Scoping Study on the Chinese Relation with Sub Saharan Africa:
The Case of Ethiopia

AERC Scoping Study

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I. Introduction

Following their accession to the World Trade Organization (WTO) and spectacular growth, China and India are gaining attention in the African economy, including Ethiopia, as important trade partners. As Alden(2003) puts it, "at a time when the world seems preoccupied by events in the middle east and the 'global war on terror', China's growing engagement in Africa has gone little noticed in the west" (Alden ,2003:147.) Yet in a span of less than a decade trade between the regions has increased from US$10 billion in 2000 to US$28 billion in 2005. Over the last 20 years, China has grown at the rate of nearly 10 per cent per annum, driven primarily by an expansion of the modern, industrial export oriented sector. With some 20 million Chinese workers moving from rural underemployment to the modern sector annually, the impact is akin to adding another middle sized-industrial economy to the world economy each year as noted by Eichengreen *et al* (Eichengreen *et al*, 2004)..

China's and Indian emergence over the last decade as key net importers of commodities from Africa means that global commodity markets are likely to be the main channels through which the impact of China and India's ascendancy has been (and will be) felt on the African continent (Eichengreen *et al*, 2004). Ethiopia is not exception to this impact. Chinese investment and Ethiopia's trade with China and India is growing at a very accelerated rate, making the Ethiopia's export to China about 15 per cent of its total exports today which was none five years ago. Today one can even find a private school that teaches the Chinese language in Addis Ababa.

This Chinese and Indian engagement in the Ethiopian economy has both challenges and opportunities for Ethiopia. The challenges could be that i) Ethiopian firms which export labor- intensive manufactures may face competition in the third market and ii) local producers of labor-intensive manufactures could be displaced from the local market. This competition is severe in textile and footwear manufacturing sector in particular.

The use of Chinese contract labor, rather than local workers in some of Chinese-sponsored projects in Ethiopia a couple of years ago has been criticized locally (see also Alden: 157). In the construction and the energy sector, Chinese involvement in telecommunication, road and power plant construction projects through very low initial bid-prices (as well as offering credit to finance such projects) has been displacing both local and other foreign construction firms (Notwithstanding, for example in the case of power plants, the fact that the very low initial entry bid-prices are off- setted by high operational costs when the projects start operation; and the fact that Chinese big credits are almost at commercial terms).

On the other hand there are also opportunities from engagement of Ethiopia with China and India. As in other African countries domestic consumers are getting cheaper imports of China and India, albeit at cost of low quality. The Chinese in particular are building big power plants, constructing roads and are in the process of hugely engaging and financing (to the tune of US$1.5 billion in vendor financing for Ethiopian telecom) in the telecommunication sector. They are also supplying cheaper machineries for producers. Notwithstanding such anecdotal information there is no well documented study about the scope and impact of this trade, investment and aid relations between China/India and Ethiopia on the Ethiopian economy. This study attempts to redress this gap by conducting a scoping study about the relationship between one of the Asian driver, China, and Ethiopia through the vector of trade, investment and aid[1].

This study has utilized primary and secondary data. The primary data refers to the discussion that we carried with experts and some stake holders at various ministries. The secondary data is obtained from UN Comtrade for lack of data for the year 2006 as well as from relevant local ministries. We have compiled the majority of the secondary information from various ministries and parastatals (such as Ministries of Industry, Ministry of Foreign Affairs, Ministry of Finance and Economics Development, Ethiopian Telecommunication Authority, Ethiopian Road Authority, Ethiopian Investment Authority as well as Ethiopian Electric Power Authority). Although we have collected all information available about China from these institutions, we have used only that information relevant for the scope of this study.

The rest of the paper is organized as follows. In section two we will briefly review the cooperation agreement between China and Ethiopia. This is followed by section three where we deal with the economic relation between the two countries focusing on investment, trade and aid. Section four concludes the paper.

II. An Overview of Cooperation Agreement between Ethiopia and China

On November 24, 1970, the People's Republic of China and Ethiopia issued the joint communiqué on the establishment of the diplomatic relations of the two countries. After the setting up of this diplomatic relations it has seen an overall good relationship between the two countries. In recent years, the relation between the two countries 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.

[1] An in-depth study about China and Ethiopia may proceed at two stages. In the first stage, which is the 'Scoping Study' stage, the information collected in the context of this study will be analyzed with the aim of drawing immediate policy implications of the issue at hand. In the second stage of the study 'an in-depth-study' which attempt to place this in the context of the other African countries as well as in the context of the global research and political economy of African relations with China and India could be made. An attempt to link this latter study with theoretical frameworks such as the flying-gees model, gravity model as well as value chain analysis could also be made. This may require a comprehensive survey of all the activities of China and India in Ethiopia at firm level.

This joint visit has led to a number of cooperation agreements between the two countries that cover a wide area of cooperation such as those in the fields of culture, science and technology, education and military affairs. The most important one being the one signed in 1988.

From 1974 to 2002, China sent a total of 12 batches of medical team to Ethiopia (suspended during the period of 1980 - 1985) with each batch consisting of 15 medical personnel. In 2000, the ministries of agriculture and education of the two countries reached agreements for developing vocational education and training. Since June 2001, China has sent batches of teachers for vocational education to be employed by Ethiopia for the short-or-long-term training of its backbone teachers and students. Now there are 49 Chinese teachers specialized in rural vocational education and 23 Chinese teachers for urban vocational education teaching in Ethiopia.

Starting from 1988, every year China provided 10 scholarships for Ethiopian students to study in China. Up to the year 2002, the Ethiopian students studying in China numbered 69 in all according to the information from the Chinese Foreign Ministry in October 2006. Recently, this has been scaled up and in the year 2007 alone over 50 teachers have gone on scholarship to China. On top of this China has built a technical/vocational college in the capital, Addis Ababa, and handed it over to the government in late 2007. In brief, the most important cooperation agreement signed by both parties includes:

- 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).

III. Economic Relations between China and Ethiopia

Chinese engagement in the Ethiopian economy is being intensified from time to time. The degree of this intensification differs across sectors, however. Diplomatic and economic relation between China and Ethiopia is not new, as we attempted to present above, but has a long history. However, these ties were limited to minimal aid and manpower training during 1974 -1992 when Ethiopia was under the socialist system which was pretty much oriented to the Soviet Union version of Socialism. The engagement in the economic arena emerged following the market oriented economic system (liberalization) introduced in Ethiopia in the year 1992. Chinese investment in Ethiopia first appeared in manufacturing sector where the government of Ethiopia followed a policy of management leasing of government parastatals with aim of boosting efficiency, following the government's 1992 liberalization policy. A number of Chinese firms began to seize this opportunity. They took over the management contract of a number of public producer firms on lease basis, largely, with the intention of exploiting the preferential treatments of Ethiopia in the industrialized countries, such as the African Growth and Opportunity Act (AGOA) in the USA.

3.1 Investment

Following the cooperation agreements that began in early 1970s that we alluded about above, China has built for Ethiopia highways, veterinary station, power stations and water-supply projects and similar other projects. The Chinese companies started to take up such undertakings intensively in Ethiopia since 1986. The major Chinese companies carrying out businesses in Ethiopia, in addition to a number of small firms, include:

- China Imports and Exports (Group) Corporation for Complete Sets of Equipment,
- China Highway Bridge Engineering (Group) Corporation,
- China Water Conservancy & Hydropower Engineering Corporation,
- China Aviation Technology Exports and Imports Co.,
- China Wanbao Engineering Co.,
- China Construction Corporation,
- Zhongyuan Petroleum Prospecting Bureau,
- Jiangxi International Co. and
- Dalian Jinzhou Textile Group, as well
- The Chinese public telecom giant ZTE Telecom, etc.

Table 1: China's share of Ethiopia's Foreign Direct Investment (2000-2006, in Millions of US $: 1US$=10.00 Ethiopian Birr, Feb 2008)

		2000	2001	2002	2003	2004	2005	2006	2007
Agriculture	Under Implementation & in Operation	0	0	0	0.23	0	0	0	0
	Pre-Implementation	0	0	0	0	1.59	0	1.26	2.52
Manufacturing	Under Implementation & in Operation	1.46	5.56	0.79	15.04	55.32	6.49	1.81	0.09
	Pre-Implementation	0	0.9	0	3.07	4.03	20.34	16.36	122.08
Construction	Under Implementation & in Operation	0.53	0	0	1.31	39.89	6	0.26	0
	Pre-Implementation	0	0	0	0	0	0.4	34.24	15.36
Education and Health	Under Implementation & in Operation	0	0	0	0	0.05	0.2	0.09	0
	Pre-Implementation	0	0	0	0	0	0.3	0.49	0.7
Hotel and Restaurant	Under Implementation & in Operation	0	0	0	0.56	0.1	0.31	0.1	0
	Pre-Implementation	0	0	0	0	2.15	0.3	0.9	10.75
Mining	Under Implementation & in Operation	0	0	0	0	6	0.09	0	0
	Pre-Implementation	0	0	0	0	0	0	4.68	2.2
Real estate, renting and business activities	Under Implementation & in Operation	0	0	0	0	6	1.98	2.84	0.09
	Pre-Implementation	0	0	0	0.14	0	0.59	6.1	10.66
Total FDI from China	Under Implementation & in Operation	2	5.56	0.79	17.14	107.36	15.07	5.1	0.18
	Pre-Implementation	0	0.9	0	3.2	7.77	21.92	64.03	164.26
Total FDI to Ethiopia	Under Implementation & in Operation	130.65	221.91	76.03	245.26	481.73	236.97	207.8	1.14
	Pre-Implementation	44.21	80.3	146.8	186.57	470.65	1731.89	4236.41	3875.59
China's Share of Total FDI to Ethiopia	Under Implementation & in Operation	1.5	2.5	1.0	7.0	22.3	6.4	2.5	15.7
	Pre-Implementation	0.0	1.1	0.0	1.7	1.7	1.3	1.5	4.2

Sources: Author's computation based on Ethiopian Investment Authority data.

Table 1 shows the trend of FDI from China directed to the various sectors. As can be read from this table, the Chinese FDI in Ethiopia is growing very fast. Currently it constitutes about 15% of the total foreign owned projects in Ethiopia that are under implementation and in operation. This share had reached as high as 22% in the year 2004. In the last five years Chinese FDI in Ethiopia constitutes about 11% of the total foreign owned projects under implementation and in operation in Ethiopia. Chinese share of foreign projects in the pre-implementation stage (which includes getting registered in Ethiopian and applied for license) is also about 4 % in 2007. In terms of sectoral preferences, the

Chinese firms are consternated, in their order of importance, in the manufacturing, construction and real estate sectors.

In addition to such direct investment, Chinese firms are also active in major investment activities that are being carried by the government of Ethiopia, especially in infrastructure. The information about the value of Chinese total contract amount in road construction, electricity and telecommunication sectors obtained from the Ethiopian Road Authority, the Ethiopian Electric Power Corporation and the Ethiopian Telecommunication Corporation shows a surge in Chinese share in the last five years. In the power sector, an important project contract worth mentioning is the winning by the Chinese Company of a contract worth some 224 million US dollars to build one of the biggest power stations in the county -the *Tekeze* Hydro Power Project - in northern part of Ethiopia in 2002. Similarly Chinese firms are dominating in wining big projects in Ethiopian telecommunication and road sectors. One of the biggest Chinese telecom company, ZTE, which is owned by the Chinese government has offered the Ethiopian telecom a credit (vendor financing) to the tune of 1.5 billion US$. This offer is conditional on ZTE doing the job without bidding. This credit is perhaps equivalent to the total current worth of the Ethiopian telecom monopoly, which is also publicly owned. Chinese firms are also dominating both rural and urban road construction in Ethiopia. This dominance has been accelerating in the last two years. Our observation reveals that this dominance is partly due to low bid prices offered by the Chinese firms and partly owing to the diplomatic and political ties the Chinese government made with the Ethiopian government. 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.

Recent development as regards to the Chinese involvement in the telecommunication sector in Ethiopia witnessed that in the decades to come, the development both in quality and quantity of the Ethiopia's telecommunication utility is going to be guided by what is happening in China in connection to this technology. This is because once the existing telecommunications equipment is replaced by Chinese new equipment is at cheaper prices, as the nature of the technology from China is such that it is not easily compatible with others or cannot be retrofitted to other technologies easily during operations, by necessity, China will have the monopoly position to deliver spare parts and related after sale services for the years to come, perhaps at a price much higher than the market supply price for similar quality product. The venture is also a good training ground for Chinese firms to work in other African/developing countries. Our discussion with some of our informants a the Telecommunication Corporation reveals that it seems that the Ethiopian government officials are concerned only with short run issues related expansion of the telecommunication infrastructure without worrying about the long-run operational costs, quality and related issues. It was also transpired in our discussion that the Chinese are well organized, with skilled personnel and skilled negotiators while the Ethiopians are in bad shape in all these areas of expertise when such deals are negotiated and agreed upon, not to mention the political mussel of the Chinese over the Ethiopian telecom experts owing to their connection with the top Ethiopian government officials. Thus, the initial condition between China and its counterpart in Africa, as demonstrated by the Ethiopian case, determines how much an African country may benefit from its economic engagement with China. It is also fair to infer that what is happening in Ethiopian telecom could be found in all big projects that Chinese firms run in collaboration with both the Ethiopian government and the African governments at large.

In the transport sector, Chinese have totally dominated the Ethiopian scene. Major Asphalt roads in recent years are being constructed by Chinese companies. There are about ten Chinese firms engaging in the construction of roads throughout the country. These firms' engaged on about 60 percent of the road works currently being carried out in the country. This is again as a result of minimum bid price they offer and innovative financing mechanisms they come up with. But high Chinese involvement is not going without complain. Some of the complains are related to 1) the quality of the construction undertaking itself; 2) the remuneration to the local labor which is far below the standard expected for 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 opportunity 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. Chinese use this opportunity to import technically outdated equipment which after the projects in Ethiopia are completed, invariably does not give significant service. Finally, (5) regarding the Chinese projects, it is reported that the standard of the Chinese labor (and also products) is by far below the international standard (for example, in terms of sanitation, and water supply facilities). The Chinese are also using their connection with top government official- political muscle - to crowd out domestic firms (perhaps the authorities may prefers to deal with the Chinese than domestic firms to get unnoticed in whatever they are doing – this however, hampers technology transfer from Chinese to African firms). Invariably Chinese firms that won big contracts are seen remaining in Ethiopian by opening offices and local subsidiaries of their company in the course of their first project in Ethiopia. The latter may have both benefits and costs that need closer examination.

Notwithstanding these problems the Chinese are building excellent roads, electric power stations, engaged in oil exploration and similar productive ventures in Ethiopia from which Ethiopia is benefiting. It is interesting to ask whether this pattern of Chinese engagement affects the pattern of investment and investment policy in Ethiopia. On the positive side, Chinese investment in Ethiopia could facilitate investment in Ethiopia through the provision of infrastructure (in relatively short time) and affordable and appropriate technology to local firms. In fact the investment data in the last five years shows a growing number of Chinese-Ethiopian joint ventures. They also seem to teach work ethics to some Ethiopian firms and their employees. The negative side relates to Chinese competitive threat to the infant but growing local firms. Chinese engagement in investment may also have a limited (but not major) impact on investment policy because it has the ability to call upon the political mussel of the Chinese government whenever it needs that from the government of Ethiopia. Given the strong relation between the Ethiopian and Chinese government, this is not difficult to bear fruits by making the investment policies and rules to benefit Chinese firms – the example of the Ethiopian telecom company noted in this study is a case in point.

3.2 Trade

The bilateral trade between China and Ethiopia started in 1956 though was not significant until recently. The year 2002 saw the total trade (both imports and exports) value of the two countries reaching US$ 100.12 million, of which the Chinese export to Ethiopia being about US$ 96.43 million with an import China from Ethiopian being US$ 3.69 million. The total export and import trade has grown to over US$700.00 (Ethiopia's export growing to over US$120) in 2006 (see Table 2). As show in Table 2, the Chinese share in the total exports of Ethiopia is found to be the highest for 'crude materials' where the Chinese share is about 45 percent, followed by manufactured goods (19 percent) and food and live animals (0.09 percent).

Table 2: Ethiopia's Exports to China by Commodity Group (in millions of US $)

Ethiopia's Exports to China (In Millions of US $)								Total Exports of Ethiopia	Share of China (%)
	2000	2001	2002	2003	2004	2005	2006	2006	2006
FOOD AND LIVE ANIMALS	0.02	0.01	0.02	0.09	0.07	0.22	0.35	407.6	0.09
Crude Materials, inedible, except fuels	2.76	0.76	2.40	1.64	5.81	71.21	116.84	261.7	44.64
MANUFACTURED GOODS	0.09	0.99	1.26	3.00	8.50	14.27	14.63	77.6	18.86
MACHINES,TRANSPORT EQUIP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	411.5	0.00
MISC MANUFACTURED ARTCLS*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12.8	0.03

Source: Author's computation based on UN Comtrade data (Using SITC, Rev3, 1 digit classification)

Notes *Includes: Misc Manufactured Articles; Travel Goods, Handbags Etc; Trunk, Suit-Cases, Bag, Etc; Handbags,nes; Handbags, whether or not with shoulder-strap (including those without han

Table 3 shows Ethiopia's imports from China. It can be read from the table that Chinese exports to Ethiopia are generally manufactured products. In the year 2006, the last three rows of manufactured goods imports from China shown in Tables 3, the manufactured goods imports from China constituting on average about 60% of Ethiopia's total imports of manufactured goods. These imports of Ethiopian are mainly light industry projects, metal and building materials, mechanic and electric products, and medical and chemical products, among others. Within this manufactured goods category machinery and transport equipments are the most important one. This is followed by other manufactures goods and fuels and lubricants. The table also shows that in all categories Ethiopia's imports from China are showing an increasing trend over time.

Table 3: Ethiopia’s Imports from China by Commodity Groups (in millions of US $)

Imports of Goods from China								Total Imports of Ethiopia	China's Share (%)
Year	2000	2001	2002	2003	2004	2005	2006	2006	2006
FOOD AND LIVE ANIMALS	0.0	0.2	0.7	2.3	1.1	0.7	1.3	104.3	1.2
BEVERAGES AND TOBACCO	0.0	0.4	0.3	0.0	0.2	0.0	0.0	8.8	0.0
Crude Materials, inedible, except fuels	0.0	0.1	0.0	0.1	0.1	0.1	0.3	15.1	1.8
FUELS, LUBRICANTS, ETC.	0.1	0.1	0.0	0.7	1.2	3.1	5.0	9.8	51.3
ANIMAL,VEG.OILS,FATS,WAX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	221.2	0.0
CHEMICALS,RELTD.PROD.NES	4.8	7.8	10.5	9.0	11.5	23.0	21.5	221.8	9.7
MANUFACTURED GOODS	18.8	27.4	36.1	51.2	69.5	108.2	135.7	315.1	43.1
MACHINES,TRANSPORT EQUIP	21.7	22.7	0.0	62.0	77.1	115.3	184.6	188.6	97.9
MISC MANUFACTURED ARTCLS*	9.3	4.0	20.7	27.5	32.9	33.1	54.6	134.2	40.7

Source: Author’s computation based on UN Comtrade data (Using SITC, Rev3, 1 digit classification)

Notes *Includes: Misc Manufactured Articles; Travel Goods, Handbags Etc; Trunk, Suit-Cases, Bag, Etc; Handbags,nes; Handbags, whether or not with shoulder-strap (including those without han

In sum, Tables 2 and 3 shows that China's share of export by and import from Ethiopia respectively is becoming significant. However, its significance varies across sectors. The export share (Table 2) shows that crude material has the biggest share for China accounting 45 per cent where as the manufactured goods account for about 19 per cent. The lowest share in terms of exports to China is for machinery and transport exports from Ethiopia which is almost none. However, the manufactured goods imports are the most important imports of Ethiopian form China. It is also interesting to note that this high level of trade between the two countries is a recent phenomenon and it was virtually none some five years ago. In the last five years alone China have become one of the most important trading partners of Ethiopia accounting for about 15 percent its trade which was almost none five years ago.

It is interesting to ask who is gaining and who is losing from this trade interaction between China and Ethiopia. Examined from the nature of Ethiopia’s imports, domestic consumers are benefiting from this trade through the provision of cheaper consumer goods. Similarly, those entrepreneurs (as well as Ethiopia’s public firms) who are engaged in building small factories and service centers are benefiting from low cost of machinery and technology they are acquiring from China. Workers that are employed in Chinese companies listed above, and local firms that supply intermediate inputs (including services) to these Chinese companies, especially in the construction sector, are also another group of beneficiaries. A number of traders who travel quite frequently to China to bring various manufactured goods for sale in Ethiopia are also the other category of beneficiaries. Traditional trading partners of Ethiopia, the major being the European Union, are being affected by this growing role of China because they are losing their market share in Ethiopia to China, and are also forced to compete with low cost supply from China.

Similarly, small scale firms, in particular in clothing and footwear sectors (some shoe firms became bankrupt and the stronger once reduced their sale by more than half in 2000/01 following flows of cheap shoes from China[2] as well as their employees, foreign (and to a limited degree domestic) contractors that were traditionally providing services such as road construction, installation of electric power houses, offer services and supplies in the telecom sectors are losers owing to China's engagement in Ethiopia. The latter firms are invariably from industrialized countries in Europe and North America.

3.3 Aid

The aid relationship between Ethiopia and China is extremely limited. Aid flows to Ethiopia from advanced industrial countries (such as the USA and Western Europe) and multilateral institutions such as the World Bank is very high in absolute terms (which is about 1 billion USD per annum) although it is one of the lowest in Africa on per capita terms. In the light of such flows of aid the Chinese contribution is almost next to none. This is shown in Table 4 below which is based on the data that we managed to get from Ethiopia's Ministry of Finance and Economic Development. In the year 2006, the Chinese aid to Ethiopia constitutes about 0.14 percent Ethiopia's total aid (see Table 4). This in fact is related to the grant the Chinese government gave to the construction of ultra modern by pass-over (or flyer) road and other similar city roads that are being built in Addis Ababa. It is also partly their grant to support the expansion of vocational education in the country. Perhaps it is sensible to characterize such aid in Ethiopia as, strategic (geo-political) given the importance of Ethiopia in population, size and militaristic consideration in Eastern Africa as well as symbolic and show cases than real and huge grant as such. The fact that major continental bodies such as the African Union and the Economic Commission for Africa located in Addis implies that African leaders and officials will visit Addis frequently. Symbolic investment such as this carried by Chinese in Ethiopia thus could serve to advertise their work in the rest of Africa (The Ethiopian Airline ultra modern cargo terminal, the Addis over flyer road are cases in point).

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[2] As an illustration, one local shoe firm that used to produce at full capacity (600 pair of shoes per day) before the influx of cheaper shoes from China in 2000/01 has reduced its output to 186 pair of shoes per day; and currently up to 240 pairs of shoes per day. Its number of employees has also declined from over 80 to 45. Similar stories are reported to the textile firms (An Interview of the owner of the firm with Amharic Weekly news paper "Addis Neger", February, 20, 2008).

Table 4: China's % share of aid by recipient sector (In US $, 2006)

Sectors	China	Total	China share as a % of the total
Agriculture	-	-	
Manufacturing	-	-	
Mining	-	-	
- Solid Minerals	-	-	
- Oil and gas	-	-	
- Other minerals*	-	-	
Transport	421,572.30		
Electricity and Water			
Telecommunication			
Other business services and relevant ministries*	607,711.00		
Total	1,029,283.30	758,300,000.00	0.135%

* Technical and Vocational Training Education (TVET)

Source Ministry of Finance and Economic Development (MOFED)

In addition to this limited aid, the Chinese firms 'vender financing' scheme of providing financing for Ethiopian telecommunication could also be considered some sort of aid. However, except the three year grace period this 1.5 billion US $ financing has offered it is given at the market rate and conditional on Chinese firms taking the job. Yet it could be considered as some sort of aid since none of the Western firms were willing to give such vendor financing. Although such politically informed infrastructure related investment-cum-aid could be beneficial to the country, it has also the disadvantage of, making the technology path of the country constrained or dictate by China, making the political elite less accountable by allowing them to have non- transparent deals, as well as allow them to commit human rights abuse without external restraint that used to come with Western Aid.

IV. Conclusion

In this study an attempt to give the scope of Chinese engagement in Ethiopia is made. We have attempted to look this issue through the vectors of cooperation agreements between the two countries as well as their linkage through investment, trade and aid. We found that in the last five years the Ethio-Chinese relation has grown quite strongly. This is found to be, in particular, important in the areas of road construction, supply of manufacture goods from China, telecommunication and installation of big electric power stations by Chinese companies. The success of Chinese firms in this areas is explained by the political ties their government created with the government of Ethiopia, low initial bidding price offered by Chinese firms in bidding for such projects, the self financing options (sometimes referred as ‘vendor financing’) that they give to the Ethiopian government owing to the support they get from the Chinese government, as well as the relatively lower level of skilled Ethiopian personnel (in terms of negotiation, technical and managerial skill) as well as poor institutional capability of the Ethiopian experts in various ministries who are dealing with the Chinese firms.

Given the position of Ethiopia’s capital Addis Ababa as unofficial capital city of Africa with major continent wide institutions being located there, the Chinese also seem to make some of their investment and aid directed to Ethiopia as a show cases for other African countries leaders to see what the Chinese did in Ethiopia when they come for one of their official work to Addis Ababa. A case in point of such ventures include, the ultra modern airport hanger and storage facility of the Ethiopian Airline built by Chinese company, apparently at a price below cost so as to get the benefits noted above; the ultra modern Passover road being built by the government of China in the Ethio- Chinese friendship road with significant grant from the government of China, the ring road built around Addis Ababa, as well as the ultra modern headquarter building of the African Union, are few among many.

The study also noted that there are some groups that gain from this Ethio-China engagement as there are others that lose from it. The former category includes consumers, commercial traders who bring manufactured consumer goods from China for sale in Ethiopia, entrepreneurs engaged in establishing small scale factories and service centers by buying machineries from China. The possible losers group includes small scale firms engaged in clothing and footwear sectors and their employees; traditional suppliers and contractors in the road, electric power and telecommunication sectors of the economy, which are invariably firms from industrialized countries.

Finally, it is important to highlight the relevant of this study to the Ethiopian government, and perhaps also to the government of China, as well as the various stake holders that would be affected by this engagement between China and Africa. However, much should not be expected from this study as it is merely a scoping study. With further in-depth study along similar lines, this study may be used as a starting point in designing trade and industrial policies in Ethiopia. The expected gain from the current study is its benefit in terms of providing a snap shot picture of Ethiopia’s position in its engagement with China and the implication of this for the future of the two countries relation. It is also hopped that academic and research institutions, professional associations, as well as the private sectors, such as chambers of commerce, may also benefit from this scoping study (as well as future continent wide studies) as a starting point for an in-depth study about the role of China (and also India) on Africa.

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