanging them for something else, which may satisfy part of their wants and increase their enjoyments.”*¹²³ According to Chu, “international trade is the principal means of extending markets beyond a nation’s borders; thereby allowing greater specialization in production, enhancing effectiveness in the use of scarce resources, the expansion of national income, the capacity to accumulate wealth and foster growth of the economy.”¹²⁴

¹²² R. Falkner, ‘International political economy’.2011. University of London, London School of Economics and Political Science. United Kingdom

¹²³ African Development Bank (ADB), Africa in the Global Trading System: African Development Report. 2004. London: Oxford University Press. p.119

¹²⁴ Chu, George, *Trade, Aid, and Interdependence*. 1995. London and New York: Routledge. p.1

For neo classical theorists, free trade would increase the absolute wealth of all parties, and foster bonds of interdependence and peace between peoples. They expected that trade would automatically have a positive effect on all participants and it is one of the major driving forces of economic development.¹²⁵ However, neo classical economic theory also holds that trade relations between countries usually do not benefit those countries equally.¹²⁶

It assumed that economic growth is beneficial to all even if the benefits are not always equally shared. They argue that through international trade and investment, developing countries acquire capital, technologies and export markets required for economic development. Thus, liberals conclude that economic exchange between states via market is a positive sum game. Liberals believe that the benefits of an international division of labor based on the principle of comparative advantage cause markets to arise spontaneously and foster harmony among states; they also believe that expanding webs of economic interdependence creates the basis for peace and cooperation in the competitive and anarchical state system.¹²⁷ Liberals argue that trade constitutes an engine of growth; although the domestic source of growth are important, the growth process is greatly assisted by international flows of trade, capital and productive technology. Generally, liberal theory is committed to free markets and minimum state intervention. In essence, liberals believe that trade and economic intercourses are a source of peaceful relations among nations because the mutual benefits of trade and expanding interdependence among national economies will tend to foster cooperative relations.

Despite there are three major theories that try to explain international economic and trade relations, Ethio-India relations are highly explained by Liberal international trade theory which argue that free trade would increase the absolute wealth of all parties, foster independence and peace between states.

¹²⁵ Kozak *et al*, *An introduction to international economic relations*. 2014. Tbilisi publishing house.

¹²⁶ Myint, H. and Deepak, Lal, *Political Economy of Poverty, Equity, and Growth: A Comparative Study*. 1996. Oxford: Oxford University Press.

¹²⁷ R. Falkner, 'International political economy'.2011. University of London, London School of Economics and Political Science. United Kingdom

From liberal theories, factor endowment theory is more suitable because both countries are specializing in the production of those goods for which they are best suited. A nation will export the commodity which production requires relative abundant and cheap factor endowment and import the commodity which production requires the nation's relatively scarce and expensive factor. As a result of international specializations, Ethiopia's trade with India is highly depends on exporting of few primary agricultural commodities and importing of manufacturing goods.

Chapter Three

3. Historical Background to Ethio-India Relations

Chapter Two has discussed about literature review, theoretical framework and conceptual framework that are appropriate to Ethio-India relations. Chapter Three deals with the historical development of relations between Ethiopia and India. Ethiopia and India are two most ancient countries of the world, each having its own glorious history. According to Mathews, both Ethiopia and India are recognized by their ancient civilizations of at least 3,000 and 5,000 years, respectively.¹²⁸ In addition to their rich civilization and cultural values, they share similar historical experiences observed in the long and hard struggles against colonial rule to achieve their national independence and territorial integrity.¹²⁹

This chapter is divided in to four sections. The first section will discuss about the foundations of Ethio-India relations. The second section will examine Ethio-India relations during Ancient times. The third section will emphasize on Ethio-India relations during medieval period. The last section will explain Ethio-India relations during modern times.

3.1 Evolution of Ethio-India Relations

Before an extensive discussion about the historical development of Ethio-India relations, it would be better to understand the foundations of their relations. India's oldest relations with African countries are also the foundations of the Indo-Ethiopia relations. The Indo-African contacts go back to the ancient times.¹³⁰ The long-standing relations between Ethiopia and India are associated with the earliest migration of Indians to West Asia and East Africa. The Indian Ocean served as a connector between India, the Middle East and Africa.

¹²⁸ K.. Mathews, 'India-Ethiopia ties on upward Spiral'. In *Africa Quarterly (Indian Journal of African Affairs)*. 2007. Indian Council for Cultural Relations Vol.47.No.1.

¹²⁹ Kebret Negash, 'Ethiopia-India Relations: A Historical Perspective', *Africa Quarterly*, 2001. Vol. 41, No.3

¹³⁰ Manoj, Kumar, "*India-Ethiopia Relations: 1990-2006*". 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

Scholars of ancient Indian history have noted that in ancient time enormous numbers of Indians migrated from the West coast of India in exploration of new lands and settled in Egypt, Nubia (The Sudan) and Ethiopia. Based on the above statement, it can be said that the earliest contacts between India and East African countries, including Ethiopia, began in ancient times. The ancient peoples of India were Asiatic Ethiopians and they shared common traditions with peoples in Africa. Ancient relations between Ethiopia and India have occurred even before history was recorded during the Axumite period.¹³¹

According to the famous historian Dr. Richard Pankhurst, "*contacts between the lands, which came to be known as Ethiopia and India, date back to the dawn of history.*"¹³² He further explained that although the two countries were geographically remote from each other, they had largely complementary economies.

There were contacts between the peoples of Ethiopia and India for the past many centuries. Ancient contacts between Ethiopia and India began with trade and commercial intercourse. In this regard, it is necessary to point out that there were masses of evidence that shows commercial relations between the two countries in ancient times. Commercial and trade contacts between Ethiopia and India in earlier time were facilitated by trade winds blowing between Africa and India.¹³³

¹³¹ K.. Mathews, 'Ethiopia and India: Cultural Affinities'. 2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa.

¹³² Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

¹³³ Manoj, Kumar, "*India-Ethiopia Relations: 1990-2006*". 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

3.1.1 Ethio-India Relations during Ancient Period

Historical relations between Ethiopia and India can be traced back to ancient times. Trade and economic relations between Ethiopia and India date back to centuries and the Indian Ocean served as a main high way for commercial and cultural interactions between Ethiopia and India. Trade and people-to-people contacts have existed between Ethiopia and India for almost two thousand years beginning at the time of the Axumite Empire.¹³⁴ It was during the Axumite period that historical evidences of ancient contacts between Ethiopia and India which were relatively well documented. This period clearly shows that contacts between Ethiopia and India were not only age-old but they were also essentially trade-oriented. There were exchanges of commodities like spices, silk, gold and ivory between the two countries during those days.¹³⁵

Ancient trade and commercial contacts between Ethiopia and India flourished during the ancient Axumite Empire. During ancient Axumite civilization, K. Mathews noted, “*Ethiopia was a great source of gold, ivory, rhinoceros horn and slaves, all of which were in great demand in India at the time. India, in turn, supplied cotton and silk, pepper and other spices, which were equally in great demand in Ethiopia*”.¹³⁶

There is a lot of historical evidence regarding exchange of commodities between Ethiopia and India in ancient times. During the Axumite Period (1st to 6th century A.D.), Indian traders went to the ancient port of Adulis for trading purpose.¹³⁷ The ancient port of Adulis served as an outlet for Axum and a meeting point for maritime trade. The strategic location of Axum at the heart of trade routes made it appropriate for international trade and human settlement.¹³⁸ The occurrence of trade and commercial interaction in the ancient time was attested also by archeological evidences.

¹³⁴ Manoj, Kumar, “*India-Ethiopia Relations: 1990-2006*”. 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

¹³⁵ *Ibid*

¹³⁶ K..Mathews. ‘India-Ethiopia ties on upward Spiral’. In *Africa Quarterly (Indian Journal of African Affairs)*. 2007. Indian Council for Cultural Relations Vol.47.No.1.p.13

¹³⁷ Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

¹³⁸ Manoj, Kumar, “*India-Ethiopia Relations: 1990-2006*”. 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

There were predominantly gold coins used for exchange of commodities between the two countries. These very early coins have been discovered in several parts of south-west India and northern Ethiopia.¹³⁹ The position of Axum in commerce was further manifested in the minting of its own gold, silver and copper coins. In addition to trade, there were also cultural contacts but with a lesser degree of influence on their relations.

Following the spread of Islam along the trade routes to the Ethiopian interior, Adulis was demolished in 710 A.D., which contributed much for the failure of Axum as an essential commercial and political center of ancient Ethiopia. Arab traders from Muslim countries started to dominate the section of trade between Ethiopia, India and Arabia in the Red Sea area. Then, trade and other interactions between Ethiopia and India got declined and the Arabs cut off Ethiopia's economic ties with India. By the end of the 9th century A.D, however, the Ethiopians succeeded in recovering some of these coast-lands and Massawa, Dallak, and Zaila were ports controlled once again by Ethiopia.¹⁴⁰

3.1.2 Ethio-India Relations during Medieval Period

Following the downfall of Axumite Empire, there was a horrible quarrel for power and Ethiopia was no longer united and strong enough. Especially, in the first half of 14th century, there were struggles between Ethiopia and the forces of Islam and there were persistent Arab and other Muslims attacks supported by the Turkish sultans.¹⁴¹ The ancient trade relations between Ethiopia and India that initiated during the ancient period sustained in the following centuries with the new dimension of the slave trade.¹⁴² According to Richard Pankhurst, "Hapshis"¹⁴³ (Ethiopians) are known to have reached in India as early as the 13th century.¹⁴⁴

¹³⁹ Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

¹⁴⁰ Chatterji SK , *India and Ethiopia: From the Seventh Century B.C.* 1969. Kolkata: The Asiatic Society.

¹⁴¹ Teshale Tibebu, *The making modern Ethiopia, 1896-1974.*1995. Lawrenceville, the Red sea press, Inc.

¹⁴² Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

¹⁴³ The term 'Hapshis' probably derived from the Arabic word. 'Habash' or Abyssinian was used to refer, in addition to Ethiopians, to other Africans from Eastern part of Africa.

¹⁴⁴ Richard Pankhurst, 'Ethiopia Across the Red Sea Ocean'. 1999. Addis Ababa Tribune.

Pankhurst further explained that various historical records abundantly recognized the coming of Ethiopian and other East African slaves to India. Ibn Battuta, the great Moroccan traveler in Africa and Asia, was also making several references to the existence of “Habshis” in the slave trade during his visit to India (1333-1342).

From 13th to 17th century, a massive migration of Ethiopians and other East African slaves has been observed in Western India. The Ethiopian and other East African slaves in India were known by three alternative names ‘Habshis’, ‘Sidis’ and ‘Kaffirs’. ¹⁴⁵ The export of the Ethiopian Habshis to India was critical to sustain the long-standing trade ties between the two countries and to provide an opportunity to ancient Ethiopians to contribute meaningfully to Indian History. ¹⁴⁶ The involvement of Habshis was significant in architecture and masonry in the Indian states of Ahmadabad, Deccan, Gujirat, Khandesh, Oudh, and Bengal.

One of the prominent Muslim architectural influences in India was that of an Abyssinian noble, Sheik Sidi Saeed, Sultan of Ahmadnager, who built the Sidi Sayyid Mosque in 1572, which is one of the best tourist attractions in Ahmadabad. ¹⁴⁷ In administration, Habshi were army commanders, the chiefs of administrations in different feudal states of India. Generally, Habshis” engaged very high positions in army, administration, construction work and other professions.

Unlike European powers in West Africa, Indian traders did not directly participate in slave trade in Ethiopian interior. Rather, the Ethiopian Emperors and members of nobilities directly involved in the process of capturing and exporting slaves to India and Arabia for importing cloths, rice and spices which were in great demand in Ethiopia. Many Ethiopian war prisoners of Ahmed Grange (the left handed), who invaded Ethiopia in 16th century, were also sent to India as slaves and they became soldiers, palace guards, traders, masons etc. After the defeat of Ahmad Grangn by Emperor Lebene Dengel (1506-1546), with the strong military support of the Portuguese, many Indian technicians (builders, blacksmiths, carpenters, masons, shoe-makers and other

¹⁴⁵ Pankhurst, Richard, ‘Ethiopian Diaspora in India’, in his book (ed.) titled ‘African Diaspora in the Indian Ocean’, 2002, London.

¹⁴⁶ Ibid

¹⁴⁷ Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

craftsmen) went to Ethiopia from Goa in the 17th century. These masons and artisans who came from India were hired by the then Ethiopian Emperor to build a palace of stone and lime, a structure that was wonder in the country. Thus, Indians played an innovative role mainly in the construction of bridges and introduction of lime and mortar construction. The contributions of Indians in Ethiopia were significant, especially in the fields of construction and craft.¹⁴⁸

During the reign of Emperor Suseneyos (1607-1632), there were growing contacts with India. During his reign, he had made close contacts with Indian rulers which enabled him to get luxury goods from India such as silk umbrella, well designed Indian slippers, papaya fruit, Indian figs and sugar canes. At the same time, several live animals like elephants and Zebras were sent from Ethiopia to Indian counter parts as gifts.¹⁴⁹

Then, as cultural ambassadors between the two countries, a number of Indian artists and craftsmen came to Ethiopia. These artisans have played progressively active roles in the building of palaces, churches and bridges. During the reign of King Susneyos, Indians constructed a bridge across the Blue Nile, the oldest bridge in Ethiopia and later during the reign of King Fasilidas, Indian artists built his castle in Gondar.¹⁵⁰

During Gonderian period the two countries enjoyed close economic and diplomatic relations. Emperor Fasiladas's expulsion of the Jesuits in 1632-33 was a turning point in Ethio-India relations. According to Pankhurst "*After the departure of the Jesuits, a number of Indians they had brought with them, remained in the country where they seem to have played a significant role in the early days of Gonder*".¹⁵¹

¹⁴⁸ *Ibid*

¹⁴⁹ Pankhurst, Richard, 'The History of Ethiopia's relation with India prior to the nineteenth century'.1972. Accademia Nazionale Dei Lincei

¹⁵⁰ Pankhurst, Richard, 'Across the Red Sea and Indian Ocean: A History of Ethiopian-Indian Relations from Ancient Time to the End of the Eighteenth Century'. In: Staatliches Museum für Völkerkunde Museum:Indien. Reigen der Götter. München: Staatliches Museum für Völkerkunde. 1998.

¹⁵¹ Pankhurst, Richard , *The History of Ethiopia's relation with India prior to the nineteenth century*.1972. Accademia Nazionale Dei Lincei p.189

Pankhurst further concluded that:

*“ Ethiopia in the heyday of Gonder Monarchy, it may be concluded, was thus far from isolated, and enjoyed indeed fairly close economic, diplomatic and cultural relations with India and the East, particularly with Gujarat, the Mogul Empire, and the Dutch East Indies”.*¹⁵²

Commercial relations between Ethiopia and India, which suffered during the period of trouble resulting from invasion of Ahmed Gragn, were strengthened in the late 16th and early 17th centuries. The ancient trading relations were revitalized and that there was substantial trade between Ethiopia and India. At Massawa there were a prosperous Indian trading community as well as of the continued import of Indian goods far in to Ethiopian interiors. By the 17th and 18th centuries, trade continued to dominate the relations between the two countries. According to Richard Pankhurst, Indian cloths, silk and cotton were imported in to Ethiopia throughout 17th and 18th centuries, some of the most costly cloths being brought for the decoration of the emperors and members of their families. The nobles of that period were using silk clothing which was imported directly from India.¹⁵³

3.1.3 Ethio- India Relations during Modern Period

After the end of Zemene Mesafint or Era of War Lords, Emperor Tewodros II came to power and he tried to build the modern, united and strong Ethiopian state.¹⁵⁴ In the second half of the 19th century, specifically in March 1868 Indian troops came to Ethiopia for the first time as soldiers of Robert Napier’s expedition against Emperor Tewodros of Ethiopia. At that time, Napier was the Commander in chief of the British Army in Bombay and his expedition force had 32,000 troops out of which more than 8,000 were Indian soldiers from Bombay and Punjab Regiments and Artillery from Bengal.¹⁵⁵

¹⁵² *Ibid*

¹⁵³ K.. Mathews ‘Ethiopia and India: Cultural Affinities’.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa

¹⁵⁴ Bahru Zewede, *A History of modern Ethiopia*, 1855-1991. 2002. Addis Ababa: Addis Ababa University Press.

¹⁵⁵ K.. Mathews, ‘Ethiopia and India: Cultural Affinities’.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa

In 1896, the Battle of Adwa gave a devastating defeat to the Italians and for the Ethiopians the battle became a land mark in their history. Since that battle, Ethiopia has been recognized by the outside world. Commercial contacts have increased and foreigners began to take interest in this ancient country.¹⁵⁶ Following the defeat of the Italians in the Battle of Adwa by Emperor Menelik, the British attempted to win the friendship of the Emperor by sending out a mission.¹⁵⁷

Towards the end of the 19th century, many Indians such as merchants, workers and artisans came to Ethiopia and some settled in the country by establishing business shops and trade firms. K. Mathews estimated that by 1909 there were about 150 Indian businessmen in Addis Ababa with established business enterprises. Muhammed Ali and Co. and Keshavalal Telakchand were among the oldest Indian trading companies or firms established in 1913 and 1915 respectively.

These Leading trading houses, with headquarters in Bombay, exported coffee, pulses and wheat from Ethiopia while they imported items such as cotton, rayon, yarns, gunny bags, etc. Before the invasion of fascist Italy, the number of Indian business firms in Addis Ababa is said to have increased to 3,000.¹⁵⁸

3.1.3.1 Ethio-India Relations during Emperor Haile Selassie Period

During the period of Emperor Haile Selassie, Ethiopia was conquered by fascist Italy as retaliation for their defeat at a decisive battle of Adwa. When Ethiopia was invaded by fascist Italy on October 3 1935, there was vast compassion and solidarity from the people of India to Ethiopia. Indian nationalist leaders like Jawaharlal Nehru, Mahatma Gandhi, and others strongly denounced the aggression and gave full moral and political support to Ethiopia.¹⁵⁹

¹⁵⁶ Muthanna. I.M. , *Indo-Ethiopian Relations for Centuries*. 1956. Artistic printing Press. Addis Ababa, Ethiopia

¹⁵⁷ Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

¹⁵⁸ Ibid

¹⁵⁹ K.. Mathews, 'Ethiopia and India: Cultural Affinities'.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa

Nehru declined to accept the invitation extended to him by the fascist leader Benito Mussolini to visit Rome while he was visiting Europe in 1936. Shortly after his return to India, the Indian National Congress prepared a mass demonstration under the banner of “Ethiopia Day” to show India’s full solidarity with Ethiopia against Italian atrocities in the country.¹⁶⁰ Mahatma Gandhi also expressed his deep sympathy to the Ethiopians and revolted against this barbaric act. Gandhi wrote:

*If Abyssinia were non-violent, she could have no arms, would want none. She would make no appeal to the League of Nations or any other power for armed intervention. She would never give any cause for complaint. And Italy would find nothing to conquer if Abyssinians would not offer armed resistance nor would they give cooperation willing or forced. Italian occupation in that case would mean that of the land without its people. That, however, is not Italy’s exact object. She seeks submission of the people of that beautiful land.....*¹⁶¹

Then, the total moral and political support extended to Ethiopia by a wide section of the Indian intelligentsia, including the press, was indeed striking and constant. The late Indian President Dr. S. Radhakrishnan, who was then a professor at Oxford University, added his voice to the moral support Ethiopia enjoyed in India by saying that events in Abyssinia constituted a betrayal of moral values.

Evidently the then colonial situation in which India found itself was a major contributing factor to the unanimous solidarity India demonstrated to Ethiopia. Both Ethiopia and India at the time were waging their struggle against fascism and colonial rule respectively. In that sense, Ethiopia and India were victims of colonial oppression.¹⁶²

¹⁶⁰ Vijay, Gupta, *Africa Quarterly*, 1994, Volume 34: Number 2

¹⁶¹ Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

¹⁶² *Ibid*

It is in this context Nehru said: "*It is essential that one should know the international situation as India is a part of the world where Abyssinia has been annexed by Italy. Is there any difference between Abyssinia and India?*" They may look separate but both of them are parts of the same picture".¹⁶³

During the time of Italian occupation, after almost seven decades, the Indian troops came to Ethiopia for the second time again as soldiers of Britain under the British flag but for different purpose, that is, to fight against fascist Italy's occupation forces. Following the humiliating defeat of fascist Italy and the re-entry of Emperor Haile Selassie in to Ethiopia, the Ethiopian Emperor on several occasions expressed his gratitude to Indian troops who stood alongside with the Ethiopian patriots and fought hard against the invaders.¹⁶⁴

India achieved its independence from British colonial rule in August 1947. After one year from its independence, India established its official diplomatic relations with Ethiopia. It immediately sent a good will mission to Ethiopia led by Sardar Sant Singh to maintain and further consolidate the long-standing cordial ties between Ethiopia and India. Likewise, the Ethiopian government had announced in July 1948 its decision to establish diplomatic relations with India at the legation level. In 1950, three years after India became independent, formal diplomatic relations between Ethiopia and India were established. The leader of the Indian good-will mission, Mr. Sardar Sant Singh, was appointed by the Government of India as the first Indian Ambassador to Ethiopia.¹⁶⁵

Both countries sustained close and cordial relations during the long reign of Emperor Haile Selassie. The relations between Ethiopia and India are sincere and friendly based on mutual respect, admiration and cooperation. Ethiopia and India share similar perceptions on issues of common concern that binds the two countries together and they hold identical views on issues that affect developing countries.

¹⁶³ Pankhurst, Richard, "The Global African Community History Notes Great Habshis in Ethiopian/Indian History: History of the Ethiopian Diaspora, in India".1999. -Part IV

¹⁶⁴ K.. Mathews, 'Ethiopia and India: Cultural Affinities'.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa.

¹⁶⁵ *Ibid*

They supported each other in the Non-Aligned Movement (NAM)¹⁶⁶ and on issues relating to disarmament, North-South dialogue, South-South Cooperation and numerous other issues.¹⁶⁷ The two countries have enjoyed close and friendly relations, India supporting Ethiopia's development efforts while Ethiopia supporting India's interests such as its claims to get a permanent seat on the United Nations Security Council (UNSC).¹⁶⁸

NAM was also important to bind Ethiopia and India together.¹⁶⁹ Ethiopia and India played active part to promote the objectives of NAM among member's countries and other parts of the world during the cold war era. There are multiple bonds that bind Ethiopia and India together, encompassing civilizational, historical, cultural, commercial, economic, social, political and diplomatic ties.

The two countries did not only strengthen their relations which have been historically close, friendly and time-tested through the setting up of diplomatic ties but they have continued to remain committed to promote mutually beneficial co-operation. Their multidimensional relations continued to grow from time to time.¹⁷⁰ Bilateral cooperation found concrete expressions in the establishment of an Indo-Ethiopian textile factory and the Haile Selassie Military Academy in Harar in 1958 and the building of Gandhi Memorial Hospital in Addis Ababa in 1955. Moreover, large numbers of Indian teachers were recruited by Ethiopian Ministry of education to teach in the primary and secondary schools during the Imperial regime.¹⁷¹

¹⁶⁶ The main objective of Non Allied Movement (NAM) is to keep third world countries away from cold war power blocks led by United States and Soviet Union. Besides, it has its objective like the struggle against imperialism, colonialism and neo colonialism (which is an attempt to return imperialism in various forms including in political and economic forms). (Dutt, 1983)

¹⁶⁷ Manoj, Kumar, "*India-Ethiopia Relations: 1990-2006*". 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

¹⁶⁸ K.. Mathews, 'Ethiopia and India: Cultural Affinities'.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa.

¹⁶⁹ Romish, Chandra, 'Non-Aligned Movement for peace'. 1983.In Gupta Vijay (ed.) , *India and Non-Aligned Movement*, New Delhi: New literature

¹⁷⁰ Manoj, Kumar, "*India-Ethiopia Relations: 1990-2006*". 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

¹⁷¹ K.. Mathews, 'Ethiopia and India: Cultural Affinities'.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa.

Ethiopia and India had decade long investment relations. B K Birla Group (Indo-Ethiopian Textiles Share Company) established the first major joint venture by the Indian Industrialist in 1959. Emperor Haile Sellassie awarded him, the medal of the Meinelik II', the highest Ethiopian Award of that time.¹⁷²

The deepening and expansion of their relationship has been clearly reflected in the exchanges of high-level visits between the two countries. Since the establishment of full diplomatic relations, the two countries have consistently made efforts to strengthen their relations and there have been a number of visits by the leaders of each country and a number of agreements signed. These have steadily contributed to the deepening of relations. Exchange of visits by Ethiopian and Indian officials became part of the countries diplomatic relations. For instance, the late Ethiopian Emperor Haile Selassie made two official visits to India in 1956 and 1968. The then Ethiopian Crown Prince and Princess also visited India in 1959. From the Indian side, in 1956, the Late Prime Minister Indira Gandhi, when she was the Minister of Information of the Government of India, visited Ethiopia. In 1957, Indian President Dr. RadhaKrishnan visited Ethiopia and in 1960 the then Vice President of India Dr. Zakir Hussain paid an official visit to Ethiopia. Again the President of India, V.V.Giri, during his 1972 visit to African countries, travelled to Ethiopia for a working visit. During the Imperial Regime, trade sustained its traditional role as the most important aspect of Ethio-India relations. Concerning these trade relations between the two countries, the Emperor himself while he was visiting India in 1956, stated that “*trade with India formed an important part of Ethiopia’s international trade*”.¹⁷³

Ethiopia used to import largely cotton and cotton products while exporting mainly agricultural products such as coffee, lentils, wheat and oilseeds. Indian traders also effectively played their traditional roles as intermediaries. They were playing a dominant role in the Ethiopian international trade.

¹⁷² Embassy of Ethiopia, ‘Ethiopia-India Historical Relationship’. 2011. New Delhi.

¹⁷³ Muthanna. I.M. , *Indo-Ethiopian Relations for Centuries*. 1956. Artistic printing Press. Addis Ababa, Ethiopia

3.1.3.2 Ethio-India Relations during Military Regime

Political changes in Ethiopia were caused by the Popular Revolution in 1974. Following the 1974 revolution in Ethiopia, Ethio-India relations started to worsen. Before the revolution, there were more than 9000 Indians in Ethiopia. During the military regime, many Indians who were engaged in business activities left the country. As a result “they numbered over 3000 at the end of 1980s”.¹⁷⁴ At the same time, several of those who were recruited as teachers by Ministry of Education had also left the country and the Ministry of Education had significantly reduced the number of teachers who were recruited from India due to the program of Ethiopianization, which meant that foreigners were not allowed to teach in Ethiopian schools.¹⁷⁵

However, common commitment such as involvement in NAM and their inclination towards socialist principles of ‘state guided economy’ continued to bind Ethiopia and India together. India was perhaps one of the few countries with which its relations were never hostile, unlike with most of the Western, Arab or even other Asian countries. India's relations with Ethiopia have been traditionally close and friendly. Consecutive Ethiopian Governments have been appreciative of the fact that India has never been hostile to Ethiopia's interests.¹⁷⁶ Later, India continued to extend its cooperation to the Ethiopian people, meaningfully in areas of technical cooperation and development of small-scale industries. Indian universities and institutions of higher education began to receive large numbers of Ethiopian students pursuing professional and higher studies. India’s support to Ethiopia during the Ethiopian-Somalia war of 1977-78 over the Ogaden is remembered with gratitude and it was an indication of their close and friendly relations. In return, Ethiopia paid close attention to India’s policy on disarmament, North-South dialogue, South-South cooperation and on their numerous issues.¹⁷⁷ Ethiopia and India had supported each other in the United Nations and in the Non-Aligned Movement (NAM).

¹⁷⁴ *Ibid*

¹⁷⁵ Wondosen Teshome, ‘The Indian Community in Addis Ababa’. 1988. Senior essay, Department of History, Addis Ababa

¹⁷⁶ K.. Mathews, ‘Ethiopia and India: Cultural Affinities’.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa.

¹⁷⁷ *Ibid*

During the Military period, India has also been providing modest economic and technical assistance to Ethiopia. Such assistance has mainly been in the form of training facilities and scholarship to Ethiopian nationals in academic and technical institutions, delegation of Indian experts, donations of food grains, medicines and handlooms, agricultural equipment, books and publications and the conduct of techno-economic and feasibility studies. President Mengistu Haile Mariam visited India twice in 1983 and 1985 to improve the bilateral relations.¹⁷⁸

After his visit to India in December 1985, assistance under the ITEC program was expanded considerably. India also had cooperation arrangements with Ethiopia in the field of defense since the early 1960s, when it set up a Military Academy at Harar for training officers. The Harar Military Academy, which was originally designed and established by the British, later run by the Indian Army officers delegated by the Indian Military Academy.¹⁷⁹

In 1982, Ethiopia and India signed a trade agreement and a memorandum of understanding on commercial, technical and scientific cooperation that identified a number of fields such as agriculture, development, consultancy, small-scale industries, transportation, manpower development, etc. However, this agreement was not implemented as intended because the Ethiopian government was preoccupied with the task of fighting insurgents mainly in the northern part of the country. There has been increasing cultural interaction between the two countries over the years. Among others, India and Ethiopia signed a Cultural Agreement in 1983 which provided for cooperation in art and culture, education, archeology, sports, public health, film, television, radio, press, etc. A two year cultural exchange program was implemented subsequently.¹⁸⁰ In July 1987, the Ethiopian Handicraft and Small Industry Development Agency and the National Small Industries Corporation of India signed an agreement for developing 38 different types of machinery for utilization for setting up small scale industries in Ethiopia.

¹⁷⁸ Singh, Gurjit (Ambassador to Ethiopia 2005-2009), 'ITEC Program Experience: India and Ethiopia'.

¹⁷⁹ K. Mathews, 'India-Ethiopia ties on upward Spiral'. In *Africa Quarterly (Indian Journal of African Affairs)*. 2007. Indian Council for Cultural Relations Vol.47.No.1

¹⁸⁰ K.. Mathews, 'Ethiopia and India: Cultural Affinities'.2004. A paper presented at Capuchin Franciscan Institute of Philosophy and Technology. Addis Ababa

Chapter Four

4. Post-1991 Ethio-India Economic Relations

In the preceding chapter, the historical background of Ethio-India relations has been discussed in brief. In this chapter, the Post-1991 Ethio-India economic relations are analyzed by taking trade and agricultural investments as points of analysis. This chapter is divided into six sections. The first section discusses about the crucial factors which enhanced the Post-1991 economic relations between Ethiopia and India. The second section examines the Post-1991 Ethio-India trade relations. This section provides a broad picture of data regarding Ethiopia's import products from India and Ethiopia's export products to the Indian market. The third section discusses about an overview of the Post-1991 agricultural investment in Ethiopia. The fourth section explains Indian agricultural investment in Ethiopia. The fifth section outlines the general benefits of Indian agricultural investment in Ethiopia and the last section assesses the major impacts of Indian agricultural investment in Ethiopia.

4.1 Crucial Factors for the Post-1991 Ethio-India Bilateral Economic Relations

There are two major factors which have encouraged the Post-1991 economic relations between Ethiopia and India: political and economic reforms and scope for economic cooperation.

4.1.1 Political and Economic Reforms in Ethiopia

Following the overthrow of the Imperial Regime, the Military Regime introduced major economic reforms which included nationalization of the means of production, distribution and service. This implied that Ethiopia had been following protectionist economic policy during the period of the Military Regime.¹⁸¹

¹⁸¹ Abebe Alemu 'Post-1991 Ethiopia and-Saudi Arabia Economic Relations: Challenges and Opportunities of Trade and Agricultural Investment'. 2011. MA Thesis, Addis Ababa University

During the Derg period (1974-1991), the government of Ethiopia adopted Central Command Economic System in which market forces were deliberately repressed and socialization of the production and distribution process pursued forcefully. During the Military Regime, Ethiopian economy experienced various structural problems marked by low economic growth, macroeconomic imbalance and insignificant private (domestic and foreign) participation in the economy. Following the down fall of the Derg regime in May 1991, the Transitional Government of Ethiopia (TGE) adopted the Market Economic System. Ethiopia implemented a series of Structural Adjustment Programs (SAPs) and various institutional reforms sponsored by International Monetary Fund (IMF) and World Bank (WB) in order to address Ethiopia's economic problems.¹⁸² Ameha stated that, "*following the defeat of the Derg, the incumbent government of Ethiopia has attempted to change the economy from central command economic system to decentralized market oriented economy through adopting new economic policy*".¹⁸³ He further explained that this economic reform in Ethiopia led to strengthening the economic relations between Ethiopia and India.

Manoj also argued that the then Government of Ethiopia had effectively implemented a number of economic reforms in order to change the economy from command to market economy, to encourage the wider participation of the private sector in the economy and to accelerate the integration of the economy into the world economy. He further explained that following the successful implementation of political and economic reforms, the bilateral relations between Ethiopia and India improved in the economic sphere. In economic cooperation, the bilateral relations are manifested in terms of trade exchanges, investments and loans.¹⁸⁴

¹⁸² Ethiopian Economics Association, *A survey of the Economic and Trade relationships between China, India and Ethiopia*. 2009. Addis Ababa, Ethiopia

¹⁸³ Interview with Ameha Haile Giorgis, Asia and Oceania Affairs: India Desk Officer, Ministry of Foreign Affairs, March 8, 2016

¹⁸⁴ Manoj, Kumar, "*India-Ethiopia Relations: 1990-2006*". 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi

4.1.2 Economic Cooperation between Ethiopia and India

Economic and commercial relations are the most important aspects of the bilateral relations between any two countries. The Post-1991 Ethio-India relations are further strengthening through economic cooperation. The commercial ties between Ethiopia and India have developed through the signing of various bilateral agreements.¹⁸⁵ As Ameha stated, there have been various bilateral visits over the years by high level government officials of the two countries and various bilateral agreements have been signed by the two countries in order to boost their bilateral economic relations.¹⁸⁶

According to K. Mathews, a new trade agreement between Ethiopia and India was signed on March 6, 1997 in New Delhi during the visit of late prime Minister Melese Zenawi to India. Then, Joint Trade Committee (JTC) was established and held a number of fruitful meetings subsequently. JTC reviewed the progress of bilateral trade as well as the progress in implementing the various agreements that have been signed between Ethiopia and India. Additionally, investment protection and promotion agreement and avoidance of double taxation agreement have been signed between the two countries.¹⁸⁷

According to Ameha, cooperation between Ethiopia and India has also been encouraged by the launching of the India-Africa Forum. The Forum is a mechanism for collective dialogue and mutual cooperation between Africa and India, and in general it focuses on issues of economic and social development. He further stated that India-Africa Forum is a big forum to enhance the bilateral economic relations between Ethiopia and India.¹⁸⁸ The bilateral economic ties of Ethiopia and India have developed further through the India-Africa Cooperation Forum.

¹⁸⁵Vinaye, Ancharaz, *et al*, *Ethiopia: Deepening Engagement with India through better Market Access*.2014. International Center for Trade and Sustainable Development. Issue Paper No. 35.

¹⁸⁶ Interview with Ameha Haile Giorgis, Asia and Oceania Affairs : India Desk Officer, Ministry of Foreign Affairs, March 8, 2016

¹⁸⁷ Interview with K. Mathews, professor of Political Science and International relations, Addis Ababa University, Department of Political Science and International Relations, April 1, 2016

¹⁸⁸ Interview with Ameha Haile Giorgis, Asia and Oceania Affairs : India Desk Officer, Ministry of Foreign Affairs, March 8, 2016

For instance, the second Africa-India Forum Summit, which took place in 2011 in Addis Ababa, was a good possibility to discuss the new economic investments and general bilateral cooperation between Ethiopia and India. During the summit meeting, India promised amongst other things to help Ethiopia's economy and capacity building with loans and it already kept this promise by providing loans for a rural electrification project and the expansion of the sugar industry.¹⁸⁹

Ameha argues that the Indian government has initiated a Duty Free Tariff Preference Scheme (DFTP) designed to help Ethiopia and other developing African states in order to export their products to India.¹⁹⁰ K. Mathews added DFTP scheme has a potential to encourage Ethiopia's exports to Indian market and Ethiopia is already operating this scheme. He concluded that DFTP scheme is a great opportunity for Africans in general and Ethiopia in particular in order to export more products to Indian market.¹⁹¹

According to Ambassador Seyoum Mesfin, in recent years, the relations between Ethiopia and India have improved significantly. The cooperative relations between Ethiopia and India which is based on mutual respect and benefit is a classic example of South-South Cooperation.¹⁹² The government of Ethiopia and India are deploying highest efforts to strength bilateral economic cooperation.¹⁹³ Both countries are committed to further strengthen and enhance the bilateral relations. In the early years of the 21st century, the relationship between Ethiopia and India attained extraordinary heights. The late Prime Minister of Ethiopia, Meles Zenawi, called it the golden age of Ethio-India relations.¹⁹⁴ During various meetings, the late Prime Minister Meles Zenawi has warmly spoken of further increasing bilateral trade and more investments by Indian companies in Ethiopia.

¹⁸⁹ Pathak V., 'India-Ethiopia relations in the 21st century'. 2012. In: M Mwanguri, A Biswas (Eds.): *East Africa-India Security Relations*. Nairobi

¹⁹⁰ Interview with Ameha Haile Giorgis, Asia and Oceania Affairs: India Desk Officer , Ministry of Foreign Affairs, March 8, 2016

¹⁹¹ Interview with K. Mathews, professor of Political Science and International relations, Addis Ababa University, Department of Political Science and International Relations, April 1, 2016

¹⁹² Seyoum Mesfin, 'The Expansion of India-Ethiopia Relationship' .2008. In; *60 years of Ethio-India friendship*. The Embassy of India. Addis Ababa, Ethiopia.

¹⁹³ FDRE, Ministry of Information, *Foreign Affairs and National Security Policy and Strategy*. 2002. Addis Ababa.

¹⁹⁴ Manoj, Kumar, "*India-Ethiopia Relations: 1990-2006*". 2010. PhD Dissertation, Jawaharlal Nehru University, New Delhi.

K. Mathews argues that a new paradigm of cooperation and partnership in the true spirit of South-South Cooperation has been created between Ethiopia and India. Currently, the dimension of economic cooperation covers the widest possible spectrum.¹⁹⁵ An effort was made to attract a large number of investors from India and to improve the trade relations between the two countries. Apart from investment and trade, other economic relations between the two countries were manifested in terms of financial aid, technical cooperation, tourism, social, and cultural contacts and exchanges.¹⁹⁶

4.2 The Post-1991 Ethio-India Trade Relations

As a part of SAP in Ethiopia, comprehensive trade reforms for both exports and imports were carried since 1992. Among others, reduction of tariff and non-tariff barriers, harmonization and simplification of tariffs, including tariff lines and dispersions, removal of quotas, reduction and gradual elimination of all controls including those on domestic prices, deregulation and liberalization of investment policies were carried out.¹⁹⁷

Modern economic and diplomatic relations between Ethiopia and India began with an agreement that was signed on March 6, 1997. That trade agreement laid the framework of cooperation to expand the trade relations between the two countries.¹⁹⁸ Following the trade agreement, bilateral Investment Promotion and Protection Agreement (BIPPA) was signed on July 5, 2007 to strengthen relations in the economic and investment areas. More importantly, during the first India-Africa Forum Summit of April 2008, India had announced the DFTP for Least Developing Countries (LDCs) and Ethiopia was among the first countries that utilized the DFTP.¹⁹⁹

¹⁹⁵ Interview with K. Mathews, professor of Political Science and International relations, Addis Ababa University, Department of Political Science and International Relations, April 1, 2016

¹⁹⁶ Interview with Ameha Haile Giorgis, Asia and Oceania Affairs: India Desk Officer , Ministry of Foreign Affairs, March 8, 2016

¹⁹⁷ Hassen , ‘The Impact of Trade Liberalization on Ethiopian Export, import and GDP’ .2008. Department of Economics, University of Oslo.

¹⁹⁸ Interview with Mr. Tages Mulugeta, Bilateral and Regional Trade Relation and Negotiation Expert, Ministry of Trade, March 15,2016

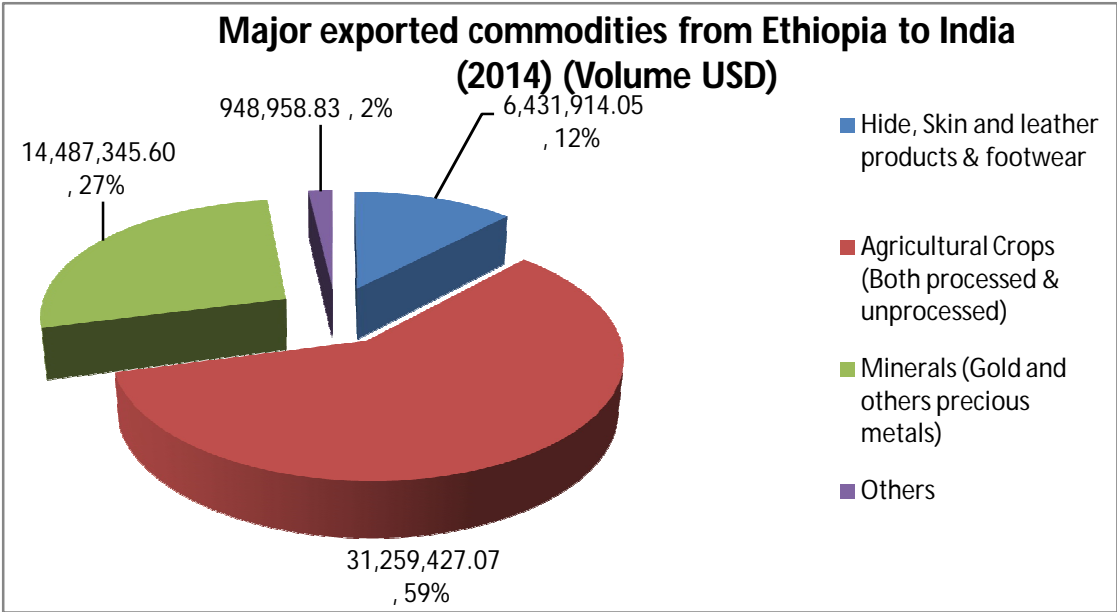
¹⁹⁹ Interview with Ameha Haile Giorgis, Asia and Oceania Affairs: India Desk Officer , Ministry of Foreign Affairs, March 8, 2016

Ethiopia and India also signed Double Taxation Avoidance Agreement (DTAA) on May 25, 2011 during the second India-Africa Forum Summit held in Addis Ababa. Mathews concluded that, despite the total volume of the bilateral trade between Ethiopia and India has been increasing from time to time; the trade balance is in India’s favor because of lack of export diversification on the Ethiopian side.²⁰⁰

4.2.1 Ethiopian Export Products to the Indian Market

As shown in the Diagram 4.1 below, in 2014, almost all of Ethiopia’s export earnings derive from primary products. From these, 59 % of the export is covered by Agricultural Crops (Both processed & unprocessed), followed by Minerals (Gold and others precious metals) which covers 27%. Hide, Skin and leather products and footwear cover another 12% of Ethiopia’s export to Indian market. Other export items constitute a mere 2%. The export basket of Ethiopia shows that Ethiopia mainly exports primary goods such as food and live animals, vegetables, leather, coffee, tea and cocoa.

Diagram 4.1. Major Export Commodities from Ethiopia to India (2014)



Source: Ethiopian Customs Authority, 2014

²⁰⁰ Interview with K. Mathews, professor of Political Science and International relations, Addis Ababa University, Department of Political Science and International Relations, April 1, 2016

4.2.2 India's Export products to Ethiopia

Table 4.1 below shows the top ten import commodities from India. Ethiopia imports Iron and Metals and related products, Vehicles and accessories, Machineries, Electronic equipments and accessories and many other manufactured products. The import basket of Ethiopia indicates that Ethiopia mainly imports manufacturing products like chemicals, machinery and transport equipment's, iron and steel, pharmaceutical products, vehicles and accessories. The composition of Ethiopia's import is highly dominated by Iron and Metals and related products which take 23.6 % of total imports.

Table 4.1 Major import commodities from India to Ethiopia (2014)

No.	Item	Volume (USD)	Percentage
1	Iron and Metals and related products	218,619,277.06	23.6%
2	Food items	179,213,238.58	19.35%
3	Machineries, Electronic equipments and accessories	147,449,319.36	15.9%
4	Medical and Pharmaceuticals	142,539,266.35	15.39%
5	Vehicles and accessories	73,539,259.88	7.94 %
6	Polymers and Plastics and related items	37,554,558.24	4.05 %
7	Chemicals and related items	37,440,322.61	4.04 %
8	Textile products	36,419,423.36	3.93 %
9	Rubber products and related items	33,610,579.50	3.62 %
10	Petroleum and related items	19,666,566.09	2.12 %

Source: Ministry of Trade, 2014

4.2.3 India's share in Ethiopia's Import and Export Trade

Table 4.2 India's share in Ethiopia's International Trade (2000-2015)

Year	Ethiopia's Over all Export in USD	Growth %	India's share in Ethiopian overall Export (in %)	Ethiopia's Over all Import in USD	Growth %	India's share in Ethiopian overall import (in %)	Trade turnover with India	Growth %
2000	482,208,308		1.72	1,270,535,673		5.19	74,179,692	
2001	453,629,176	117.04	3.97	1,815,712,161	50.43	5.46	117,114,040	57.88
2002	473,855,023	-44.49	2.11	1,603,501,726	4.09	6.43	113,159,884	-3.38
2003	581,545,811	-19.68	1.38	2,679,556,661	70.04	6.55	183,443,538	62.11
2004	615,752,578	19.30	1.56	3,043,398,711	8.61	6.26	200,098,605	9.08
2005	896,631,488	-16.45	0.89	3,795,660,670	31.17	6.58	257,906,696	28.89
2006	999,387,458	18.97	0.95	4,520,692,512	25.70	6.95	323,647,069	25.49
2007	1,183,268,582	63.52	1.32	5,326,728,715	34.12	7.91	436,868,096	34.98
2008	1,542,860,714	-7.41	0.93	8,202,224,590	-14.22	4.41	375,798,589	-13.98
2009	1,493,635,743	30.42	1.26	7,603,620,498	75.51	8.34	653,046,384	73.78
2010	2,147,314,405	46.32	1.28	8,297,069,623	-1.68	7.52	651,118,321	-0.30
2011	2,542,304,496	19.89	1.30	8,708,516,628	24.00	8.88	806,256,340	23.83
2012	2,741,297,676	28.01	1.54	11,659,257,528	38.62	9.19	1,114,165,041	38.19
2013	2,591,041,909	-15.84	1.37	10,955,385,470	14.25	11.18	1,260,183,940	13.11
2014	2,977,916,072	49.51	1.78	14,718,589,712	-13.76	7.18	1,109,234,876	-11.98
2015	2,697,079,937	22.17	2.41	16,282,654,224	9.03	7.07	1,216,407,420	9.66
Aver.	1,526,233,086	20.75	1.61	6,905,194,069	23.73	7.19	555,789,283	23.16

Source: Ministry of Trade, 2016

As the table 4.2 shows that imports of Ethiopia have shown a significant increase in the last fifteen years. The lowest share of Ethiopia's export to India was 0.89% in the year 2005. The share of exports to India reached a peak of 3.97 in 2001, but has remained mostly under 2% for the period from 2003 to 2014. After the year 2008, there is an improvement in the volume of export to India because India introduced DFTP scheme for least developing countries in general and Ethiopia in particular. On the other hand, India's share in Ethiopia's overall import has increased and has reached a peak of 11.18 % in the year 2013.

India's share in Ethiopian overall export is 1.37% in the same year. Generally, the bilateral trade between Ethiopia and India fluctuates on year to year bases which may have strong negative impact on economic growth.

4.2.4 Summary of Trade balance between Ethiopia and India

Bilateral trade volumes have risen sharply over the last 15 years and in 2015 the bilateral trade reached a peak of \$1.2 billion and India is the second most important source of imports for Ethiopia, contributing 7.4% of all Ethiopia's import next to China. Following recent agreements, trade between two countries has increased from \$ 74.1 million in 2000 to \$1.1 billion in 2014. This indicates that the trade relation between the two countries is increasing starting from 1992 due to the economic policy adopted by EPRDF government.²⁰¹ Tages stated that trade relations between Ethiopia and India have raised significantly. Table 4.3 below shows this reality.

Table 4.3 Summary of Trade Balance between Ethiopia and India (2000-2015)

Year	Export to India in USD	Import from India in USD	Ethio-India trade balance
2000	8,296,999	65,882,693	-57,585,694
2001	18,007,825	99,106,215	-81,098,390
2002	9,996,833	103,163,051	-93,166,218
2003	8,029,491	175,414,047	-167,384,556
2004	9,579,348	190,519,257	-180,939,909
2005	8,003,268	249,903,429	-241,900,161
2006	9,521,289	314,125,781	-304,604,492
2007	15,569,207	421,298,888	-405,729,681
2008	14,416,051	361,382,539	-346,966,488
2009	18,801,131	634,245,253	-615,444,122
2010	27,509,833	623,608,487	-596,098,654
2011	32,980,239	773,276,100	-740,295,861
2012	42,219,447	1,071,945,594	-1,029,726,146
2013	35,533,787	1,224,650,153	-1,189,116,366
2014	53,127,646	1,056,107,230	-1,002,979,585
2015	64,908,691	1,151,498,728	-1,086,590,037

Source: Ministry of Trade, 2016

²⁰¹ Interview with Mr. Tages Mulugeta, Bilateral and Regional Trade Relation and Negotiation Expert, Ministry of Trade, March 15,2016

As shown in the table 4.3, bilateral trade volumes have risen sufficiently over the last 15 years, from less than US\$ 75 million in 2000 to over US\$ 1.2 billion in 2015. Trade volumes have increased significantly after 2007, when Ethiopia and India signed major agreements, including the Bilateral Investment Promotion and Protection Agreement and Agreement on Establishment of Joint Ministerial Commission.²⁰² As table 4.3 shows that the value of imports from India has been growing faster than Ethiopia's export to India thereby given rise to widening trade deficit. For instance, the year 2014 saw the total trade volume of the two countries reached \$1.1 billion, of which India's export to Ethiopia accounted about \$ 1 billion, however, its import from Ethiopia was only \$53.1 million. Ethiopia's export to India was very minimal throughout the 1990s and its relative share has been very minimal showing very huge gap between imports and exports resulting in a trade balance that favors India.

Despite the total trade between Ethiopia and India has been significantly improving, Ethiopia suffers significant trade deficit with India 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 agricultural and animal products, such as tanned sheepskins, vegetables, precious stones , pulses, dried legumes, oil seeds, and ginger to India, whereas India exports machinery, electrical equipment, chemical products, medical supplies, and metals for construction to Ethiopia. In this trade relation between the two countries, chronic trade deficit has remained the dominant feature of Ethiopia's external trade with India. Therefore, economic relations between Ethiopia and India are unequal and asymmetrical. The widening deficits in favor of India need the attention of both governments in order to sustain the trade relationships between the two countries.

Generally, No country in the world is completely self-sufficient, i.e., no country produces all the goods and services that it requires. Due to differences in the availability of natural resources and other inputs required for production, some countries specialise in production of some goods which they produce more cheaply than other countries. The other countries may likewise produce some other goods relatively cheaply.

²⁰² Interview with Mr. Tages Mulugeta, Bilateral and Regional Trade Relation and Negotiation Expert, Ministry of Trade, March 15,2016

Hence, countries specialise in the production of those goods for which they are best suited. This sort of international specialisation gives rise to the exchange of goods across geographical boundaries of countries. Thus, Ethio-India trade relations are highly explained by the neo-classical economic theory which was developed to answer why do countries trade? They argue that, trade between countries takes place because traders benefit from it. They further explained trade is better than complete isolation. For the neo-classical economic theorist, free trade would increase the absolute wealth of all parties, foster bonds of independence and peace between states.

Even if trade between countries usually does not benefit participating countries equally, they expect trade would automatically have a positive effect on all participants and it is one of the major deriving forces for economic development. International trade can be an important vehicle for promoting economic development. Developing countries are able to initiate economic development by importing machinery and technical know-how from developed countries. The main conclusions of the neoclassical model of free trade that all countries gain from trade and world output is undeniable.

It is obvious that foreign trade is increasingly important to Ethiopian economy. However, Ethiopia's trade relation with India highly depends on few primary agricultural commodities. Imports of Ethiopia from India have been growing faster than exports of Ethiopia to India thereby giving rise to trade deficit. In all relationships the key question is who benefits more? In economic relations the one who benefits more will be the one who is more powerful in terms of capital accumulation and the one who has a better bargaining power. Due to the above fact, economic relations between Ethiopia and India are unequal and asymmetrical.

There are a number of factors responsible for weak trade performance of Ethiopia. What is immediately clear from observing Ethiopia's export profile is the country's dependence on the export of primary commodities. However, there is policy of the growing protection for primary commodity markets in developed countries. Ethiopian exports are mainly agricultural products and therefore are prone to price volatility and adverse climate which affects their capacity to export.

Secondly, Tages stated even if India's duty free scheme is crucial for LDCs, Ethiopia is not using the scheme extensively due to the absence of strong institutions in Ethiopia. The third factor that hinders Ethiopia's trade performance is lack of capacity on the Ethiopian side. Ethiopia has weak export capacity in terms of volume. Ethiopia's exports to India are neither increasing nor diversifying through time. He further stated poor production capacity is the major cause for trade imbalance. Due to the above factors, Ethiopia has been experiencing weak trade performance and facing many difficulties in order to meet the import demands of India.²⁰³ Tages concluded that, in response to the trade imbalance, Ethiopia is needed to focus on diversifying the composition of exports and increase the number of value added products. In line with this, the Ethiopian government shall work on increasing the volume of its exports through the extensive use of DFTP scheme which is provided by Indian government, and attracting FDI in agricultural sector from India and holding Exhibition and trade fair between the two countries.²⁰⁴

Mathews stated the major challenge is how to minimize the trade imbalance and he further explained that if Ethiopia effectively implemented the DFTP scheme, the scheme will minimize the trade imbalance currently existing between Ethiopia and India. Additionally, there have been a number of attempts from the government of India in order to avoid the defects for the bilateral trade between the two countries: increasing soft loans, focusing on capacity building and encouraging small and medium scale enterprises.²⁰⁵

4.2.5 Barriers for Ethio-India Trade Relations

Although Ethio-India trade relations have increased for the last twenty five years, there are many barriers that need to be addressed in order to further strengthen economic relations. Major constraints are discussed below.

²⁰³ Interview with Mr. Tages Mulugeta, Bilateral and Regional Trade Relation and Negotiation Expert, Ministry of Trade, March 15, 2016

²⁰⁴ Ibid

²⁰⁵ Interview with K. Mathews, professor of Political Science and International relations, Addis Ababa University, Department of Political Science and International Relations, April 1, 2016

4.2.5.1 Infrastructure bottlenecks

Inadequate Infrastructure has been considered as a major hindrance for enhancement of trade between Ethiopia and India. Both Ethiopia and India score very poorly in transport, telecom, power consumption, financial development etc. Other major problems include- electricity power consumption, internet penetration and quality of port and health sector development. In recent years, Ethiopia has made significant progress in infrastructure and it has developed Ethiopian Airlines and associated regional air transport hubs.²⁰⁶ Additionally, it has launched 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, other Infrastructure facilitates, particularly, transport and power have remained major problems for Ethiopia, which directly affects the bilateral trade relations between the two countries.

4.2.5.2 Lower Human Capital Development

The concept of human capital refers to the abilities and skills of human resources of a country. Human capital is one of fundamental factors for economic growth. Ethiopia is among low human development group. Ethiopia continued to be considered as 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.²⁰⁷ Different scholars have argued that human capital development is vital for trade development and in attracting foreign investment. Human Development Index 2013 ranks Ethiopia and India at 173rd and 136th out of 187 countries respectively, indicating poor human capital in both countries.

²⁰⁶ IPE Global, 'Prospects of India-Ethiopia Investment and Trade cooperation. 2014. Department of International Development.

²⁰⁷ Mulugeta Tefera, 'Human Capital and Economic Growth in Ethiopia: A time series Analysis'. MSc. Thesis.

Similarly, Human Capital Index of 2013 ranks India and Ethiopia poorly out of 122 countries. Ethiopia scored very poorly human capital development which directly affects the bilateral trade relations between the two countries.²⁰⁸

4.2.5.3 Transportation Costs

The profitable sale of agricultural products and the import of finished products depend on an efficient set of integrated transport system. Ethiopia is a landlocked country and relies majorly on Djibouti for access to shipping lines and this coupled with poor infrastructure and long distance from the sea is clearly damaging its trade relations with India; these situations bring additional costs and such costs are a particular burden on Ethiopia. It indicates that transportation and logistics costs are major problems for promoting trade and investment in Ethiopia.²⁰⁹

4.3 An overview of the post-1991 Agricultural Investment in Ethiopia

Since 1991, the Government of Ethiopia has been adopting the strategy of Agricultural Development-Led Industrialization (ADLI). ADLI is a development strategy aimed at promoting economic growth in Ethiopia through coordinating agricultural and industrial development.²¹⁰ ADLI describes that the development of agriculture is considered as the main engine of industrialization by providing the raw material, adequate labor, capital base and capital accumulation. ADLI has been considered as the main instrument for alleviating poverty of the majority of small-holding farmers in Ethiopia.²¹¹ The Ethiopian Economy is predominantly agrarian, with agricultural produce contributing to 45% of Gross Domestic Product (GDP), 62% of total exports and 85% of employment.²¹² Ethiopia is endowed with fine and suitable agro-ecology for large scale farming and is a land of unique opportunity for agricultural investment.

²⁰⁸ IPE Global, 'Prospects of India-Ethiopia Investment and Trade cooperation. 2014. Department of International Development

²⁰⁹ Chu, George, *Trade, Aid, and Interdependence*. 1995. London and New York: Routledge.

²¹⁰ Ethiopian Ministry of Agriculture and Rural Development, Ethiopia's Agricultural Sector Policy and Investment Framework, 2010

²¹¹ Ministry of Finance and Economic Development (MoFED). Ethiopia: Building on Progress: A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), September 2006

²¹² Embassy of the Federal Democratic Republic of Ethiopia in Ireland, 2010, Invest in Ethiopia in the land of opportunity

Taking this into consideration, the government of Federal Democratic Republic of Ethiopia has given particular attention for the sector.²¹³ A liberalized economic policy was adopted by Ethiopian government. It was aimed at raising the role of private sector. To this effect, the Ethiopian government issued a new investment code in 1992, which was a means to robust and build up the private sector participation in the mobilization of resources and formation of capital as part of liberalization process.²¹⁴ As a result, many local and foreign investors have been highly attracted to invest in large scale agriculture in Ethiopia.

Investment Proclamation No. 15/1992 was issued and the Ethiopian Investment Commission was established in May 1992 by the Transitional Government of Ethiopia (TGE). The proclamation was made to encourage, expand and coordinate investment in the country.²¹⁵ The Government of Ethiopia has made further commendable efforts, through legislative and procedural reforms, to improve the investment climate of the country and thereby attract more foreign direct investment.²¹⁶ It has amended its investment code six times in order to meet the demands of both domestic and foreign investors (1992, 1996, 1998 and 2002, 2012 and 2014) and it has gradually lifted sectoral restrictions.²¹⁷

The Ethiopian Investment Commission has been implementing an improved system and organizational structure following the formulation of the current Investment Proclamation No. 769/2012 and Council of Ministers Regulation No. 270/2012. The core objective of the current law is to improve the living standards of the peoples of Ethiopia through the realization of sustainable economic and social development.²¹⁸

²¹³ Ministry of Agriculture, 2013

²¹⁴ Mustafa Aman, 'An Assessment of Challenges and Prospects of Foreign Direct Investment in Agricultural Sector in Ethiopia (with Reference to Foreign Investment in Large Scale Farmland)'. 2011. MA Thesis.

²¹⁵ Frehiwot Worku, The role of Large Scale Agricultural Investment and its Policy Implications in Ethiopian Economy. 2015. Ethiopian Development Research Institute

²¹⁶ Ethiopian Embassy in India, 2013, Legal frameworks

²¹⁷ Solomon Mamo .(2008): Determinants of Foreign Direct Investment in Ethiopia. Msc Thesis, Maastricht University, the Netherlands.

²¹⁸ FDRE (2012) Federal Negarit Gazeta, Investment Proclamation, proclamation No.769/2012 , Addis Ababa

According to Daniel, agriculture is a backbone of Ethiopia's economy and large-scale farming has been playing a prominent role for economic growth of Ethiopia. He further stated that to this effect, three million hectares are set aside in the federal land bank for the purpose of large-scale commercial farming.²¹⁹ ADLI saw limited success and the government of Ethiopia has transformed its agricultural policy focus from increasing smallholder productivity to encouragement of private investment (both domestic and foreign) in larger-scale commercial farms.

To that effect, the Ministry of Agriculture (MoA) has created a new Agricultural Investment land administration Agency that is established in order to negotiate long-term leases for large-scale commercial farms.²²⁰ According to Tadesse, Ethiopia is becoming an investment destination in East Africa region due to its attractive investment incentives, the lucrative business opportunities it provides and the fast paced economic progress it has been experiencing.²²¹

4.4 Indian Agricultural Investment in Ethiopia

Investment Proclamation No.15/1992 states: *“while limiting the role of the state in the economy; it has created an enabling environment for the active participation of both domestic and foreign private capital in various investment activities without any limitation on capital ceilings”*. Thus, a liberal investment context has been enacted and the Ethiopian Investment Commission was established in 1992. The Commission has been making relentless efforts to create an enabling investment environment which increased the role of private sector in the economic development of the country.²²²

²¹⁹ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30, 2016

²²⁰ Consumer Unity & Trust Society, 2014, Indian Investments in Mining and Agriculture in Africa Impact on Local Communities

²²¹ Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, March 7, 2016

²²² Investment Office of Ethiopia, 1992, 'Ethiopia: A Guide to Investments'. Addis Ababa: Artistic Printing Enterprise. p.17

Since 1993, India has invested more than \$1.5 billion in the primary sector of which approximately 97 percent has been directed towards the growing of crops, fruits, vegetables, flowers, and beverage crops. The next largest destination for Indian investment, a little more than 1 per cent, was animal farming. Mining and quarrying, the third largest location for FDI attracted \$7.3 million. Indian investment has been widely spread over and they have invested around \$ 5 billion in different sectors in Ethiopia. From June 2003 to May 2014, close to 632 Indian firms are currently operating in Ethiopia. Indian firms have been active in sectors such as agriculture, floriculture, cotton and textiles, plastics, leather, I.T., mining and health care. The Ministry of External Affairs, Government of India, in a July 2014 note on India Ethiopia relations estimates that out of the \$5billion invested so far, approximately \$ 2 billion is already on the ground or in the pipeline. About 48% of Indian companies are in Manufacturing and 21% in agriculture and rest are in services sector.²²³

According to the data provided by the Ethiopian Investment Agency, Indian investment has resulted in the creation of nearly 20,161 permanent jobs and roughly 220,593 temporary jobs. India also made a commitment to raise Lines of Credit facilities to Ethiopia's agricultural sector.

Tadesse stated that Indians have good experience in Agricultural sector; especially they are actively engaged in the cultivation of flowers and other crops in Ethiopia. Indian companies identify Ethiopia as a stable country to invest in with sound macroeconomic policies and attractive incentive packages.²²⁴ In addition, the Indian government has certainly encouraged Indian investment in Ethiopia, as well as in Africa more widely, by providing finance through its Export Import Bank (EXIM Bank).

²²³ IPE Global, 2014, Prospects of India-Ethiopia Investment and Trade Cooperation.

²²⁴ Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, march 7, 2016

There are several reasons for Indian agricultural investment in Ethiopia after 1991. The following are some of the rationales behind Indian huge agricultural investment in Ethiopia.

4.4.1 Stable Political and Economic Situation

After the collapse of military government in 1991, Ethiopia entered a period of political stability under Ethiopian People's Revolutionary Democratic Front (EPRDF) government.²²⁵ It has given a mature and stable political system. For Ameha, Ethiopia is considered as one of the most stable countries in Africa and its political stability makes it a destination for Indian agricultural investment.²²⁶ Tadesse added since the downfall of the Derg regime, Ethiopia has experienced several positive economic developments.²²⁷ Additionally, Ethiopia has a vibrant and rapid growing economy with a double digit GDP growth rate for the last few years. Real GDP grew by an average of 10.4 percent in year 2010/11, which places Ethiopia among the top performing economies in Sub-Saharan Africa.²²⁸

4.4.2 Proximity to major International Markets

Ethiopia is strategically located in Eastern Africa with an easy access to the lucrative markets of the Middle East, Europe and Asia. Ethiopia has a large population and thus potentially one of the largest domestic markets in Africa. The Ethiopian Investment Commission added "*Investing in Ethiopia is also profitable in that it enables investors to have access to 19 African countries through the Common Market of Eastern and Southern Africa. That means there is high market potential with 400 million people in East Africa, and more than 90 million people live in Ethiopia which gives a comparative advantage to the Indian investors and other investors from Asia*".²²⁹

²²⁵ Prateeksha Tiwari, Indian and Chinese FDI in Ethiopia: Nature, Impact, and Challenges, 2015, DU Journal of Undergraduate Research and Innovation, New Delhi

²²⁶ Interview with Ameha Haile Giorgis, Asia and Oceania Affairs : India Desk Officer, Ministry of Foreign Affairs, March 8, 2016

²²⁷ Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, march 7, 2016

²²⁸ Ethiopian Investment Commission, An Investment Guide to Ethiopia, 2013

²²⁹ Ethiopian Investment Commission, An Investment Guide to Ethiopia, 2015.pp:15

Hence, Ethiopia has competitive advantages in different areas and with tremendous business opportunities; the country should be seen as an attractive investment location for nationals, Diaspora, and foreign investors including Indian investors. Ethiopia also qualifies for preferential access to European Union market under the EU's Everything-But-Arms (EBA) initiative and to USA markets under the African Growth and Opportunities Act (AGOA), Duty Free Tariff Preferences Scheme and the Generalized System of Preference (GSP). Thus, most Ethiopian products can enter into these markets quota and duty free.²³⁰

4.4.3 Availability of Natural Resources

A third point for Indian agricultural investment in Ethiopia is related with the availability of natural resources. "Agriculture is highly dependent on the natural resource endowments such as the availability of arable land, fertile soil, and climatic conditions. These endowments differ significantly across the world, with implications for the patterns of global agricultural production, investment, and trade".²³¹ Ethiopia is endowed with abundant agricultural resources. According to Tadesse, "Ethiopia's topographical situation, favorable climate, potentially fertile soil, abundant water resources, and vast areas of arable land make it favorable and conducive to both extensive and intensive agricultural production."

There are an untapped natural and mineral resources and fertile soil with sufficient surface and ground water resource which makes Ethiopia an investment destination.²³²

4.4.4 Investment Guarantees

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

²³⁰ *Ibid*

²³¹ United Nations, 2009, United Nations Conference on Trade and Development, World Investment Report: Transnational Corporations, Agricultural Production and Development. Geneva: United Nations Publications.

²³² Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, march 7, 2016

Tadesse stated that Ethiopia has signed Bilateral Investment Promotion and Protection Agreements as well as Avoidance of Double Taxation with several countries including India which makes Ethiopia an investment destination.

4.4.5 Investor friendly policies and Incentives

Tadesse argue that “Ethiopia has become the target of foreign investors as it has developed investor friendly environment and providing attractive incentives.”²³³ Due to the investment-friendly environment created in the country, the inflow of foreign direct investment (FDI) has been increasing over the last twenty five years. The Government of Ethiopia has formulated policies that encourages and supports foreign direct investment. The government considers foreign investments as potentially providing developmental benefits through technology transfer, employment creation and infrastructural developments.²³⁴

Ethiopia is becoming an investment destination in the sub-region due its attractive investment incentives. The Ethiopian government “requires no minimum capital and has exempted foreign agricultural activities from paying custom duties and taxes on imports of capital goods”²³⁵

The major incentives given to foreign direct investors include exemption from payment of export custom duties, income tax holidays from 2 to 7 years depending on the region and the sector of the investment, all imported capital goods and spare parts worth up to 15% of the value of the capital good are exempted from import tariffs and custom duties. Tadesse stated that investors in all sectors of the Ethiopian economy including foreign investors who will be engaged in agricultural activity are exempted from the payment of customs duties and other taxes levied on imports of all capital goods (machinery, equipment and accessories) and construction material necessary for the establishment of new projects or expansion and upgrading of the existing

²³³ *Ibid*

²³⁴ Ethiopian Investment Commission, 2015, An Investment Guide to Ethiopia: A preferred Location for Foreign Direct Investment in Africa

²³⁵ Weissleder, Lucie, 2009, “: Foreign Direct Investment in Agricultural Sector in Ethiopia”, Discussion Papers No .12. Bonn: Misereor. Available on line at <http://www.ecofairtrade-org/pics/en/FDIs-Ethiopia-c-pdf>.

one.²³⁶ He further asserted that even if there is no separate incentive package for Indian firms. Indian companies engaging in agricultural sector shall be entitled to income tax exemption.

Proclamation No. 769/2012 provides another incentive package for investors involved in large-scale commercial agriculture in new enterprises and/or expansions: Commercial farm investors are granted 100% exemption from the payment of import customs duties and other taxes levied on all capital goods including plant, machinery and equipment as well as spare parts worth up to 15% of the value of imported capital goods.²³⁷ Due to this attractive and competitive investment environment, India as food-importing country with land and water constraints but rich in capital, is at the forefront to invest in Agriculture in Ethiopia. These agricultural investments have their own benefits to the economic development of Ethiopia.

According to Ethiopian Investment Commission, Indian agricultural investments are crucial in order to bring rapid and sustainable economic development.²³⁸ Firstly, among main benefits expected from foreign agro-investment companies, the creation of job opportunity for many people is the major one. Various Governments, International Financial Institutions (IFIs) and private investors argue that agricultural investment can create new employment opportunities in rural areas.

Land investment has the potential to create significant amounts of employment on farms, whether preparing land, planting, weeding, harvesting crops, managing facilities, or providing security or other services.²³⁹ Tadesse argues that Indian agricultural investment in Ethiopia created job opportunities for many Ethiopians.²⁴⁰

²³⁶ Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, march 7, 2016

²³⁷ Ethiopian investment Proclamation, 2012

²³⁸ Ethiopian Investment Commission, An Investment Guide to Ethiopia, 2015

²³⁹ Keeley , James et al, 'Large Scale Land deals in Ethiopia: Scale, trends, features and outcomes to date'. 2014. International Institute for Environment and Development (IIED) and International Development Research Centre (IDRC)

²⁴⁰ Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, march 7, 2016

Daniel also supports the above argument and he concluded that Indian agricultural investments have been crucial in creating employment opportunities in Ethiopia.²⁴¹ So far, Indian companies categorized under the operational phase created 3,447 permanent and 11,186 temporary job opportunities for Ethiopians.

Secondly, Tadesse stated that technology transfer is often presented as an important potential benefit of foreign agricultural investment. Indian Companies indeed played a fundamental role in filling knowledge gaps by transferring technology and know-how to Ethiopians.²⁴² Daniel also argues that Indian firms have brought know-how and new ideas into the country which led to the improvement of production and productivity in agricultural sector.²⁴³

Thirdly, as Tadesse stated, investment in agricultural sector leads to increase in the capital accumulation of the country which in turn helps it to reach the middle-income level. Fourthly, Daniel argues, Indian agricultural investments can bring foreign currency for Ethiopia and they are crucial to minimize the shortage of foreign exchange required for realizing development projects in the country.²⁴⁴ Lastly, the agricultural investment of Indian firms contributes to increase in the government revenue in different ways. For Tadesse, Indian agricultural investment has the potential to generate significant revenue for Ethiopian government from fees and taxes, which can be used to fund national and regional development activities.²⁴⁵

The following table gives information about Indian agricultural investment in Ethiopia. Table 4.4 shows summary of Indian investment projects in agriculture with their investment status

²⁴¹ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30,2016

²⁴² Ethiopian Investment Commission, An Investment Guide to Ethiopia, 2015

²⁴³ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30,2016

²⁴⁴ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30, 2016

²⁴⁵ Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, march 7, 2016

Table 4.4 Summary of Licensed India Investment Projects in Agriculture by Year and Status

Year	Implementation		Operation			Pre-Implementation		Total
	No of Projects	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.	No. of Projects	No of Projects	
1996	1						1	
2000	1						1	
2003		2	126,023	657	0		2	
2004		7	311,664	554	2,301		7	
2005		6	215,596	240	1,175		6	
2006		4	43,391	629	632	1	5	
2007	1	2	45,000	35	56		3	
2008	4	2	563,150	440	2,860	1	7	
2009	2	4	244,882	201	1,156	3	9	
2010	9	4	150,034	252	1,656	7	20	
2011	2	6	121,166	439	1,350	7	15	
2012	2					8	10	
2013						3	3	
2014	2					6	8	
2015	1					4	5	
2016						1	1	
Grand Total	25	37	1,820,905	3,447	11,186	41	103	

Source: Ethiopian Investment Commission, 2016

Table 4.4 reveals that Indian investments are in different phases: implementation, operation and pre-implementation starting from 1996 to 2016. Before 2003, there were four investment projects which were categorized under the phases of implementation and pre-implementation. This means there were no any investment projects under operational phase. In 2003, two investment projects started operation in Ethiopia and provided 657 permanent job opportunities for the local people. The year 2004 was also crucial, seven investment projects started operation in Ethiopia and it created 554 permanent and 2,301 temporary job opportunities.

In 2005, six investment projects started operation with a total capital of 215,596,000.00 Birr and they have provided 629 permanent and 632 temporary job opportunities. In the same year there was one investment project under pre-implementation phase. The table also shows that the total number of project under operational phase reached thirty-seven and as the number of projects increased, the capital of these projects has shown substantial increase. However, the year 2008 was important in which Indian Companies invested a total capital of 563,150,000.00 Birr in Ethiopia. Those investment projects also provided 440 permanent job opportunities and 2,860 temporary job opportunities. There were also four investment projects under implementation phase and there was one investment project under pre-implementation phase.

When one considers the case of implementation, in 2010, significant Indian investment is becoming visible in Ethiopia and there were 9 investment projects under the implementation phase. From the year 1996 to 2016, the total number of investment projects in implementation phase reached 25. On the other hand, the total number of investment projects in pre-implementation phase reached 41. From 1996 to 2016, the total investment projects in operational phase reached 37 with the total capital of 1,820,905,000.00 Birr. In terms of job creation Indian investment in agricultural sector created 3,447 permanent and 11,186 temporary job opportunities. On the other hand, the total number of licensed Indian projects in agricultural sector between 1996 and 2010 reached 1 and 20 respectively. The table also shows the total number of Indian investment projects and there are 103 Indian agricultural investment projects in Ethiopia.

Table 4.5 shows the list of some Indian companies which are investing in agricultural sector and it also shows that the total size of the land in which they are engaging in the production of different crops.

Table 4.5: List of Indian Companies that are investing in the Ethiopian Agriculture Sector

Company	Size in Hectares	Crops
Karaturi Agro Products PLC	300,000(100,000 in the First phase, 200,000 in the Second phase)	Palm oil, Cereals, Pulses and sugar cane
New Age Biotech PLC	100,000	Plantation of Oil Seeds ,Cereals,Vegetables and Jatropa
S&P Energy Solutions	50,000	Biofuels, edible oil Crops
Shampoorji	50,000	Cereals, pulses, oilseeds and spices
Almidha	28,000	Sugar
BHO Agro plc	27,000	Cereals, pulses, edible oils
CLC Industries	25,000	Cotton
Ruchi Agri PLC	25,000	Oil Seeds, Palm Tree Plantation and Processing
Saber farm PLC	25,000	Cotton and Soyabean
Sannati Agro Farm Enterprises	10,000	Rice, Cereals, Pulses
White Field Cotton Farm	10,000	Cotton
JVC Overseas PTE LTD	25,000	Sugarcane, Cotton and Pulses Farming
Green valley Agro PLC	5000	Cotton and oil seeds
Verdanta Harvests	5000	Tea and allied crops
Total	685,000	

Source: Ethiopian Investment Commission, 2016

Karaturi Agro products plc agreed with Ministry of Agriculture (MoA) to grow Palm oil, Cereals, Pulses and sugar cane on 300,000 hectares (100,000 in the First phase, 200,000 in the Second phase) in the fertile lands of Gambella regional state.

Karaturi had entered into agreement with the ministry of Agriculture on October 25th 2010 and received 100,000 hectares of land in the first phase in Gambella regional state. This land lease agreement is for 50 years. When we see the status of Karaturi Agro products PLC, its status is classified under the Implementation phase. According to Daniel, Karaturi was expected to complete the development of the entire leased land and to this end the agency gave warning letter to enhance the development of the land, and in case of failure to restore the underdeveloped land on the basis of the agreement. However, Karaturi failed to develop the land and did not fulfill the obligation stated in the agreement. Hence, the agency has terminated land lease agreement with Karaturi Agro products Plc since December 25/2015.²⁴⁶

New Age Biotech PLC also took 100,000 hectares of land in Oromiya regional state to produce Cereals, Vegetables and oil seeds. Its status is under the category of operational phase and it is engaging in the cultivation of the above crops. Shampoorji and BHO PLC also took 50,000 and 27,000 hectares of land in Beninshangul-Gumuze and Gambella regional states respectively in order to produce cereals, pulses and edible oils.

On the other hand CLC industry PLC took 25,000 hectares of land in Beninshangul-Gumuz regional state for cotton farming and its status is classified under operational phase. White field cotton farm also took 10,000 hectares of land in Southern Nation, Nationalities and Peoples Regional State to produce cotton. Ruchi Agri PLC took 25,000 hectares of land in Gambella Regional State. Its status is under the category of operation phase and it is engaging in the cultivation of Oil Seeds, Palm Tree Plantation and Processing.

Saber Farms PLC and Sannati Agro Farm took 25,000 and 10,000 hectares of land respectively in Gambella Regional State. The former company took land in order to produce Cotton and Soyabean and its status is under the category of Implementation phase while the latter company also took land for the cultivation of Rice, cereals, Pulses and its status is under the category of operational phase.

²⁴⁶ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30, 2016

Both Green Valley and Verdanta Harvest took 5,000 hectares of land for each in Gambella Regional State in order to produce cotton, oilseed and tea and allied crops respectively. The former company is categorized under operational phase where as the latter company categorized under implementation phase. Daniel stated that Verdanta Harvest had successfully cultivated tea and allied crops on the entire land in Gambella regional state based on the agreement.²⁴⁷

JVC Overseas PTE LTD also took 25,000 hectares of land in Gambella Regional State for the cultivation of Sugarcane, Cotton and Pulses Farming. Its status is under the category of Pre-implementation phase.²⁴⁸ Generally, the above table shows that these Indian firms have acquired over 600,000 ha of land mostly in Oromiya and Gambella regional states. Most investors plan to grow edible oils and crops while a few have plans to grow cotton

²⁴⁷ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30, 2016.

²⁴⁸ Remark: *Pre-Implementation* investment means that the company has already acquired all the necessary requisites to start operation but has not started yet. Acquiring land is included in the pre- implementation stage. Implementation phase indicates that production plant is already being built; and operation phase to mean the production plant is already in use.

4.6 Impacts of Indian Agricultural Investment in Ethiopia

Henze described the role of Agriculture in Ethiopian economy as:

*Agriculture is the chief origin of resources for raising the living standard of the population and for boosting accumulations. The solution of the nutrition problem, the export potentialities, and the employment of millions population are also determined by this sector of the economy. All this, illustrate the exceptional role of agriculture and its Predominance over the other sectors.*²⁴⁹

Large-scale investment in land is an important part of the Ethiopian government's strategy for development of the country. Agriculture is at the heart of the country's economy, contributing 50 percent of GDP, 85 percent of employment and 85 percent of exports.²⁵⁰ Government policy documents suggest that Ethiopia has considerable potential in the agricultural sector that is currently unfulfilled. Large scale agricultural investment is welcomed by the government of Ethiopia because it is essential in terms of addressing food security and poverty reduction objectives, and it is also a core driver of national economic growth and job creation. Large-scale commercial agriculture has to be promoted in the lowland areas of the country, with horticulture, labour-intensive agriculture than in more densely populated agricultural areas –namely, the highlands.²⁵¹

In recent years, Ethiopia has made development strides despite the regular cycle of droughts in parts of the country. Chronic and acute food insecurity is prevalent, especially among rural populations and smallholder farmers.²⁵² According to Ethiopian government, this food insecurity problem could be solved through agricultural investment. The government claims that investment in agriculture is important to minimize the problem of food insecurity: rising productivity increases rural incomes and lowers food prices by making food more accessible to

²⁴⁹ Henze, Paul. B, *Ethiopia: Crisis of a Marxist Economy Analysis and Text of a Soviet Report*. 1989. Santa Monica: The Rand Corporation.p.16

²⁵⁰ Keeley , James et al, *Large Scale Land deals in Ethiopia: Scale, trends, features and outcomes to date*. 2014. International Institute for Environment and Development (IIED) and International Development Research Centre (IDRC

²⁵¹ *Ibid*

²⁵² CARE, 'Achieving food and Nutrition Security in Ethiopia'.2014.

the poor.²⁵³ The government argues that these investments will allow for much-needed foreign currency to enter into the economy, and will contribute to long-term food security through the transfer of technology to small-scale farmers. These are the rationales behind leasing huge lands to both local and foreign investors, particularly for Indian firms.²⁵⁴

Nevertheless, the impact of foreign agricultural investment is still a debatable issue. While agricultural investment plays a crucial role in the economic development, it involves risks and challenges to the host country Ethiopia. The recent foreign large-scale investments in farmland have been strongly criticized especially by some Non-Governmental Organizations and International development organizations.²⁵⁵ Those organizations have mentioned possible negative impacts for the target countries and especially for the local poor. The expropriation of local landholders and the loss of adequate access to land supposedly result in negative consequences for local food supply (food security) and for the environment.

Graham et al, elaborate these challenges and risks as:

*Since foreign land acquisition is profit oriented and largely for exports, agricultural Investment will foster the introduction and deepening of an industrial agricultural mode of production in the host countries. The corporations involved in agricultural investment are also accused of introducing inappropriate types of technology that hinder indigenous technological developments and of employing capital-intensive productive techniques that thereby cause unemployment and prevent the emergence of domestic technologies. In addition, this mode of production is ecologically destructive and not sustainable.*²⁵⁶

Indian agricultural investment in Ethiopia is one manifestation for the above argument. Various Non-Governmental Organizations like Oakland Institute claimed that Indian agricultural investments have a number of negative impacts.

²⁵³ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30, 2016.

²⁵⁴ *Ibid*

²⁵⁵ GRAIN (2008). 'The 2008 Land Grab for Food and Financial Security', GRAIN Briefing, available at http://www.grain.org/briefings_files/landgrab-

²⁵⁶ Graham, Alison, et al, 2010, "Land Grab Study: The Impact of Europe's Policies and Practices on African Agricultural and Food Security". The CSO Monitoring Report. Available at <http://www.google.com.et>

One of the respondents who requested anonymity concluded that expected benefits are often in the form of job opportunities and infrastructure development, but Indian Companies which are operating in Ethiopia show minimum commitment to benefit the local people and to protect the environment. Thus, Large-Scale Commercial agriculture can impact the biodiversity of an area because it tends to heavily rely on industrial modes of agricultural production.

Large-scale acquisition of agricultural land can have adverse impacts on the host country. These negative effects include the displacement of smallholder farmers, the loss of grazing land for pastoralists, the loss of incomes and livelihoods for rural people and the depletion of productive resources. There is also evidence of adverse environmental impacts, in particular the degradation of natural resources such as land, water, forests and biodiversity.²⁵⁷ Based on the above fact, the following are the major challenges of Indian Agricultural Investment in Ethiopia: environmental impact, food insecurity and displacement of local peoples.

4.6.1 Environmental Impacts

The ecological sustainability in agricultural production is an important subject in the context of foreign agricultural investment. Applying intensive agricultural production has an impact on biodiversity, carbon stocks, land, soil and water resources.²⁵⁸ One of the most significant concerns about the trend of Indian agricultural investment relates to the environmental impact which includes mechanized mono-cropping farms that are dependent on high levels of water usage, involve heavy doses of pesticides and herbicides that can pollute nearby groundwater, and which can rapidly deplete soil quality.²⁵⁹

²⁵⁷ Pascal, Liu, 'Impacts of Foreign Agricultural Investment on Developing Countries: Evidence from case studies'. 2014. Food and Agriculture Organization, Rome.

²⁵⁸ Mustafa Aman, 'An Assessment of Challenges and Prospects of Foreign Direct Investment in Agricultural Sector in Ethiopia (with Reference to Foreign Investment in Large Scale Farmland)'. 2011. MA Thesis, Addis Ababa University

²⁵⁹ Rowden, Rick (2011). An Examination of the Role of the Indian Government and Indian Companies Engaged in Overseas Agricultural Land Acquisitions in Developing Countries. Produced in collaboration with GRAIN and the Economic Research Foundation

Indian firms have interest in cultivating cotton, palm oil, rubber, oilseeds and horticulture. Such sort of products need heavy mechanized form of farming that involves concentrated chemicals and mono-culture. Monocultures also demand intensive use of chemical fertilizers and pesticides that destroy biodiversity, pollute soils, rivers, subterranean water sources and springs, and gravely affect the health of plantation workers and communities.

According to Worldwatch, “Investors claim that land grabs can help to alleviate the world food crisis by tapping into a country’s ‘unused’ agricultural potential.” However, such investments often do more harm than good, disrupting traditional land-use patterns and leaving small-scale farmers vulnerable to exploitation”.²⁶⁰ Some observers point out that in fact the global land grab is rather a water land grab due to the fact that agricultural investment is pointless without water and therefore only lands with abundant water supply have been targeted by investors.

In addition, large-scale plantations for agro fuels production may be associated with increased soil and water pollution (from fertilizer and pesticide use), soil erosion and water run-off, with subsequent loss of biodiversity.²⁶¹ As cited in Elias, Fikre states that “these fertile lands will lose their trees, topsoil, natural habitats and rivers, to be rendered barren as a result of exposition to chemicals latent in the fertilizers, insecticides and pesticides” and that the rivers and lakes that survive “are likely to be poisoned by toxic materials and become undrinkable and health hazard.”²⁶² Gambella residents said that when Karaturi came, we lost the benefit from the forest because they took the land and cleared all the land.

Daniel argues that there is no any Indian investor who is engaging in agricultural investment without giving more emphasis for environmental impact assessment. However, he further explained that there is a major problem with regard to the implementation of environmental protection.

²⁶⁰ Worldwatch , “Land Grabs” in Agriculture: Fairer Deals Needed to Ensure Opportunity for Locals” .2011. Worldwatch Institute,

²⁶¹ Graham, Alison, et al, 2010, “Land Grab Study: The Impact of Europe’s Policies and Practices on African agriculture and food security.

²⁶² Elias N. Stebek, Between ‘Land Grabs’and Agricultural Investment: Land Rent Contracts With Foreign Investors And Ethiopia’s Normative Setting In Focus. 2011.

He also stated the agency has preparing code of conduct for environmental protection and it has been working to incorporate the issue of environmental protection into the agreement with foreign investors in general and Indian investors in particular.²⁶³

Generally, Indian agricultural investment has a negative impact on the environment: increase in erosion and worsen climate change by displacing forest areas and other land use changes, which result in high carbon stock releases. Especially, if fire cleaning takes place, a loss in water availability and quality may be invoked by large scale water use and use of pesticides and fertilizer, a reduction of biodiversity may be caused by large-scale monoculture production systems, a loss in soil quality can be caused as well by an unsustainable use of chemicals and disruption of the local ecologic systems by introducing plants or species that are not part of the local biodiversity.

4.6.2 Food Insecurity

Despite Ethiopia's considerable agricultural resources potentials, the country has been facing chronic food shortages. Even in years of adequate rainfall, the survival of some 4 to 6 million people depends on international food assistance. Even though Ethiopia is doing its level best to curtail the problem of hunger, food insecurity at the household level could still persist despite growth of food and cash crop production at national level.²⁶⁴

Besides, the current land deal which is being made by Ethiopian government with foreign agro-investment companies could have its own impact on the food self sufficiency of the country. As various writers comment, investment by foreign companies on large scale farmland could have a devastating impact on the livelihoods of the indigenous local people. Especially the effect could be significant if the country is not strictly look after the undertakings of such companies.

²⁶³ Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30, 2016

²⁶⁴ Mustafa Aman, 'An Assessment of Challenges and Prospects of Foreign Direct Investment in Agricultural Sector in Ethiopia (with Reference to Foreign Investment in Large Scale Farmland)'. 2011. MA Thesis, Addis Ababa University.

FDI in farmland can reduce food security in the target country when food crops are not available for local consumption. This is of outstanding importance in light of the human right to food. As a matter of fact, some of the relevant target developing countries for FDI in farmland are dependent on food aid.²⁶⁵

It is evident that commercial land investment will have an immediate adverse impact on the ability of those already food insecure local populations. There is no clause in any lease agreement that requires investors to improve local food security conditions or to make production available for local population. Previously, these households were largely self sufficient with respect to food production, now they will have to rely on assistance from others and will become more dependent on food aid from the government. The Oakland Institute further stated that, taking over land and natural resources from rural Ethiopians, is resulting in a massive destruction of livelihoods and making millions of local people dependent on food aids.²⁶⁶ Generally, the acquisition of land by Indian companies in Ethiopia poses a threat to its livelihoods and endangers its chances of achieving food security and improved nutrition.

4.6.3 Displacement of Local People

According to Oakland Institute (OI), most of large scale land deals were negotiated without the prior and informed consent of the indigenous populations living on the land. In the worst cases, people are forcibly evicted from their land with little or no compensation.²⁶⁷ With 85 % of the Ethiopian population living in rural areas and being dependent on farming for their livelihood, losing access to arable land, their most crucial asset, will seriously undermine thousands of household's ability to earn a living produce and purchase sufficient food.

²⁶⁵ The Oakland Institute, 'Understanding Land Investment Deals in Africa, Country report: Ethiopia' .2011.

²⁶⁶ *Ibid*

²⁶⁷ The Oakland Institute, 'Understanding Land Investment Deals in Africa, Country report: Ethiopia' .2011.

According to the 1995 Ethiopian Constitution, “*the Ethiopian peasants have rights to obtain land without payment and the protection against eviction from their possession. It also asserts that the Ethiopian pastoralist have the right to free land for grazing and cultivation as well as the right not to be displaced from their own lands*”.²⁶⁸ On the contrary, many local peoples are displaced from their home land due to foreign agricultural investment in general and Indian agricultural investment in particular. More land is forcibly taken from indigenous subsistence farmers for lease to Indian private companies.

Although Ethiopian officials claim that villagization is a voluntary program, OI investigations reveal that the government had forcibly resettled indigenous communities from land earmarked for commercial agricultural development, rendering them food insecure and fearful for their survival.²⁶⁹ The government of Ethiopia failed to secure Free Prior and Informed Consent from displaced indigenous communities, failed to provide affected groups with mechanisms for redress, and failed to provide anything approximating fair compensation..

According to Fikre, “*the government of Ethiopia argues that Ethiopia has a plenty of uncultivated lands. However, it is a poor argument. A government that cares for the well-being of its people doesn’t give away its natural resources to foreigners simply because it has a plenty of it. Every good government should protect its national reserve bearing in mind future generations*”. The lands in which investors have targeted to utilize are not uncultivated lands. They want to take over lands that have already been cultivated by the dwellers. If not, why would they dislocate the native farmers from the places they have farmed and lived in from time immemorial?²⁷⁰ Generally, the large scale land transfers to Indian companies give rise to the dispossession and displacement of indigenous peoples in different parts of Ethiopia.

²⁶⁸ Federal Democratic Republic of Ethiopia Constitution,1995.p.13

²⁶⁹ Ethiopian Investment Proclamation,2012

²⁷⁰ Fikre Tolossa, Land Grabs in Africa: the case of Ethiopia. 2011.p.3

Tadesse stated that agriculture by its nature is a challenging activity; it requires huge capital, time, manpower and machines. Indian companies took huge land in different parts of Ethiopia. However, within the time frame they put, they could not develop what expected from them and the level of cultivations is below the expectation of the Ethiopian government.²⁷¹

Daniel stated that the overall performance of some Indian companies is not effective enough and they are not successfully developed the land as per their agreement. He mentioned Karaturi Agro products Plc and BHO as examples, both companies failed to develop the land based on the lease agreement they signed with the agency. Karaturi has developed only 1,200 hectares from its 100,000 hectares where as BHO has developed 1,103 hectares from its 27,000 hectares of land. Additionally, some Indian companies are not successful in fulfilling their social responsibilities in the area they are operating as the government expected.²⁷²

He also stated that agricultural investment has not been effective to create employment opportunities and to transfer technology effectively as expected by the government. Therefore, due to its poor performance the agency has discontinued providing lands to domestic and foreign investors for large-scale commercial farms for the time being. He added foreign agricultural investment in general and Indian agricultural investment in particular needs critical follow up and the agency is exerting its ultimate effort in order to solve the above problems.²⁷³

The researcher suggests that, if the Ethiopian government does not take necessary measures and carefully administer Indian companies which are involving in agricultural sector in Ethiopia, the above challenges may be intensified. Responsible decision-making and equally responsible investment is crucial in order to minimize the costs and damages assumed to be inherent in land grabbing.

²⁷¹ Interview with Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission, march 7, 2016

²⁷² Interview with Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency, March 30, 2016

²⁷³ *Ibid*

Chapter Five

5. Summary, Conclusion and Recommendations

5.1 Summary

Ethiopia and India have long historical relations dating back to ancient times. Historical links between Ethiopia and India go back to almost two thousand years of recorded history. Both countries have long standing economic and commercial relations, which are centuries old. Trade relations between Ethiopia and India are among the oldest in recorded history, going back to the first century A.D when Indian merchants traded Indian silk and spices for Ethiopian gold and ivory. Following the spread of Islam along the trade routes to the Ethiopian interior, Adulis was demolished in 710 A.D., which contributed much for the failure of Axum and the relation with India was not as strong as during the Axumite period. The ancient trade relations between Ethiopia and India that initiated during the ancient period were sustained in the following centuries with the new dimension of the slave trade.

The Habshis or Sidis were known to have arrived in India in the 13th century. Habshis” engaged very high positions in army, administration, construction work and other professions. They became prominent in several parts of India. During Gonderian period, the two countries enjoyed very close economic and diplomatic relations. After wards, in the last quarter of the 19th century, many Indian traders and artisans came to Ethiopia and established permanent residence by establishing their business firms in Addis Ababa.

In modern times, the two countries established official diplomatic relations. Official diplomatic relations between Imperial Ethiopia and India were established in 1948 and it was marked by an exchange of ambassadors of the two countries. Ethiopia and India maintained close cordial relations during the long reign of Emperor Haile Selassie. There were multiple bonds, i.e. cultural, economic, historical, and political that binds the two countries together. Ethiopia cultivated cordial relationships with India during the period of Emperor Haile Selassie and the relations have intensified through the formation of Non-Aligned Movement.

Even after the 1974 revolution in Ethiopia, India is one of the few countries with which its relations were never hostile. India's relations with Ethiopia have been traditionally close and friendly and have not been affected by political changes in Ethiopia. Both countries always supported each other in Non-Aligned movement, South-South cooperation, disarmament, North-South dialogue and numerous other issues on international forum.

As far as the Post-1991 Ethio-India relations are concerned, the core of their relations lies in economic interest. With the opening up of the Ethiopian economy, trade and investment, ties between Ethiopia and India have grown significantly. This study has attempted to critically examine the Post-1991 Ethio-India economic relations with a particular emphasis on trade and agricultural investment. The findings of this research indicate that economic relations between the two countries have shown an improvement since 1991 due to economic and political reforms in both the countries and a number of agreements for economic cooperation have been signed between the two countries.

Trade relations between Ethiopia and India have grown steadily when the two countries signed the 1997 bilateral trade agreement which laid the framework of cooperation to expand the trade relations between the two countries. Bilateral trade has grown from \$74.1 million in 2000 to \$651.1 million 2010 and further to \$1.1 billion in 2014. Although Ethio-India trade showed significant improvement over the period, this paper has revealed that Ethiopia has chronically run a negative balance in its trade with India, rendering Ethiopia highly dependent upon foreign aid to finance its imports.

Ethiopia's trade deficit can largely be explained by the unequal terms of trade between agricultural commodities (the country's major exports) and capital goods (the country's major imports). Ethiopia suffers significant trade deficit with India due to the composition of items between the two countries. Ethiopia exports agricultural and animal products, such as tanned sheepskins, vegetables, precious stones , pulses, dried legumes, oil seeds, and ginger to India, whereas India exports machinery, electrical equipment, chemical products, medical supplies, and metals for construction to Ethiopia. In such trade relations between the two countries, chronic trade deficit has remained the dominant feature of Ethiopia's external trade with India.

The data from the Ministry of Trade illustrate that there has been huge gap between imports from India and exports to it. Trade statistics to all fiscal years since 1991 also reveal the fact that the trade balance is largely in favor of India. The major reason for this trade imbalance is that Ethiopia continued to export agricultural products which bring lower price as compared to capital goods. Thus, it is possible to conclude that trade relations between the two countries have been highly unequal favoring India.

Following the downfall of the Military Regime, the government of Ethiopia has made commendable effort through legislative and procedural reforms, in order to improve the investment climate of the country and there by attract more foreign direct investment. Indian investment in Ethiopia has been growing rapidly due to the following factors: stable political and economic situation, proximity to major international market, rich natural resources, and investment friendly policies and incentives. Due to the above factors, India as food-importing country with land and water constraints but rich in capital is at the forefront to invest in Agriculture in Ethiopia. Following the enactment of liberal investment policy in Ethiopia, Indian investment has been widely spread over. Between 1993 and 2014, more than 632 Indian firms invested over \$5 billion. Indian firms have been active in sectors such as agriculture, floriculture, ICT, mining, cotton and textiles, plastics, and health care. In terms of capital invested agriculture takes the lion share of Indian investment followed by manufacturing sector.

5.2 Conclusion

This study examines the Post-1991 Ethio-India economic relations with a particular reference to trade and agricultural investments. Trade relations between the two countries have been increased rapidly; particularly after 1991. However, trade balance consistently remained in favour of India. The trade imbalance remains a structural problem in the trade relations between the two countries. Ethio-India trade relations do not show any meaningful departure from Ethiopia's asymmetrical trade relations with the western developed countries. Thus, it is possible to conclude that trade relations between the two countries have been highly unequal and asymmetrical.

On the other hand, Indian agricultural investments have both positive and negative impacts on local peoples where they are operating. There are a lot of possible positive as well as negative consequences of Indian agricultural investment in Ethiopia. However, Indian agricultural investments have not been effective to create employment opportunities and to transfer technology effectively as expected by the Ethiopian government.

5.3 Recommendations

Despite the rising trade and investment relationship between Ethiopia and India, there have also been various challenges in their bilateral relations. The Ethiopian government needs to deal with the challenges in order to take trade and investment to a new level. Based on the abovementioned findings the researcher would like to recommend the following policy recommendations:

5.3.1 Recommendations for Bilateral Trade

- **Improving Business Climate:** Business climate remained unfavorable in Ethiopia. Inadequate infrastructure, bureaucratic hurdles, complex and number of procedure, and transportation costs are major hindrances for trade and investment in Ethiopia. The above problems have need of rapid as well as continuous action by Ethiopian government. Improving business climate through the spread of infrastructural development, reduce trade cost and bureaucratic problems has been significant in order to strength the bilateral relations between Ethiopia and India. Additionally, strong institutions are critical for the international trade and growth of a given country. Based on the above fact, the Ethiopian Government shall build strong institutions with regard to international trade activities. Those institutions are significant in order to improve the business climate. Through building strong institutions, the Ethiopian government will fully exploit the DFTP Scheme and minimize the negative balance of trade payment. Therefore, improving business climate through infrastructural development, building strong institutions, reduce bureaucratic problems and trade costs can strength the bilateral relations between the two countries.
- **Diversification of Exports:** The finding of the study indicates that Ethiopian export basket mainly consists of primary goods and they are price inelastic and highly volatile in nature. Ethiopian exports suffer heavily due to absence of export diversification which contributes much for its trade imbalance. In response to the trade imbalance, Ethiopia also needs to focus on diversifying the composition of exports and increase the number of value added products to tap Indian huge market. In an effort to improve trade performance, the Ethiopian government might focus on the export of

manufactured goods than primary agricultural products. Ethiopia should ensure that it diversifies its exports to India to counterbalance a negative balance of trade with India. Thus, diversification of Ethiopian export commodities will help to reduce the existing huge trade imbalance between the two countries.

- **Human Development and Capacity Building:** human capital is one of fundamental factors for economic growth and it is vital for trade development as well as attracting foreign investment. Thus, in order to enhance the bilateral trade relations between the two countries, the government of Ethiopian needs to take necessary measures for rapid development of human resources and capacity building.

5.3.2 Recommendations for Greater Ethiopian Benefits in Indian Agricultural Investments

- **Follow up of Indian Agricultural Investment:** Indian private investment in Ethiopia is growing at a very faster rate. However, Indian agricultural investments in Ethiopia have providing few benefits for the local people. Indian investors need encouragement, support and follow up in order to provide the expected benefits of employment opportunity and technology transfers for many Ethiopians. The Ethiopian government is responsible to promote faster implementation of investment projects. If the Ethiopian government does not take necessary measures and carefully administer Indian companies which are involving in agricultural sector in Ethiopia, the above challenges may be intensified.

Therefore, responsible decision-making and equally responsible investment is crucial in order to minimize the costs and damages assumed to be inherent in Indian agricultural investment. Generally speaking, Implementation of these recommendations may enhance the positive prospect and minimize the challenges of the bilateral economic relations between Ethiopia and India.

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F. Personal Interviews

Ameha HaileGiorgis, Asia and Oceania Affairs: India Desk Officer, Ministry of Foreign Affairs.
Date: March 8, 2016, 9:00 AM-9:30AM

Daniel Zenebe, Director, Public Relations Directorate at Ethiopian Agricultural Investment Land Administration Agency. Date: March 30, 2016, 9:00 AM-10:00AM

K. Mathews, professor of Political Science and International Relations, Addis Ababa University, Department of Political Science and International Relations. Date: April 1, 2016, 11:00 AM-11:40AM

Tadesse Gashaw, Senior Agricultural Projects facilitation and aftercare expert, Ethiopian Investment Commission. Date: March 7, 2016, 9:20AM-10:00AM

Tages Mulugeta, Bilateral and Regional Trade Relation and Negotiation Expert, Ministry of Trade. Date: March 15, 2016, 9:30AM-10:15AM

Annexure I

Open Ended Questions for Interviews

A. Interview Questions Contextual for trade and Investment

1. What are the factors which enhanced the bilateral economic relations between Ethiopia and India after 1991?
2. Though your Ministry is making a greater effort to improve trade balance that is now in favor of India, still much remains to be done. What more activities the ministry of foreign affairs is taking to minimize this trade imbalance?
3. What measures your ministry may take to increase the export of Ethiopian products in order to exploit Indian market?
4. The Indians are the largest investors in Ethiopia registering more than US \$5 billion. However, their agricultural investment activities are debatable. On this, what is your opinion?

B. Interview Questions for Bilateral Trade

1. What are the different factors that help for the improvement of trade exchanges between the two countries?
2. While the trade relation between Ethiopia and India is growing, it is largely in favor of India. What are the major factors for this trade imbalance? In relation to this, what are different measures that your Ministry may take to minimize this trade imbalance?
3. What are the different commodities that Ethiopia can export to the Indian market and it imports from India?
4. Data at the Ministry of trade reveal that Ethiopia's export to India is highly dependent on few agricultural products. What measures have been taken to diversify exports?

C. Interview Questions for Indian Agricultural Investment

1. What are the factors for increasing India's Agricultural investment in Ethiopia since 1991?
2. What are the major incentive packages of Ethiopia to attract Indian companies for investing in commercial farming?
3. Indian Agricultural investment in Ethiopia is a debatable activity and for some scholars it brings food insecurity in Ethiopia. What is your opinion? What are the challenges brought by Indian agricultural investment in Ethiopia?
4. What are the expected benefits of Indian agricultural investments in Ethiopia?

D. Additional Interview Questions for Agricultural Investment

1. Why Ethiopia leases huge agricultural lands to the foreign investors, especially to the Indian investors?
2. What is the role of this agricultural investment for the food security of Ethiopia? What are the expected benefits that these agricultural investments can bring to Ethiopia?
3. What are the different investment incentives that Ethiopia currently gives to Indian investors so that they could contribute for the socio-economic development of Ethiopia?
4. Some experts and politicians claim that this agricultural investment brought unintended consequences in Ethiopia in general and to the local people in particular. What are the expected challenges of agricultural investment?

E. Interview Questions for Academicians

1. What are the reasons that led to the growth of smooth relationship between Ethiopia and India since 1991? Would you explain why India is strengthening economic relations with Ethiopia?
2. Do you think that economic relations between Ethiopia and India are mutually beneficial? Or is it one sided? Give your reasons?
3. How do you see Indian Agricultural investment in Ethiopia?
4. Some scholars argue that Indian land grabs in Ethiopia show dark side of South-South cooperation. How do you see this argument?
5. What are the expected benefits and challenges of Indian Agricultural investment in Ethiopia?