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Ethio-China Economic Relations: Nature of China's Foreign
Direct Investment in Ethiopia.

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Dedication

This thesis is dedicated to my beloved wife Wro. Abeba Kebede Hailu, to the gifts of the Almighty God my beloved sons Kidus, Siem and the newly born baby boy Adonay Gebregeorgis who initiated and provide me every support needed in my daily activities to attain my MA. To my beloved elder brother Gebregeziabher Abraha, who wish to seen the day of my success, but couldn't. Guys without your irreplaceable support I couldn't have been successes in my academic career. Thank you very much.

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Acronyms and Abbreviations

ADB	African Development Bank
ADLI	Agricultural Development-led Industrialization
AFRODAD	African Forum and Network on Debt and Development
AGOA	African Growth and Opportunity Act
ART	Anti-Retroviral Treatment
AU	African Union
BPM	Balance of Payments Manual
BPoA	Brussels Programme of Action
CEPEC	China Electric Power Equipment Company
CEPET	China Electric Power Equipment & technology
CEPET	China Electric Power Equipment technology
CSO	Civil Society Organizations
CSR	Corporate Social Responsibility
DECC	Dong Fang Electric Corporation of China
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
EC	European Calendar
EEA	Ethiopian Economic Association
EEPRI	Ethiopian Economic and Policy Research Institute
EEPS	Ethiopia Electric Power Service
EIC	Ethiopian Investment Commission
EIZ	Eastern Industry Zone
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESAF	Enhanced Structural Adjustment Facility
ESDP	Education Sector Development Programme
EPA	Ethiopian power Authority
EPC	Ethiopian Planning Commission
ERA	Ethiopian road Authority

ESAF	Enhanced Structural Adjustment Facility
ESC	Ethiopian Sugar Corporation
ETGMA	Ethiopian Textile and Garment Manufacturers Association
FDI	Foreign Direct Investment
FFYP	First Five-Year Plan
FFYP	First Five-Year Plan
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
GDI	Gender-related Development Index
GNP	Gross National Product
GDP	Gross Domestic Product
GOE	Government of Ethiopia
GTP	Growth and Transformation Plan
GTP/PM	Growth and Transformation Plan/ Policy Matrix
HDR	Human Development Report
HIPC	Heavily Indebted Poor Countries
HSDP	Health Sector Development Programme
HVA	Handels Vereening Amsterdam
IMF	International Monetary Found
IOTEX	Institute of Technology for Textile Garment and Fashion design
ISI	Import Substitution Industrialization
IT	Information Technology
IAE	Investment Agency of Ethiopia
IP	Industrial Parks
LDC	Least Developed Countries
MLSM	Medium- and Large-Scale Manufacturing
MVA	Manufacturing Value Added
MDG	Millennium Development Goal
MFI	Micro Finance Institution
MNE	Multinational Enterprises

MoI	Ministry of Industry
NBE	National Bank of Ethiopia
NGO	Non-Government Organization
NPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PADETES	Participatory Demonstration and Training Extension System
PASDEP	Plan of Action for Sustainable Development and Eradication of Poverty
PRC	People's Republic of China
SAP	Structural Adjustment Programme
SFYP	Second Five-Year Plan
SOEs	State-Owned Enterprises
SDPRP	Sustainable Development and Poverty Reduction Program
SEZ	Special Economy Zone
SME	Small and Medium-size Enterprises
TFYP	Third Five-Year Plan
TIDI	Textile Industry Development Institute
TNC	Transnational Corporation
TVET	Technical Vocational Education and Training programme
TYPP	Ten-Year Perspective Plan
TVET	Technical and vocational education training
UNIDO	United Nations Industrial Development Organization
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USD	United States Dollar
UN	United Nations
USSR	Union of Soviet Socialist Republic
WB	World Bank

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Abstract

This study aims at exploring the role of China in Ethiopian industrialization since 1998. To attain its objectives, the study employed qualitative research approach. Essentially, primary data were collected through key informant interview, observation and document reviews. The findings of the study show that Chinese engagement in the Ethiopian economy particularly in the industrial sector is based on the conditions for foreign direct investment created by the country. Furthermore, Chinese engagement in Ethiopia's structural transformation of the overall economy is based on mutual benefits of the two countries. However, the manufacturing industry of the country could not grow as much as it has to be. The finding of the study suggests that there are certain problems that need policy measures for further industrial development through attracting foreign direct investment. Besides, problems like shortage of skilled manpower, inadequate foreign currency and lack of clarity in tax system are also among the findings of the study.

Keywords: Ethiopia, China, Foreign Direct Investment, Employment, Industrialization

CHAPTER ONE

Introduction

1. Background

Industrialization is a process of building up a country's capacity to convert raw materials into new products. It is accompanied by an increase in output and involves increasing complexity of production and demands greater reliance on others for certain activities. In the case of Ethiopia, while the awareness about the need for industrialization is traced back to the early 1960s, the design of comprehensive strategy with structural transformation in mind has come very late, with the 2002 declaration of the Ethiopian Industrial Development Strategy Document. During the imperial period there was not any deliberately drawn and explicitly specified industrial policy to accelerate industrialization in the country. It is the 2002 document that put in place an articulated industrial development strategy for the first time (Arkebe, 2015; Tsegaye, 2011; Urgaia, 2007).

Economically, Ethiopia is currently one of the world's fastest-growing countries, with an average growth rate of over 11 percent for the last twelve years (Report of Ministry of Finance, Ethiopia, 2015; Big Jump, 2015), which places Ethiopia the third fastest economy after China and India (IMF; The Economist, 2011). However, the challenge to funding this ambitious investment is very clear, and the government is determined to generate resources from domestic savings, foreign direct investment, grants, and transfers of money, in order to sustain the national growth rate as projected by the government. It is therefore, very clear that Ethiopia would do everything possible to work with partners like China, traditional partners and others including international financial institutions so as to finance its green economy. Attraction of foreign direct investment in the economy will be of paramount importance. The engagement of China in the Ethiopian economy, therefore, will be needed very badly (Fantahun, 2013).

Ethiopia needs China for economic assistance, as an alternative source to the West, and as a role model of economic development for Ethiopia to follow (Ibid). Therefore, China's ability of creating developed economy through industrialization and its unique experience of bringing people from poverty within a short time of period is that initiated Ethiopia to considered China as a role model for its economic development in general and industrial development in particular.

2. Statement of the Problem

Ethiopia had good diplomatic relations with most of the developed European countries including USA. During these times, except humanitarian aid with conditionality, the country couldn't get any substantive economic assistance and/or foreign direct investment from these countries.

However, after identifying its basic problems and be able to formulate homemade economic policy and strategy the country is trying to come out of serious poverty. During this time Ethiopia has been searching partners who can support it development agendas and shares their experience of development. Ethiopia on its way to bring economic development and prosperous, China becomes the pertinent developing country.

Ethiopia is exerting it's most efforts to develop its industrialization in particular and its overall economy in general. For this reason the country has made a friendly relationship with the new international economic power China to develop industrialization.

However, Some scholars like Ancharaz, (2013) believed that China's presence in Ethiopia and other African countries is denting Africa's efforts at industrialization by perpetuating Africa's dependence on natural resources (Ancharaz, 2013). Thakur (2009) pointed out that, China's support to Ethiopia has helped the government to restrain the democratic election as a result the Government is using China's support to suppress political party leaders (Thakur, 2009).

David Shinn (2014) forwards uncertain and suspicious explanations regarding the Ethiopia-China relations indicating that "China's growing presence and influence on Ethiopia may subject the country to be under the interest and willing of China. Eisenman and Kurlantzick (2006) argue again China's influence could complicate democratic consolidation and good governance. In their elaboration they further says that, in Africa, where the rule of law often does not exist; China's state-led business model could prove a disaster. Because, the state-led business model that China suggests to visiting African leaders could prove problematic for African leaders. Furthermore, the relationship created by Chinese firms with state links often has poor standards of corporate governance, including lack of transparency. The infrastructure built by Chinese is poor in quality (Eisenman and Kurlantzick, 2006). This indicates as the Ethiopia-China relationship is not based on equal respect and mutual interest. Some others even say that the relationship between Ethiopia and China in particular and Africa China in general is a new type of neocolonialism.

Broadman (2013) on the other hand point out that, in reality, the commercial relationship between China and Africa has nothing to do with colonization, and everything to do with economics and diplomacy. Simply putting, this is a case of one developing nation trading and investing profitably with other developing nations, based on mutual self-interest (Broadman, 2013).

Fantahun (2013) and Mulu (2013) on their part indicated that, the relationship between Ethiopia and China is not similar with the idea of these western researchers. Ethiopia unlike its previous history is trying to come out of poverty registering double digit economic growth for the past decade. As a result the country is trying to implement structural transformation through industrial development. On its way to industrial development China becomes the real model and share experience from which China peak up its people from a backward agrarian society. Ethiopia with its unexploited rich natural resources has remained under development challenges. The absence of appropriate strategic policy combined with lack of committed leadership had been the critical problems tied the country with poverty. The current Ethiopian Government after being able to identify the core causes of poverty and learning experiences from those who come out of Severe poverty, is exerting efforts to develop the economy and bring the people out of poverty.

The main question of the research is therefore; What is the role of China in the Ethiopian Industrialization? Is China's foreign direct investment helpful to Ethiopia's industrial development? What does Ethiopia benefit from the China's foreign direct investment? Major strengths, lessons; prospects and challenges are identified through critical evaluation. By filling of these gaps, the research endeavor has come up with answers that show what is really going on in Ethiopia in Industrial transformation and what concrete changes are registered. Based on the findings, the study has come up with the possible solutions to the problems.

3. Central argument of the study

The growing level of the Ethiopian Industrialization and its contribution to GDP with the engagement of Chinese is increasing. However different researchers claim that China's engagement is mainly based on its own self-interest that has negative effect over Ethiopian economy.

Most of past studies dealt with China's engagement in Africa are focused on China's political and economic engagement and claimed as it is based on its own interest only. Based on this, they say that China's engagement in Africa is in search of cheap labour for its upcoming light industries, large market for its low priced products, and mainly for the need of natural resources like oil and gas. Others say that China's engagement in Africa is a new type of neocolonialism. However, these studies could not support their ideas by evidences. Their conclusion is either biased or misleading. Yet, they convey untruth message that do not evaluate the current international

relations. On the other hand, Broadman (2013) indicates that the Ethiopia-China relationship is a case of one developing nation trading and investing profitably with other developing nations, based on mutual self-interest (Broadman, 2013).

The study has therefore, attempted to examine and provide evidence about the role of China's foreign direct investment in the Ethiopia economic development based on the mutual interest of both countries, forwarding the following question; What is the role of China's foreign direct investment in Ethiopia's economic development? The study endeavors to find the role of China in Ethiopia and evaluate the experience Ethiopia gained from China and fill the information gap created by the previous studies raising the following questions. What is the contribution of China's foreign direct investment to Ethiopian economy and to the industry sector? By assessing the role of China's foreign direct investment, the study has come up with concert answer.

4. Objectives of the Study

The general objective of this study is to explore the role of China in Ethiopian industrialization since 1998 as well as examining the real behavior of the Ethiopia-China relationship. In examining the general objectives of the study, the study specifies the following questions.

- ❖ Assessing the role of China in the Ethiopian economy.
- ❖ Assessing the contributions of China's foreign investment to develop Ethiopian economy.
- ❖ Examining China's experience of bringing its people from severe poverty and creating an overall economic development.
- ❖ Examining the Ethiopia-China relations starting from the past two periods up to now.
- ❖ Identifying the major benefits and costs of China's foreign direct investment to Ethiopia.

5. Research Questions

How extreme is China involving in Ethiopia? What opportunities does Ethiopian attain from the relationship? And what role is China playing in Ethiopian industrialization? These questions had been among the claims during the research. Therefore, to get answer, the following specific research questions have been raised.

- ❖ What role is China playing in Ethiopia's economic development?
- ❖ What are the major experiences Ethiopia gained from China?
- ❖ What are the prospects and challenges?
- ❖ How important is China's foreign direct investment to Ethiopia?

6. Research Methods

Primary data were collected from key informants. The key informants were selected from government officials particularly from Ministry of Industry, Ethiopian Plan Commission, Ethio-telecom, Ethiopian Sugar Corporation, East Industry Zone, and Huajian Shoe Manufacturing. These key informants were selected because of their knowledge and position relating to the information needed to the study. Similarly secondary data were collected from Ethiopian Investment Commission, Ethiopian Electric Power Agency, Ethiopian Electric Utility Service, Ethiopian Road Authority, Ethiopian Industry Park Development Corporation and Ministry of Finance and Economic Development in soft copy and annual report but not published. Internet and library of the Addis Ababa University and important written materials and books were also among the valuable information sources of the study. The attempt made to get information from Economic and Commercial Counsel of China or from the Chinese Embassy was not successful.

7. Ethical Considerations

During the study interview with selected key informants of Government official was conducted. Furthermore, field trip and observation was also part of the data collection method. During the time informants were all participated based on informed consent and agreement. Based on this, sources were informed for what purpose they were interviewed. They were also informed as no harm could emerge to them as a result of the study. Honest and complete frankness was the guiding principle the data gathering task.

8. Significance of the Study

The Ethiopia-China relation has shown significant growth since 1991. As a result of it, the inflow of foreign direct investment from China has been growing. Cooperation and investment activities have expanded, particularly in industry, infrastructural and energy sectors. Conversely, interests and concerns among the academic communities, political leaders, diplomats and experts as to understand the real motives of China`s engagement in Ethiopian has also increasing. On the other side, many western researchers are forwarding different hypothesis about the Ethiopia-China relationship. Therefore, examining the Ethiopia-China relationship, assessing China`s role in Ethiopian industrial development is significant to know what is really happening on the ground give highlights for further studies and to forward some policy issues.

9. Scope of the study

Thematically, the study was limited on the primary and secondary data focusing on China's role in Ethiopian industrial development. The time frame of the study is arranged to be starting from 1998 up to present. For data collection purpose, and to look the practical experience of China's engagement in Ethiopia, field trip was arranged in Addis Ababa and its surrounding like Dukem. Furthermore, the study is focused on presenting the following points:

- Providing a brief historical background of the Ethiopia China relations during the three consecutive Governments of Ethiopia.
- Limiting the timeframe of the work on the Ethiopia-China relations mainly analyzing the investment relationship or developmental partnership of both countries after the 1998.
- Assessing and presenting the type, amount and distribution of China's foreign direct investment in Ethiopia.
- Providing special focus on the role of China in developing the Ethiopian industrialization.
- After an overall evaluation of the Ethiopia-China relations and China's role in developing the Ethiopian industrialization, an attempt is made to forward some findings.

10. Limitations of the study

Most relative data for this study came mostly from Ethiopian sources. The study does not include the Chinese perspective on the issue. The study is therefore, limited to show the Chinese perspective due to lack information sources.

11. Organization of the Study

The study is organized in to five chapters. Chapter one is an introductory part, where an overview of the study, Problem Statement, Objective, Significance, Scope and Organization of the study has been provided. Chapter two provides Conceptual and Theoretical Perspective of FDI, Historical Background of the Ethiopia-China relationships and industrial development in Ethiopia. Chapter three presents an overview of the Chinese engagement. Chapter four focuses on expectation vs. realities of the relationships with Analysis followed by the fifth Chapter that contains the conclusion.

Chapter Two

Literature Review

2.1 Conceptual and Theoretical perspective of Foreign Direct Investment

2.1.1 Conceptual Perspectives

The fifth edition of the IMF's *Balance of Payments Manual (BPM)* defines foreign direct investment as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise. A direct investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad. Direct investment comprises not only the initial transaction establishing the foreign direct investment relationship between the direct investor and the direct investment enterprise, but also subsequent capital transactions between them and among affiliated enterprises resident in different economies (IMF, 2003; Pp. 6).

Foreign direct investment, in its classic sense, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered as an indirect investment. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property (Graham and *et.al*, 2015).

Foreign direct investment is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of foreign direct investment do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting foreign direct investment to a larger number of developing countries and for reaping the full benefits of foreign direct investment for development. The challenges primarily facing host countries, which need to establish a

transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them (OECD, 2002).

Foreign direct investment is the direct investment into a business or sector by a company or individual from another country, differing from portfolio investment, which is a more indirect investment into another country's economy by means of financial instruments, such as stocks and bonds. There are various forms and levels of foreign direct investment, depending on the type of company or companies involved, and the reasons for investment. A foreign direct investor may buy a company in the target country through merger or acquisition, set up a new business, or expands the operations of an existing business. Other forms of direct foreign investment includes the incorporation of a wholly owned subsidiary or company, the acquisition of shares in an associated enterprise, or participation in an equity joint venture across international boundaries (MBA & Company, 2015; ConnectUs, 2015).

Foreign direct investment plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm, which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies, management skills, and as such can provide a strong impetus to economic development (Graham, 2005).

The most profound effect of foreign direct investment has been seen in developing countries, where annual foreign direct investment flows have increased from an average of less than \$10 billion in the 1970's to an average of greater than \$20 billion in the 1980's, to increase dramatically from \$26.7 billion in early 1990s to \$179 billion in 1998, and \$208 billion in 1999 and now comprise a large portion of global foreign direct investment (Ibid).

Proponents of foreign direct investment point out that the exchange of investment flow benefits both the home country (the country from which the investment originates) and the host country (the destination of the investment). Opponents of foreign direct investment on the other side note that multinational conglomerates are able to manipulate great power over smaller and weaker economies and can drive out much local competitions. However, the truth lies somewhere in between. Over two third of direct foreign investment is still made in the form of fixtures, machinery, equipment and buildings. Moreover, larger multinational corporations and

conglomerates still make the overwhelming percentage of foreign direct investment. Nevertheless, with the advent of the internet, the increasing role of technology, loosening of direct investment restrictions in many markets and decreasing communication costs means that newer, non-traditional forms of investment will play an important role in the future. Many Governments, especially in industrialized and developed nations, pay very close attention to foreign direct investment, because the investment flows into and out of their economies can and does have a significant impact (Ibid).

Developing countries, emerging economies and countries in transition have come increasingly to see foreign direct investment as a source of economic development and modernization, income growth and employment. The overall benefits of foreign direct investment for developing country economies are well recognized. Foreign direct investment triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries. It is for this reasons, that Ethiopia provides due attention to the increment of foreign direct investment in its economic development.

Ethiopia as a country struggling to come out of poverty and trying to bring economic development is inspired by the East Asian experience. As a result, the development of new export sectors, strong global products and agricultural modernization is a significant part of its growth. However, the needed growth cannot be created and sustain without technological and industrial development and structural transformation of the country's economic activities. To this end foreign direct investment is very vital for Ethiopian industrialization and the overall economic development. Therefore, attracting foreign direct investment to Ethiopia can be considered as part of its development agenda (Glans, 2014; OECD, 2002).

Attracting foreign direct investment is generally seen as an integral part of the development policy mix of successful emerging economies that leads the way to the required sustained economic transformation. But looking at the foreign direct investment levels (in percent of GDP) currently observed in Ethiopia, and specifically in comparison to successful East Asian countries, it is clear that there is an opportunity to improve the promotion of incoming foreign direct investment (World Banck.2012).

As a result, foreign direct investment inflow to Ethiopia is now on the rise. According to Ethiopian Investment Commission, the foreign direct investment inflow to Ethiopia increased from three billion birr in 2011 GC to 7 billion birr 2012 GC, 7.5 billion Birr 2013 GC and 88 billion birr 2015 GC with a continued increase (EIC, 2016; GRIPS. 2015).

Likewise, Chinese investment has been growing in Ethiopia since the millennium, and the increasing Chinese owned investment reached to 118 million USD in 2007, averaging 15 million USD every year and reached to 18.3 billion birr or 83 billion USD in 2015 GC. The Foreign Direct Investment from China is mostly concentrated in the Ethiopian manufacturing sector that accounts over 68 per cent, which is different from other African countries where the Chinese foreign direct investment generally are resource seeking. Chinese enterprises started establishing themselves in Ethiopia in the 1980s, with construction companies and later moved on to the manufacturing sector (Glans, 2014). As a result China's economic cooperation with Ethiopia has expanded rapidly over the past decade. In 2011, China was both the largest import and export trading partner of Ethiopia (World Banck.2012).

Chinese companies are active in the manufacturing of pharmaceuticals, steel, textiles and garment, leather and leather products, machinery, paper, food processing, information technology (IT) and glass. This indicates that, the rising role of Chinese investment and private companies seems to offer the opportunity of industrialization to Ethiopia. Industrialization is a process that involves many steps but the labor-intensity that comes with the current wave of Chinese investments and private companies is definitely a first step. The manufacturing factories are the type of industry that is easy for less developed countries to adopt and absorb (GRIPS, 2015; Glans, 2014).

Chinese Foreign Direct Investment into Africa is on the rise and Ethiopia is at the forefront of this trend. Hence, China's economic cooperation with Ethiopia has expanded rapidly over the past decade. Foreign direct investment inflow from China to Ethiopia increased from virtually zero in 2004 to an annual amount of US\$58.5 million in 2010 to US\$74 million in 2009. The expansion of ties between the two countries reflects the structural change happening in both the Chinese and the Ethiopian economies (World Bank. 2012).

The reason for the increment of Chinese foreign direct investment inflow to Ethiopia is the continuous incentives provided by the Ethiopian Government, such as tax-reliefs and tariff-free policies for FDI equipment imports. The Chinese Government has also made adjustments on its

end; their policy rewards Chinese firms that are investing abroad with tax credits. According to the World Bank (2012), these incentives have acted as a significant motivation for Chinese firms' investment in Ethiopia, particularly the manufacturing industry (Glans, 2014; World Bank, 2012).

However, Western researchers such as Ancharaz (2013) claimed that China has spoiled Africa's efforts at industrialization in several ways. First, it has perpetuated Africa's dependence on natural resources like gas and oil. Second, the influx of cheap Chinese imports into Africa has caused significantly hurt to local industry, with the impact varying in intensity across countries. Third, African exporters of manufactures and processed goods have faced stiffer competition from China in their traditional export markets (Ancharaz, 2013).

Sutton (2010) on his part describes two distinctive yet related, challenges that show China has not necessarily benefited recipient African countries. First, China's "no-strings-attached" approach to its economic relations with Africa has the potential to prop up authoritarian regimes and support political oppression, while arguably undermining the long-term economic prospects of its partner country. Second, Chinese firms operating in Africa have bolstered earnings by exploiting weak regulatory institutions within host African countries. Furthermore, it is crucial for understanding the unique challenges posed by Chinese investment to highlight a critical difference between Chinese and Western investors. Western economic actors investing in Africa are predominantly private corporations—for example large multinationals like Coca-Cola, while China's major companies and banks are state-owned enterprises, shadowing the boundaries between private and Governmental objectives. Therefore, while investments in Africa made by Western firms essentially reflect diffuse private, profit-seeking decisions tempered by market mechanics; this is much less true of investments made by Chinese firms, which are often driven by overarching political, economical, and national security goals (Sutton, 2010).

In spite of the above debates, the growing relationships between China and Ethiopia has been extraordinary over the last decades and China accounts for 15 percent of Ethiopia's trade, which was zero in 2005. The Chinese involvement has both positive and negative repercussions on the Ethiopian economy. Some aspects affect the local producers of labour-intensive manufactures; who could be moved out of the local market. Another challenge concern is construction and the energy sectors. Chinese interest in road and power plant construction projects has pushed out local and other foreign construction firms (Glans. 2014, Alemayehu. 2008; Tegegne, 2006).

Like in many other parts of Africa, Chinese investments in Ethiopia falls into three categories: resource seeking foreign direct investment (such as oil and gas) market seeking foreign direct investment, (mostly concentrated in manufacturing, construction and transport sectors to take advantage of AGOA (African Growth and Opportunity Act) and efficiency seeking foreign direct investment (particularly in agriculture or sectors that produce inputs more efficiently for use by producers based in China). Chinese aid and investment also concentrated in manufacturing, construction and infrastructure sectors that advance the resource seeking, market seeking and efficiency seeking nature of their are (AFRODAD, 2011).

China's remarkably motivation to engage in the Ethiopian economy could be primarily due to two reasons. Firstly, Ethiopia is one of the largest countries in Africa with a population of over 96 million. It is also potentially rich in a variety of natural resources, including productive agricultural lands and possibility of oil deposits. It is thus, constitutes both a good market for Chinese goods and a source of raw materials for the booming Chinese economy. Ethiopia is also home of the African Union (AU) headquarters, making it a strategic location in terms of Chinese diplomacy which has long been rooted in South-South cooperation. Secondly, Ethiopian economic and political transition in the mid 1990s occurred at exactly the same time when China was rising up its foreign aid, trade and investment activities (Ibid).

2.1.2 Theoretical Perspective of Foreign Direct Investment

Different studies and theories consider a number of issues when they describe the benefits of foreign direct investment to hosting countries. The Dunning(1998) version of foreign direct investment theory considers the OLI triad of variables (ownership, location and internalization) determining foreign direct investment and multi-national enterprises activity may be likened to a three-legged stool; each leg is supportive of the other, and the stool is only functional if the three legs are evenly balanced. It was meant to convey the idea that a full explanation of transnational activities of enterprises need to draw upon several strands of economic theory; and that foreign direct investment is just one of a number of possible channels of international economic involvement, each of which is determined by a number of common factors.

There also exists an international trade version of FDI determination (that is the macro approach) which is associated with the works of Kojima (Kojima, 1982). The Kojima model argues that FDI may be explained by the 'comparative advantage' of industry within the investing countries. According to Kojima's theory, this may be mitigated by investing in foreign industry, which may

be able to achieve comparative advantage in the production of a particular product and potentially, even export back to the home country. Naturally, this type of FDI will also have the effect of increasing trade volumes (Kojima, 1982). Based on the notion of OLI, four main types of foreign based multinational enterprises activities or foreign direct investments are identified (Dunning, 2000; Alemayehu and Atnafu, 2010).

- i. Those designed to satisfy a particular foreign market, or set of foreign markets, viz. market seeking, or demand oriented foreign direct investment.
- ii. Those designed to gain access to natural resources, e.g. minerals, agricultural products, unskilled labor, viz. resource seeking, or supply oriented foreign direct investment.
- iii. Those designed to promote a more efficient division of labor or specialization of an existing portfolio of foreign and domestic assets by multi-national enterprises, that is rationalized or efficiency seeking foreign direct investment. This type of foreign direct investment though related to the first or second kind, is usually sequential to it.
- iv. Those designed to protect or augment the existing owner specific advantages of the investing firms and/or to reduce those of their competitors, that is, strategic asset seeking foreign direct investment.

In sum, the theory of determinants of foreign direct investment covers a range of explanations: the pure capital movement, product cycle, industrial organization, the stagnation thesis as well as other political consideration. ...The most plausible theoretical explanation seems to be found in the 'eclectic' explanations (Ibid). Based on the economic and other characteristics of Chinese investment in Ethiopia, we will attempt to examine the possible motives relevant for Chinese foreign direct investment in Ethiopia. From the above explanations there are different pros and against arguments of foreign direct investment. The following points are among the two types of arguments.

2.1.3 Arguments pro-Foreign Direct Investment

The overall benefits of foreign direct investment for developing country's economy are well acknowledged in the above explanation. Studies show that foreign direct investment triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All these contribute to higher economic growth, which is the most effective tool for alleviating poverty in developing countries like Ethiopia.

Foreign direct investment can stimulate the target country's economic development, creating a more conducive environment for the investor and benefits for the local industry. It can stimulate the economic development of the country in which the investment is made, creating both benefits for local industry and a more conducive environment for the investor (MBA & Company, 2015; ConnectUs, 2015; OECD, 2002; Alemayehu and Atnafu, 2010).

Foreign direct investment creates new jobs, as investors build new companies in the target country. This leads to an increase in income and more purchasing power for the people, which in turn lead to an economic boost. Foreign direct investment can be an effective way to enter into a foreign market. The effects on employment associated with foreign direct investment are both direct and indirect. In countries where capital is relatively scarce but labour is abundant, the creation of employment opportunities – either directly or indirectly – has been one of the most prominent positive impacts of foreign direct investment (Kastrati, 2013; Alemayehu and Atnafu, 2010).

One important advantage of the foreign direct investment is the development of human capital resources, which is often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labour, more known as the workforce. The attributes gained through training and sharing experience would increase the education and overall human capital of a country. This, resource is not a tangible asset that is owned by companies, but instead something that is in the human brain. With this in mind, a country with foreign direct investment can benefit greatly by developing its human resources while maintaining ownership. Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, can receive tax incentives that will be highly useful in selected field of business as well (ConnectUs, 2015).

Foreign direct investment is also an effective way of acquiring important natural resources, such as precious metals and fossil fuels. Oil companies, for example, often make tremendous foreign direct investment to develop oil fields. Furthermore, foreign direct investment can make a positive contribution to a host economy by supplying capital, technology, and management resources that otherwise would not be available. Such resource transfer can stimulate the economic growth of the host economy (ConnectUs, 2015; MBA & Company, 2015; Kastrati, 2013).

Foreign direct investment can also reduce the disparity between revenues and costs. In such case, countries would hope that, production costs will be the same and can be sold easily. Foreign direct

investment is a means to reduce cost production if the labor market is cheaper and the regulations are less restrictive in the target foreign market. For example, it is a well-known fact that, the shoe and clothing industries have been able to drastically reduce their costs of production by moving operations to developing countries. Facilities and equipment provided by foreign investors can increase a workforce's productivity in the target country (ConnectUs, 2015; MBA & Company, 2015).

Technology transfer can be understood as an exchange of expertise, technology and knowledge from possessor to the recipient of technology. This indicates, transfer of technology is more than just the moving of high-tech equipment from the developed to the developing world, or within the developing world. Moreover, it encompasses far than equipment and other so-called —hard technologies, for it also includes total systems and their component parts, including know-how, goods and services, equipment, and organizational and managerial procedures. Technology transfer through foreign direct investment has become the predominant channel of technology transfer. Foreign direct investment can have important technological spillovers in host economies, especially if it takes a joint-venture from subject to local centers. Technology transfer has been a subject of considerable interest to many groups, such as government policymakers, international funding agencies, and business executives, because of the close relationship between technology transfer and economic growth (Yared, Et.al. 2014).

2.1.4 Arguments against Foreign Direct Investment

As there are positive effects of foreign direct investment for development, there are also concerns about potential drawbacks for both host and economic countries. The potential drawbacks of foreign direct investment includes a deterioration of the balance of payments as profits are repatriated (albeit often offset by incoming foreign direct investment), a lack of positive linkages with local communities, the potentially harmful environmental impact of foreign direct investment, especially in the extractive and heavy industries, social disruptions of accelerated commercialization in less developed countries, and the effects on competition in national markets can be considered as the negative effects of foreign direct investment. The following are among the major points of arguments against foreign direct investment.

The first concern to affect on domestic investment is its resources are from elsewhere other than the investor's home country. Foreign direct investment can sometimes hinder domestic investment. Foreign direct investments can occasionally affect exchange rates to the advantage of one country

and the detriment of another. Considering that, foreign direct investments may be capital-intensive from the point of view of the investor, consequently, it can sometimes be very risky or economically non-viable. Political changes can also lead to expropriation, which is a scenario where the government will have control over your property and assets (ConnectUs, 2015; MBA & Company, 2015).

The rules that govern foreign exchange rates and direct investments might negatively have an impact on the investing country. Investment may be banned in some foreign markets, which means that, it is impossible to pursue an inviting opportunity. Foreign direct investment and the presence of multi-national enterprises may exert a significant influence on competition in host-country markets. However, since there is no commonly accepted way of measuring the degree of competition in a given market, few firm conclusions may be drawn from empirical evidence. Many developing countries, or at least those with history of colonialism, worry that foreign direct investment would result in some kind of modern day economic colonialism, which exposes host countries and leave them vulnerable to foreign companies exploitations (ConnectUs, 2015; MBA & Company, 2015; OECD, 2002).

Another major concern regarding foreign direct investment is its environmental impact. Local enforcement of environmental protection legislation that is negligent or weak in relation to foreign firms has led to disastrous consequences in many parts of the world (Kastrati. 2013).

2.2 Historical Background of the Ethiopia-China Relationships

Both China and Ethiopia are countries with long history, ancient civilization and splendid culture. The exchanges and friendship between the Chinese and Ethiopian people can be traced back to ancient times. According to historical documents, since the Chinese Qin and Han Dynasty, which is about first Century A.D, ancient China had already established some indirect contacts with Axumite kingdom and other African civilizations through the Balkh in Eurasia and Parthia in the Persian Plateau (EEA/EEPRI, 2009).

The relationship between Ethiopia and China is as old as human civilization. China's first contact with Africa could be traced back to ancient times in spite of the two regions being separated by vast distance between them (Muna, 2015). Various sources reveal that China and Africa have a long though unofficial history of relations dating back as far as 202 B.C. Some scholars attribute China's early contact with the Horn of Africa especially with Ethiopia was based on two factors;

the first is the fact that Chinese were importing rhinoceros from Abyssinia. Second, It has also been suggested that there was a degree of phonetic similarity between Hough Chih (the then Chinese language and Ge-eze the then literary language of Ethiopia) (Gedion & Mathews, 2014; Gedion, 2009; Muna, 2015). According to the sinologist A. Hermann, a live rhinoceros that was arrived at the court of the Chinese Emperor Ping between AD 1 and 6 was from the country of the "Agazi" or "Agazian" at the Horn of Africa (Muna, 2015; Gedion, 2014).

Likewise, Melaku (2014) believes that both Ethiopia and China had some sort of relations starting from the Tang Dynasty (618-907 A.D). During this period the Chinese were acquainted with at least part of the Horn of Africa and traded with the peoples of the Eastern African coast, obtaining "elephant tusks, rhinoceros horns, pearls and the musk of the civet cat ambergris, and slaves.". Starting from the Yuan dynasty the Chinese began to increasingly trade directly with Africans, which is attested not only in contemporary documents, but from archeological finds of Chinese coins and porcelain (Melaku, 2014; Muna, 2015).

The Ethiopia-China relationship has historical evidence that indicates the relations were on their way even during the pre-modern period. According to Seifedin (2012), about seven hundred years ago, when the Song Dynasty (960-1276) ruled China (the Middle Kingdom) and led the world in nautical technology, merchandise trade from China was brought to Ethiopia. A portion of this historical period in China also coincided with the heyday of the Axumite civilization in Ethiopia, which participated in the maritime trading system that linked the Roman Empire and India (Seifedin, 2012).

The official relationship of Ethiopia and China has passed through three stages, the Imperial period, the *Derg* period and the Ethiopian Revolutionary Democratic Front (EPRDF) period. Below this chapter, the relationships of Ethiopia and China under three successive Governments.

2.2.1 Ethiopia-China Relations during the Imperial Period

Ethiopia and China have been suffered from foreign invasion and shared the same feelings towards invaders. In the 1930th, the Chinese people provided political and moral support and sympathy to the Ethiopian people for their fight against the aggression of the Italian Fascist and struggle for their national independence. One significant affair worth mentioning is that China was one of the only five governments that refused to recognize Italy's occupation of Ethiopia in the middle of the last century. The then Chinese government issued a statement to express its support. On the other

hand, the Chinese government had received precious support and sympathy from Ethiopia for the legitimate membership in the United Nations (UN) (Muna, 2015; EEA/EEPRI, 2009).

However, the 1956 Cultural delegation of China to Ethiopia was the first delegation in history that served as the first measure in their relations. From 1959 to 1970, Ethiopia gave strong support to China for the legitimate position in the United Nations. In the years between 1963 and 1964, Premier Zhai Enlai of China visited African countries including Ethiopia. This official visit was conducted before the two countries had established formal diplomatic relations (Melaku, 2014).

The Asian-African Bandung conference of April 18-25, 1955 had a great effect on the establishment of modern diplomatic relations between China and Ethiopia. The Conference was aimed at promoting Afro-Asian economic and cultural cooperation and opposition to colonialism (Gedion. 2009). In Bandung, China's Premier Zhou Enlai met Endalkachew Mekonen, a high-ranking official at Ethiopia's Ministry of Foreign Affairs, and discussed bilateral relations and exchanged gifts. It was significant that the gift from the Chinese side was an artifact from the Han Dynasty (206 BC- 220 AD) — regarded as a period of relative peace and prosperity in China's long history (Seifedin, 2012). On November 24, 1970, the People's Republic of China and Ethiopia issued the joint communiqué on the establishment of diplomatic relations between the two countries. After the setting up of diplomatic relations it had seen an overall good relationship between the two countries (Alemayehu, 2008).

Formal diplomatic relations between Ethiopia and China was established on December 1, 1970 when Ethiopia recognized Taiwan as a part of China and China reciprocally recognized Eritrea as a part of Ethiopia. This was just 14 years after the first delegation of China visited Ethiopia. The exchanges and Cooperation in political, economic and social affairs after the establishment of diplomatic relations was encouraging and fruitful (Melaku, 2014; EEA/EEPRI, 2009).

China in the aftermath of its disastrous experiments with the Great Leap Forward (1958-60) and the Cultural Revolution (1965-67), were reassessing its diplomacy in Africa and other regions. The Ethiopian Government on the other side, with the assumption of political power by a pro-Moscow group in Somalia in 1969 and in the face of the growing internal and external challenges to the regime, was carefully re-considering Ethiopia's relations with the West. The Emperor was already attempting to establish link with other large external powers, including the Soviet Union. It was, therefore, the convergence of interests of China and Ethiopia which set the stage for improved bilateral relations between the two countries (Seifedin, 2112).

It is during the first visit of Emperor Haileslasie to China in 1971, the Ethiopian Airlines entered in to agreement with its Chinese counterpart to have a nonstop flight between Addis Ababa and Shanghai. During his visit the Emperor got warm welcoming from the Chinese first Chairman Mao Zedong. However, the relation remained for a short time (up to 1974) (Seifedin, 2112).

2.2.2 Ethiopia-China Relations during the *Derg* Period

During the *Derg* period particularly starting from 1977 to 1987, the relations of the two countries once went deteriorated. Because the *Derg* was increasingly became close with USSR (Seifedin, 2012). On the other hand, the relations became once again normal after 1983; yet, it did not show much improvement despite the visit by Qian Qichen, China's vice-premier and Minister of Foreign Affairs, to Addis Ababa in 1989 and January 1991 (Muna, 2015). Nevertheless, China made a brief reappearance in the diplomatic attraction of Ethiopia in 1988 when it extended a loan of \$15 million USD for the design and construction of a national stadium and ring road in Addis Ababa shortly after Ethiopia's leader visited China and signed the Ethio-China Agreement for Economic and Technological Cooperation (Seifedin, 2012).

Thakur (2009) describes that during Mengistu's *Derg* regime, especially during the period between 1974–85, relations between China and Ethiopia remained strained due to ideological differences and Ethiopia's close alliance with the Soviet Union. Good relations were renewed in 1988 with the establishment of the Joint Ministerial Commission, which set up a framework for how technical projects would be implemented (Thakur, 2009).

The military government of Mengistu Hailemariam that had a flawed foreign policy stuck in ideological and military interests paid attention to China only after the mid-1980s. Ethiopia's Foreign Minister visited China in 1987 followed by President Mengistu's visit in 1989 and 1991. However, the primary reason of the visit was pursuing armaments rather than strategic and long-term economic partnerships. However, China had been contributing to the well-being of Ethiopians in a number of projects, including the construction of a diesel power station at Bonga, the Weldiya and Werota road, by sending medical teams and offering scholarships annually beginning in 1988, among others (Muna, 2015).

2.2.3 Ethiopia-China Relations during the Ethiopian Revolutionary Democratic Front (EPRDF)-led government period (1991 to Present)

The Ethiopia-China relationship was reinforced after 1991 just following the downfalls of the *Derg* Government (EEPRI, 2008). The relationship between Ethiopia and China has become stronger under the current Government than ever before (Melaku, 2014). Although China and Ethiopia have imperial backgrounds, they only became well acquainted after both of them became republics. This relationship began to surge in the mid-1990s when the Government of Prime Minister Meles Zenawi encouraged closer ties with China to tap into its financial resources and balance close ties with Western countries, particularly the United States. Today, China is arguably Ethiopia's most important economic partner (Shinn, 2014).

The current relationship between Ethiopia and China saw a healthy and continuous development with a number of mutual visits at high levels and increasing interchange of personnel being done by both sides. There were a number of visits by high level officials of the two countries. This list includes the head of the states of the two countries. In the past decade alone over eight ministers from Ethiopia visited China. At the same time, a number of high ranking officials from China, including the President, visited Ethiopia. This joint official visit had resettled in a number of cooperation agreements between the two countries that covered a wide area of cooperation such as those in the fields of culture, science and technology, education, and military affairs. According to Muna (2015) and Alemayehu (2008) the most important cooperation agreements signed by both parties include:

- Sino-Ethiopian Agreement for Economic and Technological Cooperation (1971, 1988 and 2002);
- Sino-Ethiopian Trade Agreement (1971, 1976);
- Sino-Ethiopian Trade Protocol (1984, 1986, 1988);
- Sino-Ethiopian Agreement for Trade, Economic and Technological Cooperation (1996);
- Sino-Ethiopian Agreement for Mutual Promotion and Protection of Investment (1988) (Ethiopian economic Policy Research Institute. 2008,
- Agreement for Investment Protection and Promotion (1998);
- Agreement for Economic and Technological Cooperation (2002) and
- Agreement to eliminate double taxation and others (May 2009) (Muna, 2015; Alemayehu. 2008).

The Ethiopia-China relationship has grown stronger both in terms of investment and trade. The Chinese firms have been important factors in, supply of manufactured goods from China, road construction, telecommunication, installation of larger electric power stations and in the Ethiopian manufacturing sector. Ethiopia and China created the Joint Ethiopia-China Commission (JECC) in 1988, which included agreements on the protection and promotion of investment, but also cultural and economic agreements. The JECC provides the countries with an economic forum where areas of mutual interest are discussed along with requests for additional development. One important example on the educational agreement and capacity building sector is the establishment of an occupational training college in Addis Ababa, which was built by a Chinese company and given equipment by the Chinese Government (Glans, 2014).

Gedion (2009) and EEA/EEPRI (2009) pointed out that factors that strengthened the current political and economic relations between Ethiopia and China can be seen from the perspectives of both sides. On the Ethiopian side, a number of factors have been enhanced its relations with China. Among the strong factors that could be worth mentioning are the following. One, Ethiopia needs China for economic assistance; as an alternative source to the West, and China's development is generally considered as a role model for Ethiopia. The historic achievement that China has become successful in economic reform, national reconstruction and miraculous development from a backward country to an economic power of the world today has become an inspiration for developing economies like Ethiopia. Two, China supports Ethiopia on different international issues, and considers Ethiopia especially in terms of its strategic importance and market potential. Three, Ethiopia could be a commercial launch pad for Chinese companies and China is also getting diplomatic support from Ethiopia for its policy towards Taiwan among others (Fantahun, 2013; Gedion, 2009; EEA/EEPRI, 2009).

China has also important interests in Ethiopia and hence attached importance to develop its relations with the country for many reasons: Firstly, as the source of the Blue Nile, the seat of the African Union, and the meeting ground between predominantly Muslim North Africa and the Christian South, Ethiopia's is situated at a strategic location and plays important role in African politics. Therefore, a number of exchange and visits by high level delegations have been successively conducted between the two countries since 1991. Secondly, with a population of over 96 million people Ethiopia offers potentially a very lucrative market for Chinese products, trading and investment opportunities. Thirdly, China's interests in Africa and Ethiopia are guided

primarily by economic imperatives using the two in general as a commercial launch pad. In this respect Chinese engagement is little different from western multinationals. In the wake of increased diplomatic and commercial traffic between China and Ethiopia, the latter has become a favored testing ground in which aspirant Chinese multinationals can satisfy their investment needs. Fourthly, Ethiopia is one of the largest countries in African and is believed to have significant natural resources although very few have been identified (Glans, 2014; Fantahun, 2013; World Bank, 2012; EEA/EEPRI, 2009).

There are also international factors that have enhanced the relations between Ethiopia and China, in the post 1991 period: China and Ethiopia have cooperated closely and supported each other in international affairs. Ethiopia being the diplomatic capital of Africa is well positioned for a country like China to influence the continent. Therefore, to support the African Union's effort to strengthen unity and integration on the continent, the People of Republic China, has demonstrated a commitment to strengthen ties with Ethiopia and, more broadly with Africa. It is for this reason and to show its support that China built the new African Union (AU) Conference Center in Addis Ababa, which came complete with a traditional Chinese-style garden. China-Africa cooperation is another forum, which has strengthened the relations between Ethiopia and China. The New Partnership for Africa's Development (NPAD), which China supports, has moved to Addis Ababa and the UN Economic Commission for Africa has its headquarters there. Furthermore, putting economic rights over political rights and assigning the highest priority to the right to development is one of the common factors which enhanced the relation between Ethiopia and China. Consequently, it can be argued that the relations between the two countries have progressed well since 1991, after EPRDF came to power, in various fields (Fantahun, 2013; EEA/EEPRI, 2009).

On the other side, among the many reasons Ethiopia has to attract Chinese investment as a strategy is to come out of the vicious circle of developmental challenges. These combined with the need to have access to high technology; to increase employment; to broaden the productive basis of the economy; to benefit from technology transfer; and to increase foreign exchange earnings through export can be mentioned as Ethiopia's basic reasons. Besides, China's role has been so beneficial particularly in the industrial development sector and that it is in Ethiopia's interest to deepen this relationship in every way possible. The following pages will us the historical development of industrial in Ethiopia during the three consecutive governments.

2.3 Historical Development of Industry in Ethiopia

In Ethiopia, industry in the modern sense of the term emerged as an economic entity only at the turn of the 20th century. The establishment of a strong central government, expansion of cities associated with the installation of railways and the strengthening of foreign relations increased the demand for imported manufacturing commodities. This, in turn, encouraged the establishment of import-substituting factories domestically and as a result modern manufacturing enterprises began to emerge in the 1920s. After a brief disruption during World War II, the manufacturing sector started to get momentum in the 1950s. During this period, a number of new industries which significantly contributed to the development of the national economy were established. The 1950s were also marked by the start of a comprehensive plan to stimulate and guide the country's industrial and economic development in general (Mulu, 2013; Bahiru, 2002).

From the above illustration, we can understand that Ethiopia has seen three governments since the emergence of manufacturing industry. Keeping with the political ideologies governing the economic principles of the time, these successive governments adopted different policies for the development of industry in the country. The industrial policies have distinctive features when looking at their guiding vision, ownership structure and market orientation. Broadly, they can be characterized as the import substitution and private sector-led (the Imperial period, from early 1950s to 1974); the import substitution and state-led (the *Derg* period from 1974 to 1991), and the export-orientated and private sector-led (the EPRDF-led government period, since 1991) (Ibid). This Chapter attempt to assess the industrial policies and their implementation of the three consecutive periods.

2.3.1 The Imperial Period (pre-1974)

By late 1940s, much of the Ethiopian economy was unchanged and cultivation was characterized by small land holding system with primitive and traditional farming methods of subsistence economy. In the periods between the 1950s to the 1960s, attempts were made by the Imperial administration of Ethiopia to build agro-industrial economy, improve living conditions, expand infrastructure programs and introduce better health services, education, communication etc. However, due to the government's lack of technical and administrative capabilities, the efforts for transforming the country in to industrialized economy was not successful (Fantahun, 2013).

During the imperial period, even though there was an effort to introduce industrialization, the type, development and diversification of factories and industries established by external and internal firms were very low. However, although negligible when viewed in absolute terms, there was some progress when compared with the situation before 1935. The big success story of the post-1941 industrialization was the sugar-manufacturing industry monopolized by the Dutch firms Handels Vereening Amsterdam (HVA), expelled from Indonesia by President Achmed Sukarno, which found an encouraging investment climate in Ethiopia. In 1954, it set up two major centers of sugar manufacturing, the first at Wanji, the second at Matahara, both along the Awash River (Bahiru, 2002).

Furthermore, though the type and level of industrial development was very scrawny, Stimulating industrial development was began in the mid-1950s with the formulation of the First Five-Year Plan (FFYP) that covered the period 1958-62. However, during this period, agriculture was not taken seriously as a sector with a potential for growth, which could make a significant contribution to the overall economic development (Addis Alem, 2003). During the Imperial period, particularly in the 1950s manufacturing was dominated by foreign owned firms and was import substitute industry (ISIs). In the 1970s, there were about 300 foreign firms, accounting for more than 75 percent of the industrial sector (Arkebe, 2015).

As a result, foreign private investment was considered as a potential source of financing industrial development, but there was a need to create proper mechanisms and institutions to attract foreign capital. To this end, several proclamations and legal notices were issued, the essence of which were summarized in the 1967 Investment Proclamation. These were:

- a) Income tax exemption for five years starting from the date of commissioning for investments in new projects exceeding Birr 200,000;
- b) Income tax exemption for three years for expansion projects exceeding Birr 200,000 starting from the day of commissioning;
- c) Relaxation of foreign exchange regulations by the National Bank: to allow foreign investors to transfer and remit their profits abroad; to issue special foreign exchange licenses to import goods for production, to pay foreign credit and to export dividends and profits; and to permit foreign workers to remit their savings abroad in foreign exchange;
- d) Loans to buy real estates in Ethiopia for establishing industrial plants;

- e) Computing income tax after capital charge has been deducted; and
- f) Tariff protection, if necessary, including prohibition to safeguard them from competition from imports (Bulti, 1991; Mulu, 2013).

Despite the presence of different obstacles, the policies had some contribution to the accelerated rate of industrialization, for 54 new industries were established in the period 1964-74, as compared to only 26 new factories during the period 1950-63 (Bulti, 1991).

The Second and the Third Five-Year Plans (TFYP) of the imperial period were launched between 1963 and 1973. During this period, the Government extended the incentives to attract investors and continued to strengthen its presence in economic activities by making direct investment in manufacturing. The driving philosophy of the industrial policy in the imperial period can be characterized as favoring of market and private sector, but seeking gaps whereby the government should play a role including direct ownership in selected sectors. In practice, the incentive structure was biased towards import-substituting, larger, capital-intensive, and foreign-dominated industrial activities (Mulu, 2013).

However, during this time, the overall industrial base of the country was characterized by a dual structure – a rudimentary small-scale and handicraft sub-sector and a modern medium-large-scale sub-sector, each contributing about half of the manufacturing value Added (MVA). During this period the modern medium- and large-scale manufacturing sector, which employed ten or more people and use power-driven machinery (MLSM) was able to created no more than 60,000 jobs in total and it was predominantly foreign owned (Mulu, 2013; Bahiru, 2002).

A notable feature of the then industrialization in Ethiopia was its concentration in three cities of the Empire. Addis Ababa, Asmara and Dire Dawa. About half of the industrial establishments were in the city of Addis Ababa (Bahiru, 2002).

2.3.2 The *Derg* Period (1974-1991)

In 1974, as the Ethiopian Revolution erupted, the military government nationalized most of the modern medium- and large-scale manufacturing enterprises, which were later reorganized under state corporations. As it is described by Fantahun (2013), with the advent of the socialist revolution in 1974, which brought the military dictatorship to power, the Ethiopian economy was rather reversed to a disaster in many respects. The economy suffered from various structural bottlenecks being manifested by low economic growth, macroeconomic imbalances and negligible private

(domestic and foreign) participation in the economy. Adding to its domestic problems, Ethiopia like its fellow African countries was also exposed to various types of conditionality by the West and International Financial Institutions in its effort to attract FDI, development assistances, debt relief or cancellation, etc (Fantahun, 2013).

After the *Derg's* usurpation of power, the ownership of industries changed into the hands of the state. Industrial sectors were owned solely by the government, which included exploration of precious metals, radioactive and nuclear materials, large-scale mining of salt pans, basic and heavy industries such as iron and steel works, ship-building and cement production, petroleum refining and extraction of natural gas, industries such as textiles, leather and leather products, rubber and fertilizers, pharmaceutical, tobacco, glass, bottle and ceramics, printing and publishing, electric power, gas and water services, rail, air and sea transportation, radio, telecommunication services, and insurance and banking. While petroleum and gas exploration, mining activities and some manufacturing sectors were available for joint ventures between the government and foreign capital, smaller activities were left for the private sector (Addis Alem, 2014).

The government introduced various restrictions on the private sector and the market. Private investment was restricted to the maximum of half a million Birr approximately a quarter of a million USD and entrepreneurs may participate in only one venture at a time. Price controls were instituted covering a wide range of products and the labor market highly regulated (Mulu, 2013). Industrialization was guided by a command economy and import substitution, and economic activities were largely designed to support the *Derg's* war machine. For instance, Asco (a shoe factory) was entirely given over to the production of army boots. Garment and food processing factories were also to service the *Derg's* 600,000 soldiers. Armament factories were also established, with loans and technical assistance from Eastern Europe and North Korea. Moreover, labour and population mobility was tightly restricted (Arkebe, 2015).

The nationalization and continued systematic restriction of the private sector from engaging in major economic activities had virtually reduced the emerging vibrant sector into micro- and small-scale manufacturing activities. In contrast, the state became the sole responsible organ owning and operating the modern medium- and large-scale manufacturing activities. In 1985/86, one decade after the revolution, the state-owned enterprises managed to command 95 per cent of the value added and 93 per cent of the employment of all modern medium- and large-scale manufacturing enterprises. Despite their largest share in the sector, the state owned enterprises financial position

became increasingly weak and had to rely on government subsidies and overdraft facilities for their working capital requirements. Manufacturing establishments were seriously constrained by shortages of foreign exchange, raw material supply, working capital and the like (Mulu, 2013).

After the nationalized enterprises' poor performance, the government issued proclamation no. 235/1983 with the objective of inviting foreign investment in joint ventures. The government declared that joint ventures could be established based on 51 percent ownership of the state. However, the domestic private sector was yet excluded even from such restricted participation, which indeed was not a good signal for the foreign capital (Addis Alem, 2014).

The last years of the *Derg* period sought another sharp decline in the Ethiopian economy. The manufacturing sector was the most affected by this turmoil and exhibited about 40 percent decline in value added in 1991 alone. The number of establishments in the modern medium- and large-scale manufacturing sector also shrunk from about 380 in 1987/88 to 275 in 1990/91 with a corresponding decline in employment. The hostile policies towards the private sector, pronounced inefficiency in the public sector and intensification of the political conflict in the country were some of the major causes of the decline (Mulu, 2013).

2.3.3 The Ethiopian People's Revolutionary Democratic Front Period (Post-1991 to present)

The Ethiopian People's Revolutionary Democratic Front (EPRDF)-led Transitional Government soon after its emergence announced that the country would follow a market-led economic policy, which was accompanied by a new developmental strategy known as "Agricultural Development-led Industrialization (ADLI) that focused on reducing poverty and stimulating the economy (Arkebe, 2015). ADLI was crafted in order to promote the overall economic and social developments. The major essence of the strategy lies in shifting a greater share of the nation's investment to the agriculture sector in order to increase agricultural productivity. The strategy takes agriculture as a leading sector whose improved productivity would at the same time induce growth in consumer goods and agricultural import industries (Addis Alem, 2014; Fantahun, 2013; Chandra and Yinges, 2013).

However, the first decade of the EPRDF regime (1991-99) was marked by a series of reforms under the structural adjustment programs (SAP) with the aim of reversing the command economic system by the way of fostering competition, opening the economy and promoting the private

sector. In this period the government implemented three phases of IMF/WB sponsored reform programmes. The first phase of the structural and economic reform programme took place during 1992/93-1994/95 (Chandra and Yinges, 2013; Mulu, 2013).

Measures undertaken during this period includes;

- Liberalization of the foreign exchange market starting with a massive devaluation of the Birr by about 150 per cent in October 1992;
- Rationalization of public expenditure;
- Introduction of a new investment code, labour and public enterprise laws;
- Removal of subsidies and export tax rebate;
- Liberalization of prices except for petroleum;
- Reduction of the maximum import tariff from 230 per cent to 80 per cent; and
- Liberalization of payments for invisible transactions, and easing of market entry for privately-owned banks and insurance companies;
- An auction system was introduced to determine the exchange rate applicable to most transactions;
- Direct price controls were virtually eliminated, and internal marketing, transport, and trade were de-controlled;
- Land on lease to the Private Foreign Companies at cheapest rate.
- The restrictions on grain movements, the quota system of grain delivery (to the parastatal Agricultural Marketing Corporation) imposed on farmers and the system of fixed pricing for farm products were abolished.
- The fertilizer market was liberalized, creating a multi-channel distribution system.

The second phase of the economic reform programme (1994/95-1996/97) was aimed at limiting the role of the Government in the economic activities and promotion of greater private capital participation. By October 1996, the country entered a three-year enhanced structural adjustment facility (ESAF) arrangement with the IMF and began the third phase of the reform programme spanning the period 1996/97-1998/99. Under this arrangement, the government committed itself to achieve broad-based economic growth with a stable macro-economic environment, while the liberalization measures were further strengthened. In 1998, the Ethiopian Government adopted an export promotion strategy in an effort to address the lack of progress in export diversification. The strategy was aimed at promoting high value agricultural exports (e.g. horticulture products and meat) and labor-intensive manufacturing products (clothing, textile, leather and leather products) (Mulu, 2013).

Sustainable development and poverty reduction program (SDPRP) a three year development plan was the first poverty reduction plan for the country. The aim of the plan was reduction of the prevalent poverty by centering the rural Ethiopia. This was expected to be achieved by increasing agricultural productivity and expanding infrastructure and supply inputs and providing basic facilities to the rural community. This led to the emergence of PASDEP (a plan for accelerated and sustained development to end poverty), which was the first five year plan. The timing of PASDEP was coincided with the UN Millennium Development Goals (MDGs), which urged the PASDEP to include the targets of the MDGs, in addition to government development goals (Asmeret, 2015).

PASDEP is the country's second poverty reduction strategy paper, drafted for the five-year period 2005/06-2009/10. It has much more explicit focus on private sector development, competitiveness, and growth than its predecessor. However, the Industrial Development Strategy, which was approved in 2002, is regarded as the country's first-ever comprehensive industrial development strategy (Altenburg, 2010).

The Industrial Development Plan that was adopted in 2002 mentions a few general principles – e.g. to recognize the role of the private sector as an engine of growth; the importance of state leadership to challenge and support developmental firms; and the need to build on both foreign and domestic investors. Furthermore, it specifies priority areas for selective interventions that favor certain sectors over others (Ibid).

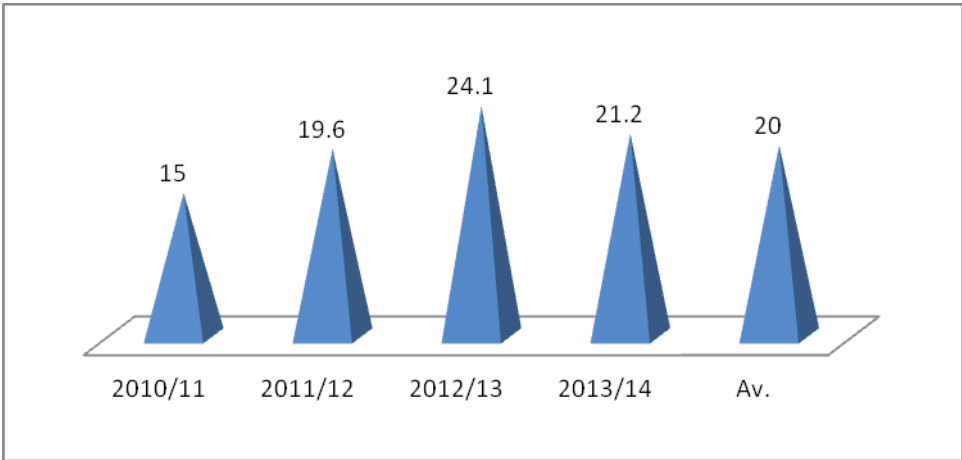
As a result of this comprehensive development plan, Ethiopia has experienced a double digit economic growth following the start of the implementation of this policy. Between 2003/04 and 2010/11, GDP grew by about 10.6 per cent per annum. All the major sectors including industry also grew by more than 10 per cent over this period (Mulu, 2013).

Following the implementation of this developmental plan, the country adopted a Growth and Transformation Plan (GTPI) that aims at achieving rapid growth and structural change and the promotion of industry as the leading sector of the economy by 2020 (Arkebe, 2015). Based on the assessment of export- orientation, import substitution and resource competitiveness, the manufacturing industry is given prime importance among other industries (Asmeret, 2015).

The Growth and Transformation Plan (GTP I) seeks to transform Ethiopia in to an industrialized middle-income level by 2025 and increase the per capita income of citizens. To this effect, the Government has adopted a policy focused on the development of the manufacturing sector through

the use of industrial parks to attract FDI and support SMEs. Integral to the achievement of a vibrant and competitive industrial sector is a policy focus on the development of the manufacturing sector, for instance through the use of Industrial Parks (IP) to attract Foreign Direct Investment (FDI). Together with the efforts and facilitates of the transformation, the Government places special focus on five sectors thought to maximize the country’s endowment and comparative advantage in the manufacturing sector. The manufacturing sectors that has been given special infancies during the Growth and Transformation Plan (GTP I) period are; Textile and apparel industries , Leather and leather products industries, Metal and engineering industries , Meat and Dairy industries, Chemical industries (including cement industries) , Pharmaceuticals industries and Food and Beverage industries (World Bank, 2012; MoI, 2015). Table 2:1 below shows the performance of Industrial sector during GTP I (2011-2015) while table 2:2 shows industrial policies and their developmental phases during the three consecutive periods of Ethiopian. The chapter that comes following the two tables is all about the current Chinese engagement in the foreign direct investment in Ethiopia.

Table 2:1 Industrial Development during GTP I



Source: - Ministry of Industry 2015.

Table 2:2 Industrial policies and their development phases during the three periods in Ethiopian.

	Imperial period (pre-1974)	The <i>Derg</i> regime (1975-91)	The EPRDF regime (post-1992)
Guiding policy/ vision	Market-oriented	Command economy	Market-oriented
Public/private role	Private-led	State-led	Private-led but also strong state role
Ownership structure	Dominance of foreign-owned enterprises	Dominance of public- owned enterprise	Dominance of domestic private- owned enterprises
Target industries	Import-substituting and labour- intensive industries (e.g. textile, food, cement)	Import-substituting and labour-intensive industries but also basic industries	Export-oriented & labour- intensive industries (e.g. Textile, leather, agro-processing, cement)
Envisaged key player	Foreign investment	Public sector investment	Domestic private sector
Policy instruments	Protection of domestic market through high tariff and banning of certain imports Provision of economic incentives (tax holidays, remission of indirect tax on capital goods etc.) & preferential credit scheme	Protection of domestic market through high tariff and quantitative restrictions Financing, subsidizing, and ensuring monopoly power for the state-owned enterprises	Direct support for selected export sectors through capacity building and other means Provision of economic incentives (tax holidays, remission of indirect tax on capital goods etc.) & preferential credit scheme
Government role	Infrastructure & human resource development and ownership of selective industries	Mainly government ownership	Infrastructure & human resource development, ownership of selective industries, and capacity building of the private sector

Source: - Mulu Gebreeyesus, working paper No.6-2014

Chapter Three

3. China's Foreign Direct Investment in Ethiopia

Ethiopia has experienced strong and generally broad-based real economic growth of around 10.6 percent on average since 2004. Growth over this period is far beyond the growth rates recorded in aggregate terms for Sub-Saharan Africa (SSA), which only reached 5.2 per cent on average, less than half of Ethiopia's average real GDP growth rate during that period. Inspired by East Asian experiences, growth was induced through a mix of factors including agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. Besides, Foreign Direct Investment (FDI) into Africa particularly from Chinese is on the rise and Ethiopia is at the forefront of this trend (World Bank, 2012).

As a result, Ethiopia is currently one of the world's fastest-growing countries, with an average growth rate of over 11 per cent since 2004, which places Ethiopia the third fastest economy in the world after China and India (Yosef, 2015; Fantahun, 2013; World Bank, 2012 and IMF, 2011; The Economist, 2011).

The first Growth and Transformation Plan (GTP I), which was under implementation for the past five years was aimed at attracting massive amount of FDI. The plan states that Ethiopia had plentiful comparative advantages in terms of human capital, land resource and investment incentives to materialize this plan of attracting foreign investment. In addition to attracting investment, the Ethiopian Government gives a due attention to make projects operational within short period of time (Yosef, 2015). The idea of providing incentive by the Ethiopian Government is well honor by Dr Abraham Tekeste.* Abraham in his exclusive interview with the researcher described that; Ethiopia provides different incentives to investors coming from China or elsewhere. The incentives provided by the government are like tax-free, accessible land leases, clear and fast custom duty, strong and accountable civil services, accessible industry zones and others (Interview, PCE; 2015).

Consequently, foreign direct investment projects are on the increase since 2011. The manufacturing sector has the highest number of FDI projects under implementation. Manufacturing accounts for 68.6 per cent of new FDI projects and 70 per cent of FDI capital investments. FDI in leather manufacturing and textile production indicate areas where Ethiopia seems to have a comparative advantage. To this end, it seems, Ethiopia is successful in leveraging

its access to the European and U.S markets through the 'Everything but Arms (EBA)' and Africa Growth and Opportunities Act (AGOA), respectively. FDI inflows into Ethiopia have finally picked up in 2013, driven by manufacturing FDI. As a result, the country attracted 1.2 billion USD in 2014 with the manufacturing sector being the largest recipient of FDI. This makes Ethiopia among the top 5 landlocked countries in terms of FDI inflows (World Bank, 2015; EIC, 2015).

Reports released by international organizations dealing with international investment and trade activities also affirm Ethiopia's effort to attract FDI. For instance, the report released by the United Nations Conference on Trade & Development (UNCTAD) showed that Ethiopia was the third largest recipient of foreign direct investment (FDI) in Africa (UNCTAD, 2015).

During these progressive years, China has become one of the key, if not the most important, development partner of Ethiopia with demonstrable impact on the ground in every economic sectors particularly in industrial development. According to the Ethiopian Investment Commission's (EIC) information, among the 5178 licensed foreign direct investment projects running in Ethiopia, China accounts 1057 investment companies that cover 20.4 per cent of the total foreign direct investment in Ethiopia. This shows that the relationship between the two countries that accounts half-a-century demonstrates an increasing and understanding between them (EIC, 2015; Glans, 2014; Fantahun, 2013; and World Bank, 2012).

The cooperation between China and Ethiopia has been assisted by political commitment of the two Governments; and it has both economic and political considerations from both sides. The Ethiopian Government has had an interest in the East Asian development model and anticipates learning much from China's experience, to advance its own economic development. Because, relations with China offered a number of advantages, compared to western countries, as China: (i) demands fewer conditions on providing assistance; (ii) grants assistance at very low rates, repayable over a very long period; and (iii) offers training to professional and technical personnel in addition to its foreign direct investment. To do this, the Ethiopian Government has continuously provided FDI incentives. These have proved to be a large motivation for Chinese firms' to invest in Ethiopia, especially in the manufacturing industry (Glans, 2014; World Bank, 2012).

Accordingly, China's foreign direct investments in Ethiopia are showing significant expansion in both quality and quantity. Chinese companies have invested in areas such as manufacturing in textile, leather and glass factories. According to the Ethiopian Investment Commission, among the

1087 foreign direct investments with a registered capital of 18.3 million USD are from Chinese. From the total registered Chinese FDI 716 are manufacturing, 129 real states, and 121 on construction. China's new policy regarding the promotion of private enterprises to develop investments outside of China has played a remarkable role in encouraging Chinese investors to come to Ethiopia. (EIC, 2015; Glans, 2014). Table 2:3 shows the amount and types of licensed Chinese investment in Ethiopia.

Table 2:3 Summary of Licensed Chinese Investment projects in Ethiopia By Sector and Status

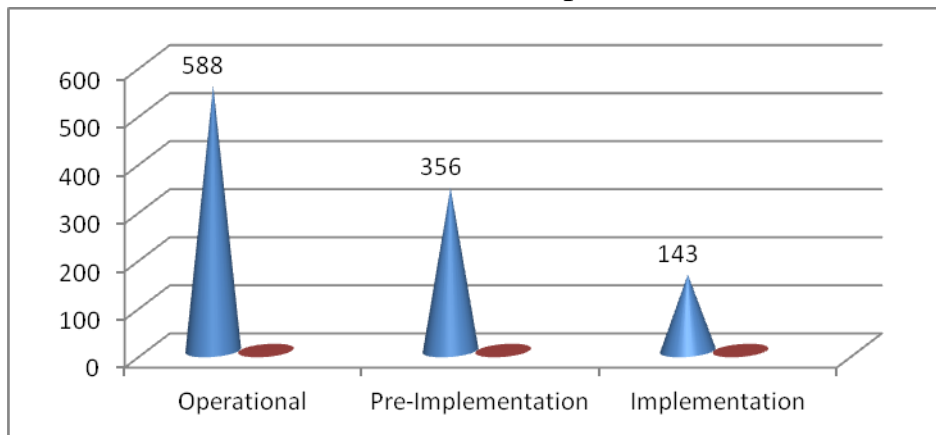
Since August 27, 1998 - November 27, 2015 G.C

Sector	Total	Pre-Impleme	Imple mentat	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
Agriculture	17	11	4	2	3,509	40	40
Manufacturing	746	271	92	383	12,781,139	28,538	14,053
Mining	5	1	1	3	36,500	58	42
Education	1			1	530	6	4
Health	12	2	1	9	15,417	60	42
Hotels (Including Resort, Motels and Lodges) and Restaurants	45	16	5	24	62,656	400	275
Tour Operation, Transport and Communication	7		1	6	11,793	185	48
Real estate, Machinery and Equipment Rental and Consultancy Service	127	28	12	87	858,648	6,247	7,254
Construction Contracting Including Water Well Drilling	123	26	26	71	4,470,721	8,080	24,809
Others*	4	1	1	2	52,000	60	240
Grand Total	1087	356	143	588	18,292,914	43,674	46,807

Sources; Ethiopian Investment Commission 2015: soft copy.

Most of China's investment projects are conducted through joint ventures with Ethiopia and different other countries. The largest joint ventures of the Chinese investors are made with Ethiopian investors. They are participating both in rural and urban development in Ethiopia. This has been accelerating in the last few years. Besides, out of the licensed 1087 Chinese projects in the period 1998- January 2016, only 588 (54.1 percent) has gone operational 143 (13.16%) under implementation and 356 (32.75 per cent) are under pre- implementation (EIC, 2016; Glans, 2014; World Bank, 2012) . The following table provides information about the current states of Chinese companies in Ethiopia since 1998.

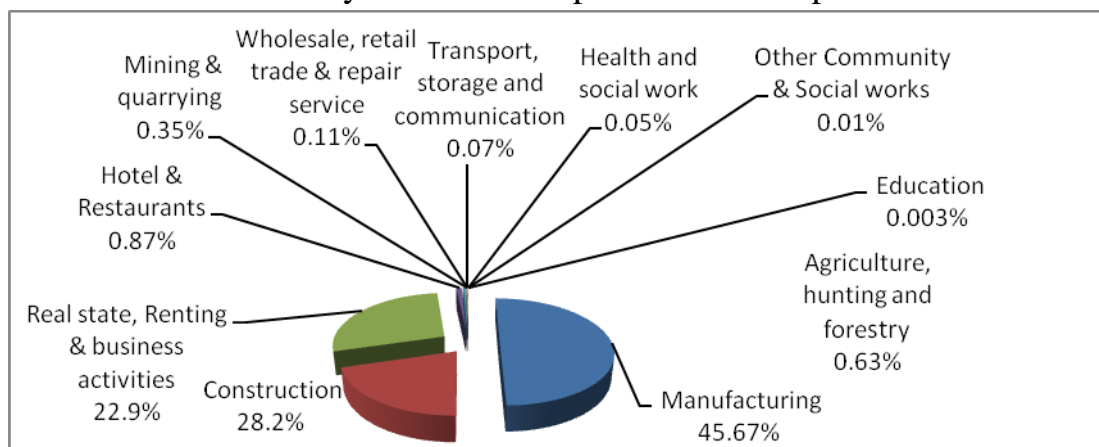
Table 2:4 Statuses of Chinese Companies since 1998-2016



Source: - Ethiopia Investment Commission 2016: soft copy

China is expanding its investment in Ethiopia and Africa at large. The recent increase in Africa's gross domestic product is because of Chinese investment. The roads, bridges, and dams built by Chinese firms in Africa are low cost, good quality, and completed in a fraction of the time. Furthermore, Chinese foreign direct investment has given a lot of advantages to Ethiopia. These include creating more job opportunities for local people and promoting the economic development of the country. As a result 43,674 permanent and 46,807 temporary and totally 90,481 of jobs are created for citizens by the Chinese investment. The Chinese investors are playing a great role in Ethiopia. As a result of this China's direct investment in Ethiopia in 2014 had reached about one billion dollars (EIC, 2016; Melaku, 2014; Fantahun, 2013; and Alemayehu, 2008). Moreover it appears that the economic development in Ethiopia seems to rely heavily on the development of closer economic links between Ethiopia and China. The following table indicates the amount of jobs created for citizens by Chinese Companies.

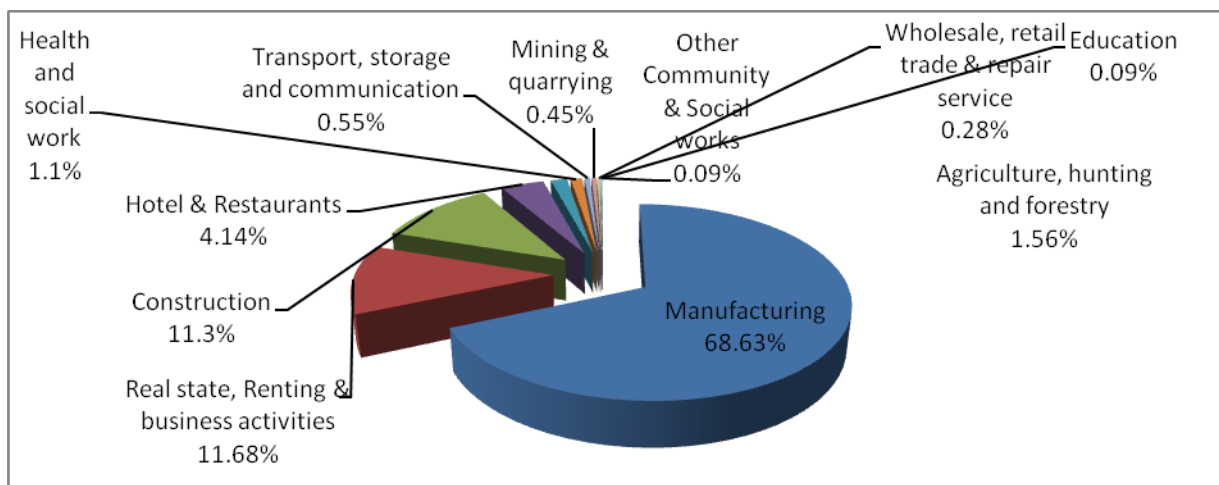
Table 2:5 Jobs Created by Chinese Companies for Ethiopians since 1998-2016



Source: - Ethiopia Investment Commission 2016

The Foreign Direct Investment (FDI) that flow from China to Ethiopian is mostly concentrated in manufacturing sector, which covers over 68.7 percent, which makes it unique and different from other African countries where the Chinese FDI generally are resource-seeking. The most immediate impact of China’s economic activities in Ethiopia is likely to be in the manufacturing sector. Currently, 737 Chinese private and state-run manufacturing industries are operating in Ethiopia (EIC, 2016; Dawit, 2014). It is possible to argue that one factor that attracted these companies is that, Ethiopia has a favorable environment for producing and selling manufacturing goods in addition to offering the Chinese the prospect of gaining preferential access (for textiles produced in Ethiopia) to the U.S. and Europe market (EIC, 2016; Seifudein, 2012; Alemayehu and Atnafu, 2011). The sectoral distribution of Chinese companies in Ethiopia can be observed from the following table.

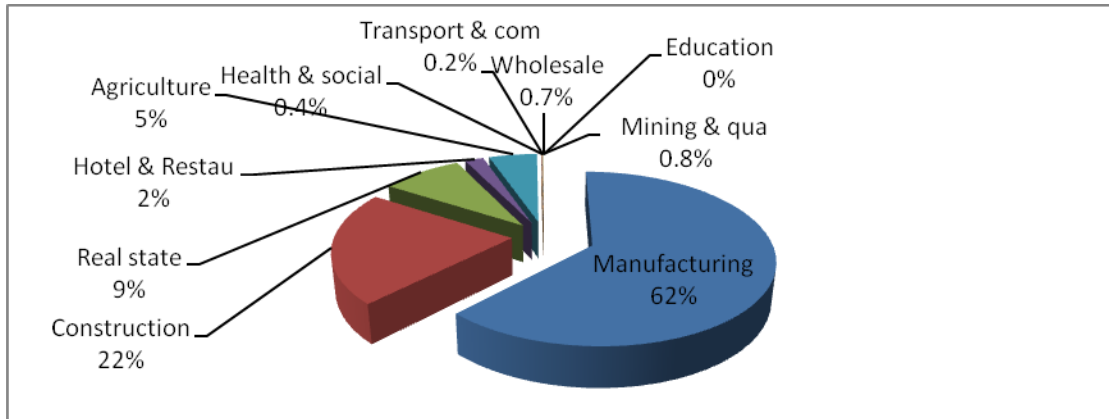
Table 2:6 Chinese Companies by Sectoral Distribution since 1998 - 2016



Source: - Ethiopia Investment Commission 2016: soft copy

In terms of capital, the two largest Chinese investments in Ethiopia are cement factories; the largest one, with a capital of \$358 million is a Sino-Saudi Joint Investment Cements PLC. This is followed by another large Chinese company named C. H. Clinker Manufacturer PLC with a capital of \$268 million. China has also made a long-term commitment for a large-scale silica production and others like glass and pharmaceutical factories (Alemayehu and Atnafu, 2011). The table below (2:7) shows the capital distribution of Chinese investment in Ethiopia.

Table 2:7 Capital distribution of Chinese investment by sector 1998-2016



Source: - Ethiopia Investment Commission 2016: soft copy.

Another remarkable example of Chinese FDI in Ethiopia is its participation in developing special economic zones (SEZ) like the Eastern Industrial Zone which is the first special privately run economic zone in the country. It is one of the first six Chinese SEZs established in Africa under the forum on China Africa cooperation (FOCAC) framework. The Eastern Industry Zone of Ethiopia is located at 35 km southeast of Addis Ababa, and 680 km to the port of Djibouti with 200 hectares of land in Dukem. For Ethiopia, EIZ is the first and largest-scale industrial park, and the Ethiopian Government has prioritized this project in its “Sustainable Development and Poverty Reduction Program” to promote its industrial sector development. The Ministry of Industry of Ethiopia requires the EIZ to focus on Chinese companies in the area of textile, apparel, building materials, mechanical manufacturing, and agricultural processing (interview Taddesse*, 2016; Fantahun. 2013, world Bank. 2012). Currently, 26 Chinese firms are operational and producing different products for export markets having agreement with EIZ in all targeted areas. According to Mrs. Xu Yang Administration & Human Resource Manager of EIZ, in addition to the present 26 manufacturing industries, more than 20 other manufacturing industries are either in construction or completed their construction to join the EIZ. In the EIZ, it is believed that there are more than 10,000 Ethiopian and 400-500 Chinese workers who came to train and share their technical knowledge to local workers (Interview, Xu*. 2016, UNDP. 2015).



Entrances get of EIZ in Dukem.



Green attraction inside the EIZ.

The second phase of the Zone is currently starting constructing shads and warehouses for factories and light industries covering an area of 100 hectares consisting of mixed use developments including residential, commercial and trade, warehousing and open spaces. There are provisions for a railway transfer facility and bonded warehousing (Interview Ying*. 2016).



One of the Condominium houses built by EIZ for workers residence.

Huajian's investment in Ethiopian shoe industry is the one that marks a distinct change from traditional Chinese investment in infrastructure development in Ethiopia opened its modern shoe factory in the EIZ. Huajian Group, based in Dongguan, Guangdong Province, produces about 20 million pairs of shoes a year is the famous shoe brands worldwide. It is one of the largest Chinese shoe manufacturers, if not in the world. In Ethiopia, Huajian opened two production lines in Eastern Industry Zone at Dukem, to produce about 2,000 pairs of shoes every day for the U.S. and European markets. It currently employs about 3600 Ethiopian workers with some 50 Chinese workers. Huajian came to Ethiopia as a manufacturing investor to tap into the benefits of cheap labor costs (compared to China), abundant domestic supplies of leather, and its duty-free and quota-free access to European and U.S. markets. Based on agreement between the company and workers, the factory spent 13hrs in production and pay additional money from overtime works. Unlike other factories the company provides three meal a day and transport facilities for employees for free. For new coming workers there is always training before they start work. (Interview, Ying, 2016; World Bank, 2012).



Workers at production in Huajian shoes factory in EIZ.

Chinese firms are also present in activities carried out by the Ethiopian Government, more specifically in infrastructure. The Chinese share in total contract amount in road construction, electricity and telecommunication sectors over the last years has been shown a steady increase. Chinese firms are cooperating with the Ethiopian Road Authority, the Ethiopian Telecommunication Corporation and the Ethiopian Electric Power Corporation; helping them build much needed electric power stations and roads (EIC, 2015; Glans, 2014; Fantahun, 2013; World Bank, 2012).

Ethiopia's infrastructural development had suffered for long time due to insignificant investment in the sector and shortage of financial sources. However it has recovered only after early 1990s attention was given to extensively invest on the infrastructure in general and the road sector in particular as the major tool to bring about changes in development. In this regard, China has provided significant concessional loans to Ethiopia, for constructions of roads, rails, dams, and power supply lines, etc., which are often tied to construction projects to be undertaken by Chinese state-owned or state-controlled enterprises such as the Addis Ababa Ring Road opened in 2003 (Fantahun, 2013).

As part of its development strategy, Ethiopia has continued to undertake massive infrastructure projects throughout the country, which include the construction of 6,000 kilometers of rails, and light city railway networks. The Government of China is considerably involving in the construction and financing of some of these projects, according to the Ethiopian Ministry of Finance. Among the construction of such projects carried out by Chinese state-led firms are, the Addis Ababa light city railway is completed and over 95 per cent of the 780 kilometers of Ethiopia-Djibouti railway is completed while the remaining Mekelle- Woldiya-Hara- Djibouti railway construction is under way (Fantahun, 2013; EEA/EEPRI, 2009).

The Chinese support of road construction in Ethiopia are financed through the provision of grants, partly grants or loans, and well distributed throughout the country. Such as many road projects started in Addis Ababa since 2003. Within Addis Ababa, the Chinese Road and Bridge Construction Company has been very active and engaged in several projects. Some of the projects are grant projects though they are undertaken by the Chinese companies. Others are tendered and are financed by the Ethiopian Government. The tables 4:8 below show that Chinese companies are engaged in many road contraction sectors in Addis Ababa, Ethiopia (AARA. 2013, Fantahun, 2013 and EEA/EEPRI. 2009; Tegegne, 2006).

Table 2:8 China’s Engagement in Road Construction in the city of Addis Ababa

No	Road segment	Cost of construction USD	Remark
1	Alert Hospital - Keranio	3.8 million	
2	Mekanisa Square-Anbessa Garage	455,000	
3	Adwa square-CMC-Ayat	16 million	
4	Lafto Lebu-Mekanissa Settlement Area	9.3 million	
5	Winget Square-Gojam Road	44.8 million	
6	Gotera Interchange	12. 8 million	Grant
7	Megenaga-British Embassy	23.18 million	Partially Grant
8	Yekatit 12 Square-Afincho ber-Semen Hotel	5.9 million	
9	Ethio-China friendship Road	3.9 million	Grant
10	Ring road phase	70.7 million	The cost of 601 million covers both phase 1 and phase 2 of the project
Total		45,5000.00	

Source: - Addis Ababa Road Authority’s unpublished report 2013; Fantahun. 2013; Tegegne, 2006.

The agreement between China and Ethiopia signed in November 2009 for the provision of a grant of US\$349 million to help build the country’s first 79 kilometers expressway in order to link the Capital City, Addis Ababa, with the City of Adama is among the manifestations of such big road construction projects in Ethiopia. Under the agreement, the Exim Bank of China has provided loans to the project, which was undertaken by China Road and Bridge Corporation. The six-lane toll expressway plans to reduce the travel time on Ethiopia’s main route to the ports of Djibouti that link the land-locked country to the Red sea. The project was completed in 2014 as expected (Fantahun, 2013; EEA/EEPRI, 2009).

Chinese firms are also dominating both rural and urban road construction in Ethiopia. This dominance has been accelerating in the last few years. The dominance is partly due to low bid prices offered by the Chinese firms and partly owing to the diplomatic and political ties Chinese

made with Ethiopia. Provision of financing by the Chinese Government for its firms in Africa, which Chinese's firms in turn offer as credit in the form of vendor financing during the bidding process, is another reason for this success by Chinese firms in Ethiopia (ERA, 2016; EIC, 2014 and Alemayehu and Atnafu, 2011).

The 780 kilometers long electrified railway, which links Addis Ababa to Djibouti with a total capital of 4 billion USD, the Addis-Adama expressway and Addis Ababa's intercity railway are among road and railway constructions running by Chinese firms. In the road sector, Chinese have totally dominated the Ethiopian scene. According to the Ethiopian Road Authority, in the areas of road construction sector 22 Chinese companies have been engaged in 68 road construction projects in Ethiopia since 1997. The projects cover some 7,245.99 Kilometers that cost over 38 Billion Birr (EPA, 2016; Fantahun, 2013). The following table shows China's engagement in the road construction sector at federal level.

Table 2:9 China's Engagement in Road Construction at Federal level (1998-2016)

Name of the Project	Name of Chinese Firm	Road Constructed (KM)	Financer	Status of the Project
Addis Ababa – Debre Birhan	CRBC	99	GOE	Completed
Debre Birhan – Tarma Ber	Sino Hydro	70	GOE	Completed
Gedeo - Backo	China Haiway Group	66	IDA/GOE	Completed
Backo - Nekemt	China Haiway Group	64	IDA/GOE	Completed
Bitena - Mayoqote	Sino Hydro	48.3	GOE	Completed
Gondar - Debarq	Sino Hydro	100	IDA/GOE	Completed
Wukro –Adigrat -Zalambesa	China Railway No.3	104	Kuwait/GOE	Completed
Assela – Dodola Megenteya	Sino Hydro	117	IDA/GOE	Completed
DreDawa - Dewele	Sino Hydro	210	GOE	Completed
Addis – Adama Express way	CCCC	80	GOE	Completed
Welqite - Arekit	CGGC	60	IDA/GOE	Completed
Ambo - Weliso	Sino Hydro	63	IDA/GOE	Completed
Kombolcha – Bati - Mile	Sino Hydro	130	IDA/GOE	Completed
Felege Birhan – Zema Wenz bridge	Sino Hydro	83	GOE	Completed
Adi Abun - Shire	CGGC	92	IDA/GOE	Completed
Shire – Adi Goshu	CGGC	156	GOE	Completed
Adi Gshu - Lugdi	Hunan Hunda	157	GOE	Completed
Felegebirhan – Zema Wenz bridge	Sino Hydro	94	GOE	Completed
Zema Wenz bridge – Bahir Dar	Sino Hydro	91	GOE	Completed
Wadera – Negele	China Metallurgical Construction	65.3	GOE	Completed
Yabello - Mega	Teisuju	97.5	ADB/GOE	Completed
Konso - Yabello	Sino Hydro	107	IDA/GOE	Running
Semera – Dubti & Mile – Logia Alternative way	JZEC	21	GOE	Completed
Meqennajo - Aira	China Hai way Group	53	GOE	Completed

Aira - Chanka	CWE	65	IDA/GOE	Completed
Chanka - Dembidolo	China Hai way Group	63	IDA/GOE	Completed
Nekemte – Bedele	CGC Overseas	96	Kuwait/BADEA OFID/GOE	Completed
Bedelle – Metu/ILot 2	CWE	51	ADB	Completed
Kombolcha - Mekaneselem	CGC Overseas	180	GOE	Completed
Mekaneselem - Gundewein	CGC Overseas	139	GOE	Completed
Adi Remets – Dejena - Dansha	Hunan Hunda	98	GOE	Completed
Haususa – Abala - Arbeti	JZEC	96	GOE	Completed
Abi Adi – Hawzen - Freweini	CRTG	102	GOE	Completed
Jara – Gedeo – Debre Tabor	Sino Hydro	61	GOE	Completed
Desse – Kutaber – Tenta Junction	Sino Hydro	100	GOE	Completed
Arbti – Afdera	CRTG	118	GOE	Completed
Wacha – Maji	CWE	175	IDA/GOE	Completed
Assosa - Kurmuk	Sino Hydro	96.7	SFD/BEAD GOE	Completed
Alamata - Hiwane	CCCC	114	GOE	Completed
Omo Sugar Factory No 1 - 6	Sino Hydro	223	GOE	Completed
Omo Sugar Factory Turmi - Weito	Sino Hydro	175	GOE	Completed
Awash Arba to Kesem Sugar Factory	CGC Overseas	22	GOE	Completed
Enjibara – Chagni – Pawe junction	CCCC	100	GOE	Completed
Pawe junction – Fendika - Aima	CGC Overseas	75	GOE	Completed
Chole - Mega	CGC Overseas	25	GOE	Completed
Shire - Shiraro - Humera Lugdi lot.1	CGGC	156	GOE	Completed
Shire-Shiraro Humera Lugdi Lot.2	HUNAN HUNDA	161	GOE	Completed
Gonder-Humera Contract 2	Hunan Hunda	117	GOE	Completed
Kombolcha-Gundewoin Contract 1	CGC Overseas.	173	GOE	Completed
Kombolcha-Gundewoin Contract 2	CGC Overseas	136	GOE	Completed
Harar-Jijiga	Hunan Hunda & bridge Corporation	106	GOE	Completed
Magna-Mechara	CGC Overseas Construction Llttd.	120	IDA	Completed
Dodola-Junction-Goba	CGC Overseas Construction Llttd.	130	IDA	Completed
Adigrat- Adiabun	China Railway Engineering Corp.	108	IDA	Completed
Adama- Assela	Sinohydro Corp.	79	IDA	Completed
Nekempt - Mekenajo	Sinohydro Corp.	126.5	IDA	Completed
Butajira - Hossaena	CRBC	95	ADB	Completed
Mekenajo - Dengoro - Billa -Hena - Nejo	China Sichuan Int.	61	OPEC	Completed
Nejo - Mendi	CRBC	74	OPEC	Completed
Merawi-Gonder	CRBC	208	IDA	Completed
Alemgena-Butajira	CRBC	120	ADB	Completed
Awash-Hirna	CRBC	140	IDA	Completed
Kulubi-Dengego-Harar	CRBC	80	IDA	Completed
Woldiya-Alamata	CHINA WON.	78	IDA	Completed
Betemariam-Wukro	CHINA WON.	117	IDA	Completed
Debre Markos-Merawi	CHINA WON.	220	IDA	Completed
Gashena-Woldiya Cont.3 Woreta- Woldiya	CRBC	107.69	IDA	Completed

Total	7245.99		
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Source: - Ethiopian Road Authority unpublished (ERA, 2016).

However, Chinese involvement in such big road project is not without complaining. Some of these complains are related to (Alemayehu and Atnafu, 2011).

- 1) The quality of the construction undertaking itself;
- 2) The remuneration to local labor, which is far below the standard expected from such construction work;
- 3) One also would expect high employment opportunities for local unskilled labor as one of the benefits whenever there are such big construction projects. However, such opportunities are rare from Chinese construction projects;
- 4) Equipment and machinery for construction purpose are imported free of import duties and tariffs owing to the incentive scheme the government set out to develop infrastructure. Rumor is her and there regarding the Chinese as they are using this opportunity to import technically outdated equipment, which after the projects in Ethiopia are completed, invariably do not give significant service.
- 5) The standard of the Chinese labor and products are by far below the international standard.

However, according to Dawit (2014), in road infrastructure development Ethiopia is the most successful in making progress. Behind this good progress there is no question that Chinese firms are there. According to the Ethiopian Road Authority officials, these Chinese firms are selected through their low bid offer and they fulfill technical standard (including quality) (Dawit, 2014).

The cooperation between Ethiopia and China in the power construction sector is believed to register remarkable achievements in hydro and wind power construction projects such as Fincha-Amerti-Neshe hydro power project, Gilgel Gibe III Dam project and Adama wind farm project (Xiaoguang, 2014; EEA/EEPRI, 2009).

On the other hand, in 2002, the Chinese Sino Hydro Corporation started working on the estimated US\$224 million to construct a hydroelectric project known as Tekeze Dam with 607 foot dam of 300 megawatts power on the Tekeze River in Northern Ethiopia and completed in 2009 with a final cost of \$365 million USD. The project was fully funded by the Ethiopian Government. In July 2009, Ethiopia signed further agreements with China's Sino- Hydro Corporation to build 2,150 megawatts of hydro-electric capacity construction of the Gibe IV dam on Omo River in

South Western Ethiopia, in a deal China and Ethiopia signed 1.9 billion Euro power deal. Moreover, with a partly commercial loan from China Exim Bank, the Fincha-Amerti- Neshe Hydropower and Irrigation Project of 97 megawatt plant and associated irrigation started in Western Ethiopia by China Gezhouba Group Company at a cost of US\$70.6 million. The irrigation infrastructure will be used for sugarcane cultivation for sugar factory (Fantahun, 2013; EEA/EEPRI, 2009; World Bank, 2011).

China Exim Bank has also involved in partly financing the 51 MW Adama Phase I Wind Farm, which started in 2011 and completed in 2012 with a total cost of US\$157 million. Likewise, the Ethiopian Government has started the construction of 1870 MW hydropower project known as Gilgel Gibe III on the Omo River, near the Kenyan border with a cost of US\$1.95 billion. China Exim Bank is providing a credit to finance 85 per cent of the US\$34 million cost of power distribution lines for the dam, and the Industrial and Commercial Bank of China would finance 85 per cent of the estimated cost of US\$495 for the provision of turbines and electromechanical works (EPA, 2016; Fantahun, 2013 and EEA/EEPRI, 2009). The following table indicates the participation of China in the ongoing power construction projects.

Table 2:10 Chin’s Engagement in the Ethiopian Power Sector from 1998-2016

Name of the Project	Contractor Company	Type of Work	In millions of ET Birr	Remarks
Power Generation Construction				
Tekeze Hydroelectric Project	CWGS JV (China)	Construction of Arch Dam Head race Tunnel	2,746.05	
Tekeze Hydroelectric Project	CWBEC (China)	Design, Supply and Erection Mechanical & Electrical Equipment	293.79	
Tekeze Hydroelectric Project	JV Jppc and CCC (China)	Design, Supply and Erection of 230kv S/S	53.08	
Tekeze Hydroelectric Project	JPPC (China)	Design, Supply and Erection of 230kv Transmission Line	78.67	
Finchaa -Amerti-Neshe Melti-Purpose Project	CGGC (China)	Design, Procure and Construction of the Plant	1,219.12	
Beles Hydroelectric Power Project	CMEC (China)	Design, Manufacture CIF Supply, Transport, Loading/ Unloading erection test and commissioning	613.32	
Genale Dawa III 254mw Hydroelectric Power Project	CGGC (China)	Civil engineering, electro & hydro mechanical works. 60% of the 451 Million USD was financed by Chinese Exim Bank	451 Million USD	Create 1500 jobs for Ethiopian

Chemoga-Yeda Hydroelectric Power Project	Sino hydro (China)	Design, Manufacture CIF Supply, Transport, Loading/ Unloading erection test and commissioning	7,100.45	
Harena Messobo & Adama Nazreht Wind Power Project	Hydro China Corporation	Design, Manufacture CIF Supply, Transport, Loading/ Unloading erection test and commissioning	3,198.40	
Geba III Hydro power project	Sino hydro of China	Hydro & electro mechanical works & 470 million Euro was financed by Chinese Exim bank	1.5 Billion Euro	Create 7000 jobs for Ethiopian
Gibe III Hydro power project	DEC of China	1870 mw hydro power generation Sub – Construction	1.47 Billion Euro	Create 8000 jobs for Ethiopian
Chemoga Yada I hydro power project	Sino hydro (China)	280 mw power generation construction	555 Million USD	
Chemoga Yada II hydro power project		power generation construction	Unknown	
Ashegoda Wind Power project		120 mw power generation construction	unknown	
Adama II wind Power project		153 mw power generation construction	unknown	
Aisha I Wind Power project	DEIC of Dong fang	120 mw power generation construction	unknown	
Aisha II Wind Power project	DEIC of Dong fang	120 mw power generation construction	unknown	
Power Transmission Construction				
Tekeze-IndaSilassie-Humera	China		150.00	
Tekeze-IndaSilassie-Humera	China		211.51	
Bedele-Metu Power Transmission Project	China		115.00	
Bedele-Metu Power Transmission Project	China		94.57	
Bahir Dar-Debre Markos-Addis Ababa Power Transmission Project	China CAMC Engineering Co. Ltd		410.54	
Bahir Dar-Debre Markos-Addis Ababa Power Transmission Project	Shingai Electric Group Co. Ltd		388.81	
Bahir Dar-Debre Markos-Addis Ababa Power Transmission Project	Shingai Electric Group Co. Ltd		609.70	
Gibe III-Addis Ababa Transmission Line Contract	TBEA (China)		933.78	
Finchaa –Gedho- Gefersa Power Transmission Project	CWBEC (China)		135.00	
Finchaa –Gedho- Gefersa Power Transmission Project	CGGC (China)		246.76	
Koka –Dire dawa Power Transmission Project	CWBEC & JPPC (China)		1,111.54	
GRED-Dedesa-Holeta 700Km 500Kv high voltage transmission line project	CEPET (China)		24,188,891.37 ET Birr	
Ethio-Kenya 500 KV regional interconnection project	CEPEC (China)		126 million USD	

Wolaita – Sodo Addis Ababa 400 KV Power transmission project	Shanghai Electric group & TBEA	3,386,000,000.00
Gibe II Wolaita – Sodo II 400 KV power transmission project	NORANCO	
Genale Dawa III – Yirgalem – Wolaita – Sodo 400Kv power transmission project		
Aba Samuel Hydro Power Rehabilitation Project	PCHEC	339,000000.00 ET Birr
Rail way Power line Construction		
Addis Ababa light Rail way transport power 2x15 KV air insulator switch gear line construction	CEPET	85 million USD

Source: - Ethiopian Electric Power Authority unpublished 2015

Chinese firms are also participating in eight Ethiopian town's power distribution, network rehabilitation and upgrading projects. Their participation is believed to create Job opportunities for Electrical and Civil Engineers, Technicians, Line men, Machine operators and so on at construction of distribution network and Concrete pole production plants. The Companies have been selected among other bidders based on the bidding documents and procurement guidelines prepared in collaboration with World Bank. However, it is too early to evaluate whether their tasks are accomplished based on their time schedule and the quality standard (EEPS, 2016).

China's participation in the power generation, transmission, and substation development and power rehabilitation sector has registered remarkable achievements especially in hydro and wind power construction projects as expounded by the Ethiopian Government. Ethiopia has also projected to increase its power supply to 10,000 MW from its current level of capacity of 2,178MW. Though the Ethiopian Government is largely responsible for financing the projects, the engagement of China in this endeavor is significant. The Tekeze hydro power construction and its finance are among those exemplary supports of China in this sector (EPA, 2016; Fantahun, 2013).

Another Chinese engagement in Ethiopian industrialization is sugar factory development projects. The Ethiopian Government has plan to develop seven new Sugar factories in addition to the present three. Hence, Four Chinese construction companies have won to engage in developing five of the factories namely, Welkait, Kuraz two, Kuraze three, Kuraz five, and Kesem Sugar factories. With the financial support of the China Development Bank, the Kesem Sugar Factory project was started in 2011 in Afar Regional State of Ethiopia with a provision of US\$150 million credit (Interview Gashaw*, 2016, Fantahun, 2013).

Africa particularly for the last decade has shown immense progress in telecommunication development as one of the fastest growing networks in the world. Consequently, Chinese firms are dominating in winning big projects in Ethiopian telecommunication sectors. In recent times, Chinese transnational companies like the Zhong Xing Telecommunication Equipment Company Ltd. (ZTE), China Mobile and the private multinational Huawei have made significant advances with affordable prices (Fantahun, 2013).

The Chinese telecom company, ZTE, which is owned by the Chinese Government has offered the Ethiopian telecom a credit (vendor financing) of 1.5 billion USD (Interview, Abdurahim* 2016; Alemayehu and Atnafu, 2011; EIC, 2014). However, this offer was conditional on ZTE doing the job without bidding. However, the Ethiopian telecommunication project, which is undergoing through the help of China, is going to enable Ethiopia to use 4G Broadband internet in Addis Ababa and other main cities. The Chinese Government has also provides another credit that amounts to 1.6 billion USD to carry out the Ethio-telecom coverage diversification and upgrading the network quality. Besides, starting from the past two years, the ethio-telecom developmental projects, which were monopolized by the Chinese company ZTE; have been shared among three different telecom companies. The two telecom companies who share ZTE's previous holdings are ZTE itself and Huawei from China and the remaining third telecom company is Ericson of Sweden (Interview, Abdurahim; 2016).

Chapter Four

4. Ethiopia-Chinese Economic Relationships; Expectation Vs Realities

4.1 General Framework

In recent years, the relation between Ethiopia-China saw a healthy and continuous development with a number of mutual visits at high levels and increasing interchange of personnel (EEA/EEPRI, 2009). The outcome of the relations in this regard signifies that China is playing a critical role in supporting the overall performance of the Ethiopian economy as it has become the fastest in the world after China and India. This is a challenging for the view of some critics who try to label the character of China`s policy in Ethiopia and other African countries as neocolonial, not partnership in reality (Fantahun, 2013).

The involvement of Chinese investment in Ethiopian economy has been very significant to Ethiopia. China`s support of Ethiopia`s development with provision of financial grants, large scale interest free loans, and zero-tariff treatment to large categories of Ethiopian exports to China have created opportunities for growth of the economy, creation of markets for export items, generation of foreign exchanges for investments and creation of jobs. The support of China by encouraging its banks to invest and contract projects in Ethiopia has helped to stir economic growth in the country. The Ethiopia-China relation has been directed towards advancing the Growth and Transformation Plan of the country, which aims at moving Ethiopia to the middle- income country by 2020 (Ibid).

Different researchers forward different reasons for the mutual relations between Ethiopia and China. Gedion (2009) is among these scholars who came up with identifying a number of factors that contributed for the growth of the Ethiopia-China relations which includes 1) Ethiopia needs China for economic assistance; as an alternative source to the west and China`s development is generally considered as a role model for Ethiopia. 2) China also supports Ethiopia on different international issues. On the other hand, there are several factors that encourage China to look towards Ethiopia especially in terms of Ethiopia`s strategic importance and market potential. 3) Ethiopia could be a commercial launch pad for Chinese companies and China is also getting diplomatic support from Ethiopia for its policy on Taiwan (One China policy). 4) There are also common factors both from Ethiopia and China`s side which have enhanced the bilateral relations (EEA/EEPRI. 2009).

Ethiopia-China relationships ties different have seen challenges. Gedion in his elaboration noted that, the major challenges are including, one the balance of trade is highly slanted in favor of China. Moreover, China is coming in as a donor and Ethiopia as a recipient much as it has been with the west. The scales are thus already tipped in China's favor making it difficult for Ethiopia to bargain a genuine partnership. Second, dumping of low priced Chinese goods such as textiles and clothing, industrial products, electronic devices and machines, which find a huge demand, is particularly an acute problem for Ethiopia. It has forced domestic Ethiopian producers out of business because they could not compete in terms of price. Third, China has become a major player in the field of infrastructure (roads, dams and power plants etc) and over 60 per cent of all construction (roads ,dams etc) are undertaken by Chinese Companies who have won tenders. It has the effect that the Chinese companies are underbidding local companies. This has enabled China to gain political influence, which often opens the doors to commercially or strategically more attractive business in other sectors too. Fourth, politically, one of the set of incompatible national interests in the relations between Ethiopia and China is the ideological variable. However, in the current Ethiopia-China relations ideology is not a big deal unless there are some changes in the future (Fantahun, 2013; Gedion, 2009).

The bright prospect of the relationship could be explained by different explanatory factors. In spite of such challenges, the relationship of the two countries has a bright future in different fields of partnerships. Such as, Ethiopia, need high technology and capital for its structural transformation, hence, from the ongoing experience, it is believed that China is willing to facilitate these issues. On the other hand China may in of cheap skilled human labour; similarly it is believed that Ethiopia will respond her in a positive way. of and both sides. Such kind of reciprocity can bring them bright future.

4.2 Ethiopia's Perspective

Developing countries including Ethiopia have for decades been trying to catch up with the industrialized high-income countries. Starting from the time World War II till the end of cold war era, which was dominated by western development thinking, governments have been advised to adopt import substitution policies, intervening to overcome market failures, and to accelerate industrialization. According to Lin and Wang (2015), during that time development thinking has been focused on what developing countries do not have and developed countries do (capital-intensive industries), on what developing countries cannot do well and developed countries can (Washington consensus policies and governance), and on areas that do not contribute directly to

structural change in developing countries but are viewed as humanitarily important by high-income countries (health and education) (Lin and Wang, 2015).

However, this western development thinking couldn't fit with the interest of developing countries developmental thinking and behavior. The western developmental thinking with its preconditioned aid couldn't bring developing countries out of dependency. Consequently, they couldn't be able to bring developmental change and take their people out of the vicious circle of poverty.

It is during this time that China came to developing countries with a new developmental thinking. The source of this new thinking is a Chinese professor of economics named Justin Yesuf Lin, Honorary Dean of the National School of Development at Peking University at present and former Chief Economic advisor of World Bank. Building on Adam Smith's insights and looking closely at the causes of structural change, Lin proposed a move to "development economics," which focuses on what developing countries have (their endowments) and areas in which they can do well based on their (latent) comparative advantage (as determined by their endowments), to allow them initiate a process of dynamic structural transformation (Lin and Wang, 2015) Pp, 1-25.

Based on the new Chinese home grown developmental thinking (dual track development approach), few developing economies that industrialized and grew dynamically after World War II (most of them in East Asia) followed an export oriented development strategy. Cambodia, China, Mauritius and Vietnam, who achieved stability and dynamic growth in their transition from a planned to a market economy, followed a gradual, dual track development approach rather than the shock therapy advocated by the Washington Consensus. They continued to protect firms in priority sectors while liberalizing entry in other labor-intensive sectors, which led them to structural changes which are more consistent with the countries' comparative advantages (Ibid).

China's development cooperation follows the logic of new structured economics by helping Africans to take small steps in agriculture, infrastructure, and labor-intensive light manufacturing sectors. Partial reforms through special economic zones (SEZs) can also help in structural transformation, as shown by China's experiences. Partner countries need to have more recent intimate "tacit" knowledge and experiences in order to be able to help in such an experimental approach because of industrialization endowment, institutional constraints, and similar human capital structure.

The role of SEZs or IPs has been proven by the successful experiences of the emerging markets. Specifically, investing in SEZs can; 1) provide a bundling of public services in a geographically concentrated area, 2) improve the efficiency of limited government funding/budget for infrastructure, 3) facilitate cluster development, or agglomeration of certain industries, 4) propel urban development and conglomeration of services, and thus 5) they are conducive for growth, job creation, and income generation (Lin and Wang, 2015).

Form the above explanations and the interview with Tadesse Haile, we can argue that it is at this moment which China becomes the right choice at the right time for Ethiopia, which has just embarked on a new path of massive economic and social development programs. China has presented a good case where a political leadership with vision and discipline can make a difference in developmental state. This becomes a good experience for Ethiopia and indeed many African states, which for many years have failed to assert their own path of development or the path they were forced to follow by western donors. Developing series of institutional reforms, along with China's financial support, and investment in vital sectors of the economy, such as infrastructure to open the potential of domestic products becomes good model for developing economy like Ethiopian (Interview Taddess, 2016; Lin and Wang,2015).

Furthermore, the Chinese business approach has been found very appealing to the interest of Ethiopia by comparison to Western aid providers who often come with conditionalities. Ethiopia found China as a good source of the badly needed investment capital, and a destination for its export market. Ethiopian has benefited from the Chinese generous grants, loans, debt forgiveness, credit facilities, infrastructural development, zero-tariff treatment for its export items, setting up of a special Economic Zones (SEZ) for manufacturing industries, human resource development and other forms of supports (Interview Abraham, 2016; Interview Taddess, 2016; Lin and Wang, 2015).

Having the constructive developmental experience from China with its economic supports, Ethiopia who had been at war for years with its backward agricultural economy, is trying to change its economic structure to industry. On its effort to bring industrial development using the Chinese experience of new developmental thinking (the dual track approach), Ethiopia provides protection to its firms in the priority sector areas like banks, insurances and telecommunication and liberalized other sectors that need modern technology, Capital and light manufacturing industry with labor-intensive approach, which can lead the country to structural change. Based on the

experience it gained from China, Ethiopia is developing seven special economic zones (SEZs) or industrial parks (IPs) in its different parts. This means far beyond experiment, Ethiopia is implementing the new dual-track development approach. Hence, the special economic zones are expected to focus on value-added industries and provide liberalized investment environments for investors. Furthermore, they will not exclusively provide for Chinese investors only but also to attract capital from other domestic or non-Chinese foreign investors.

Consequently, special economic zones/industry parks development strategy in Ethiopia centers on attracting foreign direct investment in the export-led and labor-intensive manufacturing sector. The Government is emulating the path of the East Asian countries that have successfully managed to use industrial parks (IPs) as a platform to catalyze their direct and domestic investment in creating jobs, generating exports, and foreign exchange. Focusing on the manufacturing sector, Ethiopia is prioritizing foreign direct investments in specific sectors like textile and garment, leather and leather products, agro-processing, and pharmaceuticals and chemicals. The imperative is to build on the country's agricultural foundations by moving towards new tradable products in manufacturing that absorb large numbers of skilled and semi-skilled young workers (Interview Abraham, 2016; Interview Taddess, 2016).

Furthermore, unlike western countries, China follows the principles of equality and mutual respect, reciprocity, mutual benefit, and non-interference of domestic affairs. Aside from adherence to the "One China" principle, no political strings are attached to China's cooperation. "China's Africa Policy" listed "learning from each other and seeking common development" as one of its principles guiding its engagement with the continent. This is a unique principle that no western donor has specified in their documents (Interview Abraham, 2016; Interview Taddess, 2016). According to Lin, on the struggle of bringing prosperous and development, China and other developing countries are partners, in climbing the same mountains; one cannot climb to the top alone without the help from the others. Likewise, in a globalized world, one country's success depends heavily on the wellbeing of its many partners. A good climber can help partners by pulling them up a step, but the good climber him/herself may also need to be "pushed up" in case of need. It is this reason why china is providing developmental cooperation for developing countries like Ethiopia and China gains economic benefits from its foreign direct investment companies in Africa based on mutual respect and equality (Lin and Wang. 2015).

As a result of this developmental cooperation between the two countries, Ethiopia gained different benefits. From the interview dealt with key informants and our own observation it is clearly distinguished that China has been financing infrastructure projects in Ethiopia to a significant extent targeted and addressed the countries bottlenecks and open the potential of domestic products and to construct the necessary infrastructures like hydro dam constructions, power stations and transmissions constructions, roads, rails, and telecom.

Additionally, Ethiopia gets concessional loans for the implementation of its different projects. For example, the Addis Ababa-Adama Expressway was among the projects funded by concessional loans from China. Some of the China's main commercial banks have also started providing businesses supporting credits and for hydropower stations construction in Ethiopia (Lin and Wang 2015).

4.3 China's Perspective

Fantahun (2013) Indicates that China's African strategy is believed to be guided by six factors. 1) Nurture and expand its geopolitical influence aiming at promoting its national interest. 2) Sustain access to the continent's rich natural resources. 3) To make inroads into African market of over a billion people that is expanding rapidly. 4) To enhance its own political legitimacy and standing in Africa on the basis of the 'One China Policy' in an attempt to marginalize the Taiwan dilemma. 5) To craft new axis for South-South Cooperation, with Africa as one of the key pillars of forces in building a power bloc under the leadership of China considering a global political balance (Fantahun, 2013; EEA/EEPRI, 2009).

In addition to the above general recommendation, China also has important interests in Ethiopia and hence attached importance to develop its relations with Ethiopia for many reasons: Firstly, as the source of the Blue Nile, the seat of the African Union and the meeting ground between predominantly Muslim North Africa and the Christian South, Ethiopia is situated at a strategic location and plays important role in African politics. Therefore, a number of exchange and visits by high level delegations have been successively conducted between the two countries since 1991. Secondly, the need for market: with a population of 81.5 million (according to UN publications), (at this moment Ethiopia's population is estimated to be over 96 million) Ethiopia offers potentially a very lucrative market for Chinese products, trading, and investment opportunities. Thirdly, China's interests in Africa including Ethiopia are guided primarily by economic imperatives using as a commercial launch pad. In this respect, Chinese engagement is little

different from western multinationals. In the wake of increased diplomatic and commercial interactions between China and Ethiopia, the latter has become a favored testing ground in which aspirant Chinese multinationals can fulfill their investment tests. Fourthly, the growing need for raw materials and oil to feed its double-digit economic growth: Ethiopia is one of the largest countries in Africa with a big population and is believed to have significant natural resources although very few have been identified (EEA/EEPRI, 2009).

In the international political sphere, Ethiopia also possesses a diplomatic and political strategic position as it is the seat of two major continental organizations, namely the African Union and the United Nations Economic Commission for Africa. Furthermore, the country is one of the hosts of the largest diplomatic missions and international organizations in the continent, with over 100 missions and fifty international and regional organizations. The country being the diplomatic capital of Africa and close to the resources rich Middle East and Europe provides ample opportunities for foreign investments and markets (Fantahun, 2013; EEA/EEPRI, 2009).

Furthermore, Africa`s natural resources for its emerging economy; the potential for Africa`s markets and growing economy; the availability of cheap labour; and importance of African support to the growing China`s influence as a global power could also be added on the list of motivating factors for China`s engagement in Ethiopia in particular and Africa in general (Fantahun, 2013).

Moreover, World Bank survey (2012), and other research outlets and my interview with Abraham Tekeste Deputy Commissioner of Plan Commission of Ethiopian, and Taddess Haile State Minister of Ministry of Industry of Ethiopia show that, there are four principal drivers of Chinese foreign direct investment in Ethiopia:

1. To take advantage of a good understanding of the investment climate gained from entrepreneurs` social networks. The social networks of Chinese investors function as a significant factor in making their investment decision in favor of Ethiopia. Potential investment opportunities seem to allow formal channels, such as the investment promotion agency or other government agencies. However, according to the key informants of the research, most Chinese investors get to know about the Ethiopian business environment through their personal connections with people who have already been doing business in Ethiopia.

2. To take advantage of the perceived opportunities provided by the current state of the Ethiopian economy; which includes the limited market capacity and market competition, cheap labor, cheap land, and an expanding Ethiopian market. In addition to World Bank's survey, Abraham and Taddesse indicated the increasing competition, intensified trade competition, rising labor costs, and currency appreciation in China have made it more and more difficult to do business in the Chinese market over the past years. At the same time, the production capacity in Ethiopia is still low, and the local market is rapidly expanding, making the market here looks very attractive for Chinese investors. In the manufacturing and service sector, cheap labor in Ethiopia is especially appealing (Interview Abraham, 2016; Interview Taddess, 2016).
3. To maximize cross-border investment incentives provided by the Ethiopian and Chinese governments. During the last decade, the Ethiopian Government has continuously provided foreign direct investment incentives, such as tax holidays and tariff-free policies for foreign direct investment equipment imports. On the other hand, the Chinese Government has also adopted the "China Go Global Policy," which awards Chinese firms investing abroad with tax credits in China. These incentives have proved to be a large motivation for Chinese firms' to invest in Ethiopia, especially for the manufacturing industry.
4. To make a strategic move of the parent company into the African market, and to exploit the favorable condition created by the stable political environment of Ethiopia for the firm to do business smoothly. Chinese construction firms for example favore the political stability of Ethiopia and perceives their presence in the country as an anchor for their business development in the East Africa region and beyond. (Interview, Abraham, 2015, Interview, Taddesse, 2015; Fantahun, 2013; World Bank, 2012,).

However, Chinese investment in Ethiopia has experienced by different obstacles: For example according to Mrs. Xu*, 1) the tax holding system of the country is not encouraging. 2) The foreign currency transaction and conversion, in combination with its uncertain provision, deter new investment and discourage existing Chinese investment firms increasing. 3) The Ethiopian shipping line multi-modal transport system is not competitive. 4) Processes to get admission of work permit for experts coming from outside Ethiopia are not easy. 5) With regard to developing special economic zones like the Eastern Industry Zone, as the result of the absence of one integrated law for private developers have negative influence by creating unnecessary bureaucracy

on the daily activities of the developer. 6) Another factor that can be considered as a bottleneck is related to the country's human development system. Ethiopian workers who are hired by Chinese invested companies have, much lower than the average education of Chinese workers. This means that, inadequate education and lack of training of Ethiopian workers, especially those in the manufacturing and construction sectors impede management communication and skill transfer (Interview Xu, 2016; World Bank, 2012,).

5. Analysis

In the last twelve years, the Ethiopian-Chinese relationship has grown stronger in terms of investment. The Chinese firms have been an important factor in: supply of manufactured goods from China, road construction, telecommunication, installation and construction of larger electric power stations and in the Ethiopian manufacturing sector. This success of Chinese companies might be explained by the economic ties of both countries. This shows that Chinese investments in Ethiopia are starting to make some impact and China's overall role in the Ethiopian economy is likely to grow from time to time. However, the Chinese firms in Ethiopia seem to be held back by lack of skilled labor and foreign exchange, which are areas that demand immediate attention from the Ethiopian government.

Compared to the previous developmental thinking of Ethiopia, which gives due attention to agriculture, the Economic development approach considers foreign direct investment in combination with the local investment to be an advantageous source of foreign capital and economic development of the country. For the reason that, foreign direct investment brings management, technology and access to markets, which have been lacking in Ethiopia for a long period of time, so the positive outcomes that result from the Chinese foreign direct investments and its experience of bringing out its people from severe poverty, are important for Ethiopia's economic as well as industrial development.

As it is clearly discussed in the above Chapters, the East Asian Development Model is believed to work in Ethiopia in the same ways it did in China. For this reason, the increase of Chinese foreign direct investment in manufacturing and exports oriented sectors are important steps towards economic development of Ethiopia. This indicates that Chinese government and private companies are supporting Ethiopia in several different ways, through the provisions of grants, concessional and soft loans, technical operation, human resources development and an overall economic development.

As a result, the Chinese investments have been increasing since 2000 and as mentioned in the empirical evidence, the Chinese owned investment reached 118 million USD in 2007 and 831 million USD or 18.3 billion birr in 2015, growing of averaging 15 million USD every year. This have made Chinese investments to be 20 per cent of Ethiopia's total foreign direct investment inflows and increased to 25 percent of the total FDI in the past twelve years. Furthermore, unlike to the western researchers thinking, China's foreign direct investment is not concentrated in resource seeking alone; it is instead concentrated in Ethiopia's need in the manufacturing sector, which covers over 68 per cent of Chinese foreign direct investment.

The efforts from the Ethiopian government and the current Chinese wave of private investments and cooperation is increasing labor-intensity in Ethiopia and that is one of the first steps towards industrialization. The manufacturing sector is the type of industry that is easiest for Ethiopia to absorb. The manufacturing sector has generally not been a large source of employment in Africa, but the sector has shown high rates of job creation in Ethiopia. As argued in the empirical evidence, the Chinese companies have permanently employed over 40,000 full-time Ethiopian employees at this moment. According to the information obtained from the Ethiopian investment commission and an interview with Chinese firms, most of the Chinese companies are providing formal training programs for Ethiopian workers and that they advance from the training programs. Altogether, Chinese firms had provided 43,674 regular jobs and almost 46,807 seasonal jobs in Ethiopia up to 2015. This shows that Chinese firms in Ethiopia's labor intensive manufacturing sector is creating jobs and contributing to a slowly emerging industrialization process.

Some Chinese companies are planning to expand their production and are recommending others to invest in Ethiopia. This indicates that, Ethiopia's relationship with China is based on mutual advantage and a commitment to a win-win situation that confirm the western researchers thinking is based on personal beliefs.

6. Conclusion

Many have been taking the Ethiopia-China relation as an opportunity for Ethiopia, while some consider it as a new phenomenon of neocolonialism, not a partnership. This study presents empirically based findings since 1998.

As it is indicated by Broadman (2013), the dramatic rise of Chinese trade and investment in Africa has sparked a backlash, with some critics going so far as to suggest that China's underlying motive

is colonization. The heated nature of this debate isn't surprising, since much is at stake for the welfare of 800 million Africans, including 300 million of the world's poorest people. But, in reality, the commercial relationship between China and Africa has nothing to do with colonization, and everything to do with economics and diplomacy. It is simply putting, as a case of one developing nation trading and investing profitably with other developing nations, based on mutual self-interest.

Following the end of the Cold War, new actions of change have brought new paradigm thinking about the need for global cooperation on development issues. In this context, Ethiopia has taken the advantage of the new developmental thinking from East Asian countries particularly China. Hence, the new developmental thinking that followed the end of the cold war has brought a moment of fortune for Ethiopia - China relationships and both the two countries began to understand and support each other in the path of their development.

Consequently, the period between 1998 to the present witnessed the rapid growth of economic cooperation between Ethiopia and China, and mutual support in the international arena for a just political and economic order. As a result, Ethiopia became one of China's major policy target areas, where China fully engaged to cooperate both politically and economically. Thus, China has been involving in overall Ethiopia's economic development efforts particularly in industrialization and industrial transformation.

Form the above explanations; we can understand that Ethiopia-China relationships are strong and likely to get stronger in strategic partnership. Increasingly, Ethiopia sees China as an alternative to the Western aid with political conditionality which is excessively left. As a result, the development assistance and project financing from the Chinese Government, including the financing of Ethiopia's mega projects, places China in a very important position in Ethiopia's development endeavors.

From the interview dealt with high Government officials and Chinese firms, and the experience Ethiopia gained from China, in combination with the performance of GTP I, we can understand that, the Ethiopian Government is making a concrete effort towards structural transformation in the economy where manufacturing is expected to play a prominent role. Ethiopia's goal is to become a manufacturing powerhouse focusing on light manufacturing industry for employment generation

and bring better life for the people. China's engagement in many light manufacturing industries in Ethiopia has significantly contributed to achieve this objective.

Findings of this study have also some policy implications that require attention in the process of the efforts to achieve structural transformation of Ethiopia and to further improve the living standards of its people. These include; Shortage of skilled manpower, inadequacy of foreign currency, complication of tax holding system, expensive and competitive shipping line multi-modal transport system, and unintegrated land law in leasing for private company developers.

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Annex 1

Investment Commission

Dear Sir/Madam

First of all, I would like to thank everyone participating in answering the questions listed in the questioner. The questioner is deliberately prepared for academic purpose only. There is nothing behind the outcomes of the research. Therefore, when you are participating in providing answer for the questions, it is to mean that you are co-operating me in a glance of free information for the academic fulfillment. Finally I would like to inform the respondent that, the time farm of the research question is from 1998 up to present. Thank you very much for your cooperation.

1. How many foreign and local companies have got investment licenses- from your organization to invest in Ethiopia since 1998?
2. How many of them are Chinese companies?
3. What capital amount do Chinese companies registered?
4. What is the current statue of Chinese companies in Ethiopia?

Operational Pre implementation Implementation

5. Which type of investment Chinese highly involving in Ethiopia?

- | | | |
|-------------------------------|--------------------------|------------------------------|
| a. Manufacturing | <input type="checkbox"/> | e. Textile and garment |
| b. Resource extraction | <input type="checkbox"/> | f. Metal & engineering |
| c. Infrastructure development | <input type="checkbox"/> | g. construction and Chemical |
| d. Technology | <input type="checkbox"/> | h. Pharmaceutical |
| i. Any other _____ | | |

6. How many of them are fully owned by Chinese firms and how many of them are joint venture?
7. How many of the Chinese companies are government sponsored (governmental companies) and how many of them are privately owned?
8. How much job opportunities do they create for citizens?

Permanent Temporary

Thank you for your cooperation

Annex 2

Ethiopian Road Authority

Dear Sir/Madam

First of all, I would like to thank everyone participating in answering the questions listed in the questioner. The questioner is deliberately prepared for academic purpose only. There is nothing behind the outcomes of the research. Therefore, when you are participating in providing answer for the questions, it is to mean that you are co-operating me in a glance of free information for the academic fulfillment. Finally I would like to inform the respondent that, the time farm of the research question is from 1998 up to present. Thank you very much for your cooperation.

1. In how many road construction projects do the Chinese firms participating in Ethiopia at this moment?
2. What worth does the contracting projects owned by Chinese firms (valued/ registered)?
3. What is the level of significant Chinese activities in road sector?
Low moderate high
4. What is the reason of your company to selecting Chinese companies compared to others?
 - Because of their low initial bid.
 - Because of Gov. Pressure.
 - Because your company believes these companies are competent.
 - Because these companies bring finance for the project.
 - Any other _____.
5. What is the level of significant Chinese firms do in capacity building and technology transfer in road and bridge construction sector?
Low moderate high
6. How many job opportunities do the Chinese firms create for citizens in this sector?
Permanent Temporary
7. Are there any claims regarding to the performance Chinese firms in terms of quality, scheduled accomplishment or other relative things coming to your office?
Yes No
8. If your answer for the above question is “Yes” what are the problems?
_____.
9. What measures does your office use to arrange the claims?
_____.

Thank you again!

Annex 3

Ethio –Telecom

Dear Sir/Madam

First of all, I would like to thank everyone participating in answering the questions listed in the questioner. The questioner is deliberately prepared for academic purpose only. There is nothing behind the outcomes of the research. Therefore, when you are participating in providing answer for the questions, it is to mean that you are co-operating me in a glance of free information for the academic fulfillment. Finally I would like to inform the respondent that, the time farm of the research question is from 1998 up to present. Thank you very much for your cooperation.

10. In how many telecom projects do the Chinese firms participating in Ethiopia?

11. What worth does the contracting projects owned by Chinese firms (valued/ registered)?

12. What is the level of significant Chinese activities in road sector?

Low moderate high

13. What is the reason of your company to selecting Chinese companies compared to others?

- Because of their low initial bid.
- Because of Gov. Pressure.
- Because your company believes these companies are competent.
- Because these companies bring finance for the project.
- Any other _____.

14. What is the level of significant Chinese firms do in capacity building and technology transfer in hydro dam construction, power transmission and power substation construction sector?

Low moderate high

15. How many job opportunities do the Chinese firms create for citizens in this sector?

Permanent Temporary

16. Are there any claims regarding to the performance Chinese firms in terms of quality, scheduled accomplishment or other relative things coming to your office?

Yes No

17. If your answer for the above question is “Yes” what are the problems?

18. What measures does your office use to arrange the claims?

Thank you again!

Annex 4

Ethiopian Electric Authority

Dear Sir/Madam

First of all, I would like to thank everyone participating in answering the questions listed in the questioner. The questioner is deliberately prepared for academic purpose only. There is nothing behind the outcomes of the research. Therefore, when you are participating in providing answer for the questions, it is to mean that you are co-operating me in a glance of free information for the academic fulfillment. Finally I would like to inform the respondent that, the time farm of the research question is from 1998 up to present. Thank you very much for your cooperation.

19. In how many electric construction projects do the Chinese firms participating in Ethiopia at this moment?
20. What worth do the contracting projects owned by Chinese firms (valued/ registered)?
21. What is the level of significant Chinese activities in road sector?
Low moderate high
22. What is the reason of your company to selecting Chinese companies compared to others?
➤ Because of their low initial bid.
➤ Because of Gov. Pressure.
➤ Because your company believes these companies are competent.
➤ Because these companies bring finance for the project.
➤ Any other _____.
23. What is the level of significant Chinese firms do in capacity building and technology transfer in hydro dam construction, power transmission and power substation construction sector?
Low moderate high
24. How many job opportunities do the Chinese firms create for citizens in this sector?
Permanent Temporary
25. Are there any claims regarding to the performance Chinese firms in terms of quality, scheduled accomplishment or other relative things coming to your office?
Yes No
26. If your answer for the above question is “Yes” what are the problems?
_____.
27. What measures does your office use to arrange the claims?
_____.

Thank you again!

Annex 5

Summary of Licensed Foreign Direct Investment projects By Year and Status

Since August 22, 1992 - November 05, 2015 G.C

Year	Total	Pre-Implementation	Implementation	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
1992	3			3	153,876	693	0
1993	2			2	87,658	1,099	0
1994	3			3	309,399	2,356	0
1995	5	1	1	3	57,276	128	300
1996	19		2	17	406,451	2,283	255
1997	32	2	5	25	931,220	3,763	335
1998	24	2	7	15	623,255	1,580	3,016
1999	15		2	13	449,114	1,349	162
2000	27	2	3	22	923,517	4,591	2,278
2001	28		14	14	1,478,890	3,223	1,844
2002	22	1	1	20	530,099	1,814	1,577
2003	117	7	19	91	1,413,216	6,944	8,615
2004	223	22	38	163	3,588,377	9,733	19,522
2005	247	16	35	196	2,803,819	7,289	11,789
2006	296	30	57	209	10,405,661	17,865	17,780
2007	408	51	82	275	6,256,499	94,679	125,983
2008	476	54	125	297	6,205,663	34,394	39,101
2009	428	65	120	243	11,470,560	18,277	21,444
2010	430	56	192	182	7,765,386	10,036	12,404
2011	329	100	78	151	13,685,829	9,269	12,659
2012	617	361	74	182	6,762,359	7,900	4,452
2013	743	486	129	128	6,825,019	10,678	7,238
2014	354	196	77	81	4,860,523	8,033	1,818
2015	330	279	25	26	231,676	6,708	942
Grand Total	5,178	1,731	1,086	2,361	88,225,341	264,684	293,514

Source: - Investment Commission of Ethiopia 2016

Annex 6

Summary of Licensed Foreign Direct Investment projects By Region and Status Since August 22, 1992 - November 05, 2015 G.C

Region	Total	Pre-Implementation	Implementation	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
Addis Ababa	2,656	767	448	1,441	32,696,754	74,303	65,154
Afar	25	7	7	11	383,369	841	1,995
Amhara	206	83	60	63	9,049,901	19,481	15,190
B.Gumze	37	18	11	8	186,372	315	2,274
Dire Dawa	57	27	18	12	860,643	1,474	242
Gambella	32	23	3	6	1,059,662	474	3,600
Harari	10	7	2	1	2,500	5	5
Multiregional	308	85	74	149	3,998,598	89,406	110,182
Oromia	1,575	601	394	580	35,945,713	66,095	64,532
SNNPR	166	69	38	59	2,590,733	6,280	22,041
Somali	25	15	8	2	25,000	2,022	2,050
Tigray	81	29	23	29	1,426,096	3,988	6,249
Grand Total	5,178	1,731	1,086	2,361	88,225,341	264,684	293,514

Source: - Investment Commission of Ethiopia 2016

Annex 7

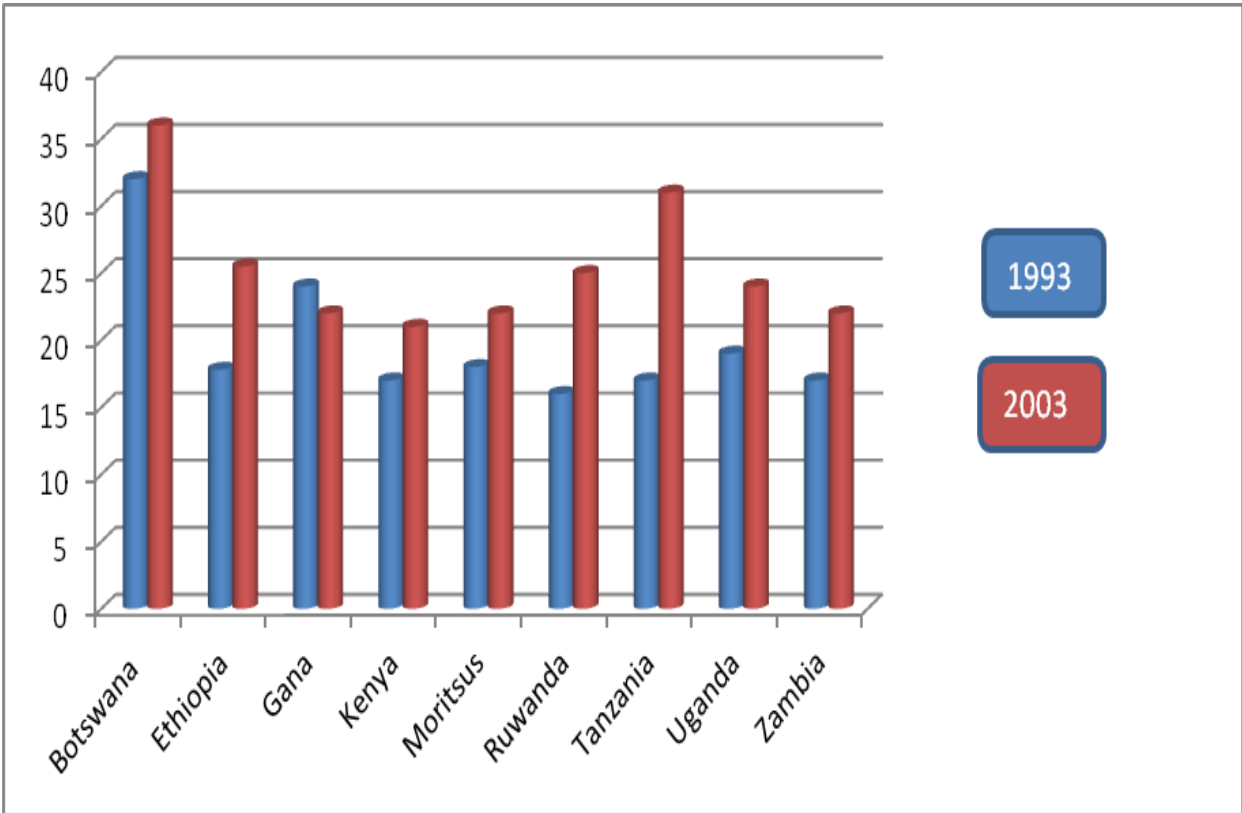
Summary of Licensed Foreign Direct Investment projects
By Sector and Status
Since August 22, 1992 - November 05, 2015 G.C

No	Sector	Total	Pre-Implementation	Implementation	Operation			
		No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
1	Agriculture	827	340	224	263	8,342,655	122,349	183,159
2	Manufacturing	2,252	781	460	1,011	60,297,438	102,094	50,148
3	Mining	30	6	6	18	568,728	815	327
4	Electricity (Generation, Transmission and Distribution)	4	3		1	1,000	10	5
5	Education	119	33	32	54	377,313	2,122	1,119
6	Health	104	16	37	51	318,336	1,615	327
7	Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants	290	104	64	122	1,684,545	3,680	2,293
8	Tour Operation, Transport and Communication	131	44	25	62	216,203	760	438
9	Real estate, Machinery and <i>Equipment</i> Rental and Consultancy Service	965	265	130	570	6,248,108	11,986	12,897
10	Construction Contracting Including Water Well Drilling	371	128	88	155	9,511,918	17,746	37,380
11	Others*	85	11	20	54	659,097	1,507	5,421
	Grand Total	5,178	1,731	1,086	2,361	88,225,341	264,684	293,514

Source; Ethiopian Investment Commission November, 2015

Annex 8

Investment performance of Ethiopia comparing with other African Countries



Annex 9

Summary of Licensed Chinese Investment projects By Sector and Status Since August 27, 1998 - November 27, 2015 G.C

Sector	Total	Pre- Impleme ntation	Impleme ntation	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
Agriculture	18	12	4	2	3,509	40	40
Manufacturing	716	271	92	353	12,781,139	28,538	14,053
Mining	5	1	1	3	36,500	58	42
Education	1			1	530	6	4
Health	13	2	1	10	15,417	60	42
Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants	43	16	3	24	62,656	400	275
Tour Operation, Transport and Communication	7		1	6	11,793	185	48
Real estate, Machinery and <i>Equipment</i> Rental and Consultancy Service	129	28	12	89	858,648	6,247	7,254
Construction Contracting Including Water Well Drilling	121	26	26	69	4,470,721	8,080	24,809
Others*	4	1	1	2	52,000	60	240
Grand Total	1,057	357	141	559	18,292,914	43,674	46,807

Sources; Ethiopian Investment Commission 2015

Annex 10

Summary of Licensed Chinese Investment projects By Year and Status Since August 27, 1998 - November 27, 2015 G.C

Year	Total	Pre-Implementation	Implementation	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
1998	1			1	10,277	54	8
1999	1			1	27,412	14	40
2000	1			1	5,325	68	0
2001	2			2	25,682	310	0
2002	1			1	7,921	30	0
2003	24	1	3	20	143,088	740	485
2004	25	2	5	18	442,478	1,183	2,213
2005	33	2	3	28	125,163	733	943
2006	59	3	5	51	1,354,056	6,161	7,683
2007	84	2	8	74	1,529,139	2,528	5,030
2008	98	7	6	85	2,068,125	8,104	14,320
2009	86	5	19	62	2,014,141	3,200	3,772
2010	56		18	38	1,537,945	2,566	2,027
2011	48	7	8	33	1,166,982	3,843	3,861
2012	104	48	8	48	923,619	1,689	665
2013	214	138	24	52	5,456,076	4,666	4,107
2014	93	38	25	30	1,330,192	1,386	838
2015	127	104	9	14	125,294	6,399	815
Grand Total	1,057	357	141	559	18,292,914	43,674	46,807

Source: - Investment Commission of Ethiopia 2016

Annex 11

Summary of Licensed Chinese Investment projects By Country of Origin and Status Since August 27, 1998 - November 27, 2015 G.C

Country of Origin	Total	Pre- Implement ation	Implement ation	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
Australia/China	1	1					
Australia/China/Ethiopia	1			1	57,000	10	15
Canada/China	3		1	2	3,000	30	10
Canada/China/Ethiopia	2		1	1	3,800	10	2
China	895	320	106	469	14,806,245	33,074	40,613
China/Ethiopia	128	29	28	71	2,721,546	8,403	4,757
China/Finland	2			2	6,871	275	15
China/France	2		1	1	12,193	42	0
China/Hongkong	1	1					
China/India	1			1	481,835	241	
China/Italy	2			2	92,263	1,100	1,050
China/Malaysia/Ethiopia	1		1				
China/Netherlands	1			1	1,000	100	10
China/Pakistan	1			1	1,500	40	10
China/Saudi Arabia	1		1				
China/Singapore	1	1					
China/South Africa	1			1	45,000	71	130
China/Sri Lanka	1		1				
China/Sudan	1			1	7,500	10	30
China/Tanzania	1	1					
China/Turkey	1	1					
China/UAE	1			1	1,980	30	5
China/USA	2	1		1	10,117	5	30
China/USA/Ethiopia	5	1	1	3	41,064	233	130
France/China	1	1					
Grand Total	1,57	357	141	559	18,292,914	43,674	46,807

Source: - Investment Commission of Ethiopia 2016

Annex 12

Summary of Licensed Chinese Investment projects
By Year and Status
Since August 27, 1998 - November 27, 2015 G.C

Year	Total	Pre-Implementation	Implementation	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
1998	1			1	10,277	54	8
1999	1			1	27,412	14	40
2000	1			1	5,325	68	0
2001	2			2	25,682	310	0
2002	1			1	7,921	30	0
2003	24	1	3	20	143,088	740	485
2004	25	2	5	18	442,478	1,183	2,213
2005	33	2	3	28	125,163	733	943
2006	59	3	5	51	1,354,056	6,161	7,683
2007	84	2	8	74	1,529,139	2,528	5,030
2008	98	7	6	85	2,068,125	8,104	14,320
2009	86	5	19	62	2,014,141	3,200	3,772
2010	56		18	38	1,537,945	2,566	2,027
2011	48	7	8	33	1,166,982	3,843	3,861
2012	104	48	8	48	923,619	1,689	665
2013	214	138	24	52	5,456,076	4,666	4,107
2014	93	38	25	30	1,330,192	1,386	838
2015	127	104	9	14	125,294	6,399	815
Grand Total	1,057	357	141	559	18,292,914	43,674	46,807

Source: - Investment Commission of Ethiopia 2016

Annex 13

Summary of Licensed Chinese Investment projects By Region and Status Since August 27, 1998 - November 27, 2015 G.C

Region	Total	Pre-Implementation	Implementation	Operation			
	No of Projs	No of Projs	No of Projs	No of Projs	Capital in '000' Birr	Perm Empl.	Temp Empl.
Addis Ababa	651	207	78	366	6,450,237	22,633	32,904
Afar	2			2	1,800	5	35
Amhara	20	10	4	6	521,049	1,813	1,974
B.Gumze	1	1					
Dire Dawa	8	2	2	4	487,341	767	153
Gambella	2	2					
Multiregional	42	3	4	35	405,591	1,731	2,198
Oromia	317	127	52	138	10,183,272	16,165	9,079
SNNPR	7	2	1	4	133,527	450	401
Somali	1	1					
Tigray	6	2		4	110,097	110	63
Grand Total	1,057	357	141	559	18,292,914	43,674	46,807

Source: - Investment Commission of Ethiopia 2016

Annex 14

Industry Zones under review/development in Ethiopia

Location/Name	Size	Focus	Shareholder
Addis Ababa, Bole Lemi Industrial Zone	156 ha (phase I) and 186 ha (phase II)	Textile and garments, leather processing, shoe production	Government of Ethiopia, World Bank
Dukem, Eastern Industrial Zone	200 ha	Construction materials, leather processing, textiles and garments, car assembly, services	Private, Qiyuan Group, China
Addis Ababa, Kilinto Industrial Zone	308 ha	Agro-processing, food, beverage, pharmaceutical	Government of Ethiopia, World Bank
Addis Ababa, Ethiopia-China Dong Guan International Light Industry zone	137 ha	Mixed use, leather processing, shoe production, textile and garment	Private, Huajian, China
Finfine, Sendafa Industrial Zone	100 ha	Textile and garment, warehouse and logistics	Private, Akgün Group, Turkey
Dire Darwa	1050 ha	Textile, cement production, textile and garment, consumer products, warehouse and logistics	Government of Ethiopia, (Chinese consortium) ²⁴
Hawassa	1000 ha,	Agro-processing, textile and garment production	Government of Ethiopia (Chinese consortium)
Kombolcha	1100 ha	Consumer products, leather and leather products, textile and garment production, warehousing,	Government of Ethiopia, (Chinese consortium)
AkakiKaliti	330 ha	Textile and garment, leather products, agro-processing	Government of Ethiopia
MekanisaLebu	No data	No data	No data
Legetafo	No data	No data	No data

²⁴ China Civil Engineering Construction Corporations (CCECC), China Railway Engineering Corporation (CREC), China Communications Construction Company (CCCC) and China Overseas Construction Group Company (CGCOC).

Source: - United Nations Development Program (UNDP) Working Paper No. 06.2015

Annex 15

Industrial parks operated or owned by IPDC (Brochure Industrial Parks Development Corporation, 2015)

Name of park	Site & Location from Addis Ababa	Km from Addis Ababa	Km to Djibouti Port	Delimited Land (ha)	Phase I	Eligible industries (only major ones)	Completion period of Phase I	Status
Addis Industry Village	Addis Ababa	-	863	8.7	8.7	Apparel	2012	Operational
Bole Lemi I	Addis Ababa	-	863	156	156	Apparel	2014	Operational
Bole Lemi II	Addis Ababa	-	863	186	186	Textile & apparel	2017	Detail design phase
Kilinto	Addis Ababa	-	863	337	337	Food processing, pharmaceuticals, furniture, household appliances, electronic & electrical	2017	* at starting point of operation
Hawassa	South	275	998	300	100	Textile & apparel	2016	*Ready to be operational
Dire Dawa	East	473	380	1500	150	Textile & apparel, vehicles assembly, food processing	2016	Under construction
Kombolcha	North East	380	480	700	50	Textile & apparel, food processing	2016	Open for bids
Mekelle	North	760	750	1000	50	Textile & apparel, food processing	2016	Open for bids soon
Adama	South East	74	678	2000	100	Textile & apparel vehicles assembly, food processing	2016	Feasibility study phase
Bahir Dar	North West	578	985	1000	50	Textile & apparel, food Processing	2016/2017	Feasibility study phase
Jimma	South West	346	1098	500	50	Textile & apparel, food processing	2016/2017	Feasibility study phase

Source: - Boere, Auke, Maryn Kleingeld and Dawit Kidane, 2015.

Annex 16

List of Key Informants

No	Name	Organization	Position	Date, Place and Date of the Interview
1	Taddesse Haile	Ministry of Industry	State Minister	February 2016
2	Abraham Tekeste	Plan Commission of Ethiopia	Deputy Commissioner	January 2016
3	Abdurahim Mohamed	Ethio-telecom	Communication Directorate General Manager	February 2016
4	Gashaw Aichilihum	Sugar Corporation	Communication Directorate General Manager	April 2016
5	Samson Wendimu	Ethiopian Road Authority	Communication Directorate General Manager	March 2016
6	Xu Yang	East industry zone	Administration & Hr Manager	April 2016
7	Adugna	East industry zone	Administration	April 2016
8	Song Yi Ping	Huajian Shoe Factory (EIZ)	Senior Manager	April 2016
9	Investment commission of Ethiopia			

Annex 17

Questions for interview

1. How important is Chinese FDI to Ethiopian industrialization?
2. Ethiopia had long standing relations with European countries (that counts hundreds of years). Comparing with the Ethiopia-China relation, what unique characteristic does it have?
3. Some says China's economic engagement in Ethiopia and other African countries is a new type of Neo-colonialism. How China could colonize a country which has never been captured in its past history?
4. Some other says again Ethiopia considers China as an alternative partner to Europe and USA. Is China really a right choice to be developmental partner?
5. There is a literature that says China is denting Africa's industrial development by making them depend on the natural resources. What is your reaction to such conclusion?
6. Is China's experience of industrial transformation feet with the Ethiopian industrial development strategy?
7. Why is Ethiopia focus on China to share developmental experiences? Or What attracts Ethiopia to focus on Chinese experiences).
8. On the other side, what reasons attract Chinese firms to invest in Ethiopia?
9. What are the gains and pains Ethiopia achieve from the Ethiopia-China relationship? Or From Chinese foreign direct investment?

Thank you very much for every information you provide me!