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„The New Scramble for Africa” or “a Win-Win
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- The Case of China's Engagement in Ethiopia“

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Malwina Dominika Talik

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Acronyms and Abbreviations

AGOA	African Growth and Opportunity Act
ASEAN	Association of South-East Asian Nations
ATA	The (Ethiopian) Agricultural Transformation Agency
AU	African Union
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee
EBF	European Business Forum (in Ethiopia)
EFD	European Development Fund
EIA	Ethiopian Investment Agency
ERA	Ethiopian Road Authority
ETB	Ethiopian Birr (currency)
EU	European Union
EXIM	China Export and Import Bank
FDI	Foreign Direct Investment
FOCAC	Forum for China-Africa Cooperation Forum
HIPC	Highly Indebted Poor Countries Initiative
IBF	Indian Business Forum (in Ethiopia)
ICBC	Industrial and Commercial Bank of China
GoE	Government of Ethiopia
MoA	Ministry of Agriculture
MoFED	Ministry of Finance and Economic Development
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
ONFL	Ogaden National Liberation Front
PASDEP	A Plan for Accelerated and Sustained Development to End Poverty
PRC	People's Republic of China
RMB	Chinese Yuan (currency)
PRSP	Poverty Reduction Strategy Paper
RSDP	Road Sector Development Program
SEZ	Special Economic Zone
SOE	State-owned Enterprise
TIC	Turkey, India, China
UN	United Nations

Abstract

This thesis seeks to discuss various aspects of Sino-Ethiopian relations with a focus on economic engagement. It attempts to refute common allegations against the Chinese involvement in Africa by analyzing them within the Ethiopian context. Furthermore, it examines the real scope of Chinese economic engagement in Ethiopia and asks the questions: *How does the Chinese development assistance and economic engagement affect Ethiopia? Is it detrimental, one-sided, exploitative, or is it beneficial and contributing to Ethiopia's development in both short-term and long-term perspective? Can it be labeled as 'the new scramble for Africa'?* It concludes that for the time being China's engagement in Ethiopia's cannot be regarded as exploitative as both sides profit from the cooperation. China offers Ethiopia plenty of opportunities but it may also carry certain risks. It depends on Ethiopian authorities if they use China's involvement to their advantage. The thesis is based on field research on foreign direct investment in Ethiopia that I conducted for the EU Delegation to Ethiopia in February-April 2013.

Abstrakt auf deutsch

Diese Masterarbeit analysiert die sich entwickelnde Beziehung zwischen Äthiopien und China mit Schwerpunkt auf der wirtschaftlichen Beziehung. In diesem Kontext wird versucht, die Vorwürfe gegen China in Afrika zu widerlegen durch die Analyse im äthiopischen Kontext. Weiters wird in der Masterarbeit das Ausmaß der Wirtschaftlichen Verflechtungen zwischen beiden Ländern untersucht. Dabei wird folgende Frage gestellt: *Wird Äthiopien von der chinesischen Entwicklungshilfe und wirtschaftlichen Aktivitäten beeinflusst? Ist die Chinesische Entwicklung schädlich und einseitig oder ist es für Äthiopien kurzfristig oder langfristig von Vorteil? Können die wirtschaftlichen Aktivitäten und Entwicklungshilfe Chinas als "neuer Wettlauf um Afrika" bezeichnet werden?*

Zusammenfassend ist festzustellen, dass Chinas Engagement in Äthiopien nicht als ausbeuterisch angesehen werden soll, weil zur Zeit beide Seiten von der Zusammenarbeit profitieren. China bietet Äthiopien viele Möglichkeiten, aber es bringt auch gewisse Risiken mit. Ob das Engagement Chinas in Äthiopien zum Vorteil Äthopiens ausgenutzt werden kann hängt von der Arbeit der äthiopischen Behörden ab. Diese Masterarbeit basiert auf meiner Forschung über ausländische Direktinvestitionen in Äthiopien, die ich im Rahmen meines Praktikums von Februar bis April 2013 in Addis Ababa für die EU-Delegation in Äthiopien durchgeführt habe.

Chapter 1: Introduction

Much has been said, debated, and written about Sino-African relations and considerable research has been conducted on Chinese engagement in resource-rich countries and/or economic powerhouses such as South Africa, Nigeria, Sudan, Zimbabwe, or Angola. Since other African countries have not always been paid ample attention to, one may be under the distorted impression that China does not engage with states lacking abundant natural resources. Ethiopia is one of many cases which undermines this assumption but still requires a close scrutiny. Over the past two decades, Ethiopia has substantially strengthened its diplomatic ties with China, and seen growing trade and high Chinese investment in the Ethiopian economy. China's presence offers Ethiopia plenty of opportunities, but it may also carry certain risks if Ethiopian authorities do not use China's involvement to their advantage. Therefore the question arises, if Sino-Ethiopian partnership is a ‘win-win cooperation’ – as the Chinese authorities name it – or it bears a similarity to ‘the scramble for Africa’ – as Western media labels it.

1.1. Main Research Questions and Objectives

The perception Sino-African cooperation differs widely. Most Western newspapers (see *The Guardian*, *The Independent*, *The Economist*, *The New York Times*, *The Wall Street Journal*) tend to frame China negatively. Thus, China is often portrayed as a rough donor and colonizer that exploits Africa's resources, abuses human rights and cooperates with ruthless dictators. Academic literature remains more balanced in that respect – publications criticizing China for its African policy are many but those showing the benefits of Chinese involvement in Africa and pointing at Western actors shortcomings are also numerous. Undoubtedly, main focus of most publications lies on the economic and humanitarian aspect.

The major objective of this thesis is to examine rapidly growing Sino-Ethiopian relations with a focus on economic engagement. Moreover, it attempts to refute common allegations against Chinese involvement in Africa by analyzing them within the Ethiopian context. This thesis recognizes that China's contribution to Ethiopia's development is significant, yet it also pays attention to possible drawbacks of China's business activities and aid. In particular, this dissertation will address the following research questions:

- How do recent developments in Sino-African relations correspond to the relevant theories? Do they confirm the global power shift? Is there indeed any ‘Eastphalian‘ world order looming?
- What is the real scope of the Chinese economic engagement in Ethiopia in general and in selected sectors (agriculture, road infrastructure, manufacturing, renewable energy)?
- How does the Chinese developmental assistance and economic engagement affect Ethiopia? Is it detrimental, one-sided, exploitative or is it beneficial and contributing to Ethiopia's development in both short-term and long-term perspective? Can it be labeled as ‘the new scramble for Africa‘?
- How does the Chinese engagement in Ethiopia compare to other actors' (India, Turkey, EU, Saudi Arabia)?

1.2. Importance of the Subject Matter

It is becoming increasingly difficult to ignore growing Sino-African ties. Much controversy surrounds this subject due to the alleged modern colonization of Africa by the Chinese. Therefore, in order to present a balanced picture of Chinese involvement in Ethiopia, one must carry out further research in that field based on reliable data obtained directly from the African institutions and Chinese investors, whilst avoiding secondary and/or hear-say information. Much research is based on old data which in the case of quickly developing Chinese-African relations becomes completely irrelevant even within 2 years.

The key advantage of this study is its narrow focus on Ethiopia which so far has been largely neglected in the context of the Sino-African relations. Recent developments have heightened the need for understanding different motivations for and aspects of Chinese engagement in Africa in general and in Ethiopia in specific. Ethiopia as country unique in the African context has proved to be a great case study.

Moreover, author's access to the most recent data from Ethiopian authorities and the EU Delegation as well as the opportunity to interview businessmen active on the Ethiopian market offered a great chance to paint a more complex and updated picture of Sino-Ethiopian cooperation.

Furthermore, a sectoral focus of the study resulted in a detailed analysis of selected sectors which helped to debunk certain myths surrounding the Chinese involvement in Ethiopia. In particular, the study of the road sector is highly valuable since there has been no other as updated and detailed study published so far.

1.3. Structure

The overall structure of the study takes the form of four chapters, excluding this introductory chapter and conclusions.

Chapter 1 - Global Actors in the Periphery – Relevant Theories and Concepts

Chapter One begins by laying out the theoretical dimensions of the thesis. It attempts to approach the subject matter from the perspective of relevant theories (world-orders theory) and concepts (the South-North divide, South-South cooperation, ‘Eastphalia’, the new scramble for Africa) etc. Ethiopia is viewed as a periphery that has become a scene of interactions between global actors from the core and from the semi-periphery (China).

Chapter 2 – China in Africa - General Overview

The second chapter is concerned with China's engagement in Africa. It starts by describing the recent Sino-African relation as well as controversies over Chinese policies towards Africa. Next, it explains motivations behind China's interest for this world region. Besides, it gives a broad overview of China's development assistance and investment. Moreover, this chapter shows plausible challenges to Sino-African cooperation.

Chapter 3 - Ethiopia: From a Failed State on a 'Hopeless Continent'¹ to the 'Lion Economy'²?

The third chapter presents the transition that Ethiopia has undergone in the past two decades, explains how and why it affected Ethiopia's economic growth, as well as shows prospects and challenges resulting from the internal changes and the last wave of globalization. Ethiopia is an interesting case in the African context: a country with scarce natural resources but with cheap labor force, large market opportunities and international prominence. Ethiopia has been opening up its market for the past two decades which

1 Reference is made to the (now in-) famous *Economist* issue of May 13, 2000, labelling Africa as a "hopeless continent"

2 The same *Economist* regretted in December 2011 to have once labelled Africa as the hopeless continent, and instead, in its March 2-2013 issue suggested that "Africa is rising" and "a hopeful continent"

consequently attracted numerous foreign investors and contractors as well as boosted trade relations.

Chapter 4 - Chinese Engagement in Ethiopia: a Case Study

According to Monika Thakur, China is remarkably active in four areas: FDI, trade, economic cooperation projects (joint ventures) and development assistance.³ To elucidate how the Chinese authorities and investors have been taking advantage of the ongoing economic transformation, this chapter focuses specifically on the Chinese engagement with Ethiopia. It starts by providing a short overview of the history of Sino-Ethiopian relations and explaining motivations behind China's engagement as well as the framework of its cooperation with Ethiopia. Further, it discusses China's development assistance and its links with Chinese investments, imports and contracts in Ethiopia. Next, it shows the scope of Chinese economic engagement in Ethiopia by describing the trade relations, foreign direct investments (especially with a focus on agriculture and manufacturing), and contracted projects (renewable energy and road infrastructure). Then, the Chinese community in Ethiopia and its attitude towards the locals will be described. Last but not least, challenges and opportunities for both China and Ethiopia will be presented and general recommendations provided. Last but not least, this chapter shortly discusses the East Asian/Chinese model of development as the one that Ethiopia may wish to emulate.

Conclusions

Finally, the conclusion gives a brief summary and critique of the findings and includes a discussion of the implication of the findings to future research into this area.

1.4. Methodology

The thesis applies mixed research methods in order to examine the subject thoroughly and to eliminate oversimplifications. Its core is a 3-month field research on economic engagement of China, India, the EU and Turkey in Ethiopia in selected sectors which was conducted during author's internship at the EU Delegation to Ethiopia. The method used was survey research (mostly mail-interviews and personal interviews). In total, eleven interviews were conducted, each lasting approximately 40-60 minutes. The interviewees included a.o. representatives of the European Business Forum (EBF), the EU Delegation to Ethiopia, the

³ Thakur, Monika (2009): *Building on Progress? Chinese Engagement in Ethiopia*. Johannesburg: South African Institute of International Affairs. p. 14

Indian Business Forum (IBF), the Chinese Embassy, the Turkish Embassy, the World Bank, ACDI/VOCA, the Ethiopian Agriculture Transformation Agency (ETA), Chinese companies and university professors. All the interviews were required to be off-the-record and most interviewees wished their name to remain anonymous. Moreover, many remarks in this thesis are based on author's observations as well as random conversations with grassroots Ethiopians about their attitude to China's presence in their country.

Besides, quantitative data obtained from the Ethiopian Investment Agency (EIA), the Ethiopian Road Authority (ERA), the Ministry of Agriculture (MoA) and the EU Delegation to Ethiopia was of fundamental importance as it provided reliable and most recent data on foreign engagement in Ethiopia.

1.5. Literature Review

The body of literature on Sino-African relations has been gradually growing. The subject gained popularity in the last decade in the aftermath of China's increasing role in this world region. Whereas some fields still require further research (e.g. educational cooperation and exchanges), the data collected on other areas becomes outdated in a relatively short period of time and needs brand new research. Notable researchers constantly working in that field include Dr. Christopher Alden (a.o. *China in Africa*, Zed Books 2007 and plenty publications since 1998) and Professor Deborah Brautigam who has studied that subject matter for about 20 years. She is often criticized for being an ardent advocate of China in Africa but nevertheless her impact on academia has been great. She has published a plethora of articles and books on that subject with the most recent being *The Dragon's Gift: The Real Story of China in Africa* (Oxford University Press, 2010). Besides, she actively expresses her views on the current developments in Sino-African relations on her blog devoted fully to this subject.⁴

Speaking of blogs and websites on Sino-African relations, they have grown in popularity in the recent years. China-Africa Project and China-Africa blog are two other blogs worth mentioning with many high quality articles, updates and podcasts.⁵ Noteworthy, the website of the Forum on China-Africa Cooperation (FOCAC) provides further information on the growing relations from the Chinese perspective.⁶

Numerous documentaries on that subject have been produced such as *The Chinese are*

4 See: Brautigam's blog: China in Africa: The Real Story at <<http://www.chinaafricarealstory.com/>>

5 See: China Africa Project at <<http://www.chinaafricaproject.com>>, China-Africa Blog at <<http://chinaafricablog.com/>>/

6 See FOCAC, at <<http://www.focac.org/eng/>>

Coming and When China Met Africa. They show both positive and detrimental aspects of Chinese engagement in Africa. The subject has also hit many headlines, however, the media coverage leaves much to be desired with numerous baseless assumptions being taken for granted.

Moreover, research carried out by the Centre for Chinese Studies in South Africa and the South African Institute of International Affairs (SAIIA) shed more light on that subject. Reports published by the China Academy of International Trade and Economic Co-operation, African Forum and Network on Debt and Development (AFRODAD) and the World Bank added a value to our knowledge about the scope of Chinese involvement in a range of sectors.

Sino-Ethiopian relations still lack thorough analysis but certain steps in this direction have already been taken. Monika Thakur (2009) as well as Gideon Gamora and Key Mathews (2010) published general studies of Sino-African relations addressing its different aspects. AFRODAD prepared a detailed study of Chinese development assistance to Ethiopia (2011), the World Bank a meticulous analysis of Chinese FDI in Ethiopia (2012) and Geda Alemayehu and Atenafu G.Meskel examined the impact of Chinese Investment on Ethiopia (2009). D. Brautigam together with Xiaoyang Xiaoyang described overall Chinese engagement in agriculture (2012). This shows that a foundation for research on China in Ethiopia has already been laid out, yet there is a strong need for further and updated research that would cover other dimensions and sectors.

Chapter 2:

Emerging China in the Periphery

- Relevant Theories and Concepts

China's rise and its growing engagement with countries of the global South can be explained by concepts and theories describing global power shifts and changing world orders e.g. modernization theory, dependency theory, Singer-Prebisch theory, but only these most relevant for the subject matter will be presented in this chapter, i.e. world-systems analysis, the Eastphalian international system theory, the South-North divide, South-South Cooperation, and the New Scramble for Africa.

2.1. The Modern World System

In the early 1970s Immanuel Wallerstein developed one of the most famous versions of the world-systems analysis. It was strongly influenced by the Annales school, Marxist theory, and the dependence theory.⁷ According to this theory, the world economy consists of the core-states and peripheral areas. Core states are defined as wealthy, highly industrialized, economically and military powerful regions that benefited the most from the capitalist world economy, developed strong central governments and still exert significant power over non-core nations.⁸ Currently, the US, UK, France, and Germany fall into this category. On the other hand, peripheral areas are considered economically weak, unstable, poorly industrialized, dependent on a single type of economic activity, lacking strong central governments, dependent on core nations and multinational companies, and are forced to adapt policies which favor core nations while being a source of raw materials for them.⁹ However, world-systems analysis identifies another category - the semi-peripheral area. It is defined as regions which are:

in between the core and the periphery on a series of dimensions, such as the complexity of economic activities, strength of the state machinery, cultural integrity, etc. Some of these areas had been core-areas of earlier versions of a given world-economy. Some had been peripheral areas that were later promoted, so to speak, as a result of the changing geopolitics of an expanding world-economy.¹⁰

7 Barfield, Thomas (1997)*The dictionary of anthropology*, Wiley-Blackwell, p. 498-499.

8 Ibid.

9 Ibid.

10 Wallerstein, Immanuel (2011): *The Modern World-System. Capitalist Agriculture and the Origins*

In Wallerstein's opinion, the semi-periphery is a 'necessary structural element in a world-economy' which he compares to middle trading groups in an empire.¹¹ Thus, the semi-periphery stabilizes the world economy and acts as a buffer between the core and the periphery. Nowadays, emerging countries such as Brazil, China, India, or South Africa are the most obvious cases of the semi-periphery.

China has many features of a semi-peripheral country. It is controlled by a strong central government, foreign influence is limited, it has seen an amazing economic growth over past decades and become highly industrialized. Its society is gradually growing richer although the corruption and embezzlement remain a major challenge. More and more countries are becoming dependent on China and Africa is no exception. Nevertheless, China continues to be a source of cheap labor to core countries.

Ethiopia is undeniably a periphery state with a weak agriculture-oriented economy and heavily dependent on international development assistance. Although Ethiopia keeps up appearances of a democratic state, its government bears resemblance to an autocratic regime rather than a democratic state.

In accordance with the world-system analysis, Sino-African relations follow the semi-periphery-periphery pattern. The allegations of China's colonial tendencies compare China's policies to the most rapacious version of the core-periphery relations in which Ethiopian economy may severely suffer and become increasingly dependent on China. On the other hand, African leaders are full of hope that China as a semi-peripheral country can support their progression from the periphery to the semi-periphery stage. China itself refers to the relations with Africa as mutually beneficial (or "a win-win cooperation") and uses its semi-peripheral position as a useful asset in the South-South cooperation. This makes China a model to emulate for states that aspire to hold a more influential position on the international arena.

2.2. The North-South Divide and the South-South Cooperation

The South-South cooperation is often mentioned with reference to Sino-African relations. The phrase has its roots in the concept of the North-South divide which refers to the discrepancy between the rich and developed countries of the global North and the poor, developing or underdeveloped global South. Mimiko argues that 95% of the population of the global North and only 5% of the population of the global South population has adequate

of the European World-Economy in the Sixteenth Century. Berkeley : University of California Press, p. 349
11 Ibid.

access to food and shelter.¹² Furthermore, the global North constitutes 25% of the world population but has access to around 80% of the world income¹³ and 90% of all manufacturing industries.¹⁴ Geographically, as the name suggests, most countries of the global South are located in the southern hemisphere, but contains some exceptions like Kazakhstan or North Korea.

With the booming economies of China and India, the cooperation among countries of the global South has gained more attention. The official UN definition regards the South-South co-operation as:

a process whereby two or more developing countries pursue their individual and/or shared national capacity development objectives through exchanges of knowledge, skills, resources and technical know-how, and through regional and interregional collective actions, including partnerships involving Governments, regional organizations, civil society, academia and the private sector, for their individual and/or mutual benefit within and across regions. South-South cooperation is not a substitute for, but rather a complement to, North-South cooperation.¹⁵

China reaps benefits from the idea behind the South-South cooperation. As one of the most powerful countries of the global South, it underlines its keen interest in the plight of African countries and is willing to assist them on their path to economic development. It emphasizes that as a still developing, semi-peripheral country it is able to understand the challenges that the South has to face better than the North. In the discourse of Chinese politicians, Sino-African relations are always portrayed as a ‘win-win cooperation’ which both sides can benefit.

2.3. The ‘Eastphalian’ International Order

It is not out of the question that the ongoing global power shift may lead to a multipolar world with a declining role of the West and a more prominent position of the East. Some scholars coined a new term for this scenario - Eastphalia or the Eastphalian International System.¹⁶ This phrase refers to the Peace of Westphalia in 1648 which initiated a new system of political order in Europe based on the idea of a sovereign state. In this context, Eastphalia is seen as an oncoming dominance of the broadly defined East (with China and

12 Mimiko, Oluwafemi (2012): *Globalization: The Politics of Global Economic Relations and International Business*. Durham, N.C.: Carolina Academic. p. 47.

13 Ibid. p. 47

14 Ibid.

15 UN High-level Committee on South-South Cooperation (22-25 May 2012): Framework of operational guidelines on United Nations support to South-South and triangular cooperation. p. 5, available at http://ssc.undp.org/content/dam/ssc/documents/HLC%20Reports/Framework%20of%20Operational%20Guidelines_all%20languages/SSC%2017_3E.pdf [Accessed September 10, 2013]

16 See e.g. David Fidler, Sung Won Kim (2009), Tom Ginsburg (2010), Stanley A. Weiss (2013)

India as its main driving forces) over the West - challenging its values, principles and systems - while imposing their own vision of the world. The hypothetical Eastphalian system bears a close resemblance to the ideas of Westphalian sovereignty such as sovereign nation-states with no foreign actors interfering into their domestic structures. In other words, the Eastphalian system would "mean a return to Westphalia, at least as modern international lawyers understand the term."¹⁷ The hypothetical Eastphalian set of values for the foreign policy is based on the Five Principles of Peaceful Coexistence formulated by China, India and Burma in 1954 which inspired the founding documents of the regional communities in Southeast Asia: mutual respect for territorial integrity, and sovereignty; mutual non-aggression; mutual non-interference in internal affairs; equality and mutual benefit; peaceful co-existence.¹⁸¹⁹

Some scholars are alarmist about the rising influence of the East. Fidler is highly critical of the plausible Eastphalian model and warns that it would not only challenge Western preferences for universal adoption of transnational principles, such as democracy, free market economics, and human rights²⁰ but also could lead to a “destabilizing competition among the great powers, fragmenting ideas about how to address critical common problems, and severely weakening institutions and regimes needed for effective collective action.”²¹ Besides, he blames the Westphalian system for racism and imperialism that pushed Europe into two World Wars and implies that the Eastphalian model would eventually result in another calamity.²² Furthermore, he suggests that the Eastphalia can prove to be attractive and ‘exportable’ to non-Asian countries and detrimental from the Western point of view. He illustrates this claim with the case of Sudan: “Specifically, China has been criticized in the West for its relations with Sudan, including acting as a major supplier of arms, failing to pressure Khartoum to end violence and atrocities in Darfur, and opposing the warrant issued by the International Criminal Court for the arrest of Sudan’s president.”²³

However, other scholars do not paint such a doomsday scenario. Tom Ginsburg is skeptical whether Eastphalia inevitably comes into existence. Although he acknowledges the growing global role of South-East Asia (especially China) and the increasing tendency for

17 Ibid., p.1

18 Ginsburg, Tom (2010): "Eastphalia as the perfection of Westphalia." In *Indiana Journal of Global Legal Studies*, 17, no. 1, p.11

19 Fidler, David; Sumit Ganguly and Sung Won Kim (2010): "Eastphalia Rising? Asian Influence and the Fate of Human Security." In *World Policy Journal*, v26 n2 (200907): p. 58-59

20 Ibid. Fidler, p. 53

21 Ibid. p. 63

22 Ibid., p. 62

23 Ibid., p. 60

multipolarity, he reckons that Asia will become a region of high importance but it will be one of many powerful regions.²⁴ Nevertheless, he agrees with Fidler that the principles of Eastphalia may be conflict generating rather than preventing.²⁵



Figure 2.1. China as Atlas holding up the globe



Figure 2.2. China as Panda bear turning the globe

2.4. The New Scramble for Africa

The emergence of semi-peripheral countries in Africa such as China, India or Turkey was labeled by some as the new Scramble for Africa. In his book of the same title Padraig Carmody analyzes dynamics of what he considers the new scramble.²⁶ His is particularly critical of China but also also points at the role of the IMF and the WB in paving the way to what he considers the modern scramble.²⁷

The question if Africa is witnessing yet another scramble has initiated a heated debate with some scholars strongly supporting (like Carmody) and others firmly rejecting this idea (e.g. Brautigam, Alden, S. Simpson).²⁸ Other publications of the same title were published, some of them presenting all external powers in Africa as participating in the race for African

24 Op.Cit., Ginsburg, p. 23

25 Ibid., p.3

26 See Carmody, Padraig (2011): *The New Scramble for Africa*. Cambridge, UK ; Malden Mass. : Polity Press

27 Ibid.

28 See Simpson, Stuart (December 4, 2007): "There's no new 'scramble for Africa'" in *Spiked Online* <[13](http://www.spiked-online.com/newsite/article/4145#.Ukf_FNI9dN>A [Accessed September 5, 2013]</p></div><div data-bbox=)

resources (incl. the US, EU, China, India)²⁹³⁰

However, the question arises if the current Chinese entanglement with Africa really resembles the infamous period of the 19th century colonization of Africa. After all, the historical scramble for Africa was a period of a formal partition of the continent by seven colonial powers (Britain, Belgium, France, Germany, Italy, Portugal and Spain). It began with the Berlin Conference in 1884 which regulated European colonization and trade in Africa and ended with the outbreak of the WWI.³¹ The scramble for Africa was one of the last phases of the transition from the military and economic European hegemony over Africa to the direct rule of colonies.³² Jian Junbo and Chen Zhimin, Chinese academics, dismissed allegations of the Chinese "colonization" as biased: "(...) those undesirable practices by some Chinese businesses in Africa do not prove that all allegations against China are true, especially those labeling China as a colonial power, to which the Chinese Government has strongly objected."³³ Accordingly, the claim of another colonization taking place through the growing amount of foreign investment distorts the facts. Unlike Africans in the 19th century, the current African authorities have greater autonomy in affairs concerning their countries, meaning that they are not forced to accept foreign investors and conditional development assistance. The legitimacy of some African leaders is another issue which will not be touched upon here. The current situation bears greater similarity to post-Soviet Central and Eastern Europe, rather than 19th century colonial rule.

29 See Southhall r. & Melber H. (2009): *A new scramble for Africa? : imperialism, investment and development*. Scottsville, South Africa : University of KwaZulu-Natal Press;

30 See: Arnold, Guy (2009): *The new scramble for Africa*. London : North South Books

31 Brantlinger, Patrick (1985). "Victorians and Africans: The Genealogy of the Myth of the Dark Continent". *Critical Inquiry*.12 (1)

32 Shillington, Kevin (2005): *History of Africa*. Revised second edition (New York: Macmillian Publishers Limited, p. 301

33 Jian Junbo and Chen Zhimin (2008): 'Africa Issue' and China-US-EU Trilateral Relations after the Cold War" in Yan Yu (ed.): *China- Europe-Africa cooperation: Chances and Challenges. The Sixth Shanghai Workshop on Global Governance*. March 14 -15, 2008. Shanghai: Institute of International Studies, p. 165.

Chapter 3:

China in Africa - General Overview

3.1. The Rise of Africa

“Africa could be on the brink of an economic take-off, much like China was 30 years ago and India 20 years ago”
World Bank Report³⁴

At the turn of the 21st century Africa was considered a loser of globalization, a process which leads to rapid development of certain regions and groups but simultaneously to the impoverishment of others: “The failure of African countries to integrate meaningfully is, at least in part, attributed to these divergent but interconnected processes [globalization].”³⁵ In 2000 *The Economist* labeled Africa as a ‘hopeless continent’ with no bright prospects for future economic growth. That article was greeted with outrage among Africans. Nevertheless, the overall economic situation had changed markedly and a decade later, *The Economist* called Africa a ‘hopeful’ and ‘rising’ continent. At the moment the media show an increased interest in that subject, Africa’s rapid economic growth often hits the headlines of various international newspapers and magazines.³⁶ This comes as no surprise - at the moment Africa is growing faster than any other world region:

Labour productivity has been rising. It is now growing by, on average, 2.7% a year. Trade between Africa and the rest of the world has increased by 200% since 2000. Inflation dropped from 22% in the 1990s to 8% in the past decade. Foreign debts declined by a quarter, budget deficits by two-thirds. In eight of the past ten years, according to the World Bank, sub-Saharan growth has been faster than East Asia’s (though that does include Japan).³⁷

Moreover, in 2012 seven African economies were among the fastest growing in the world, namely Sierra Leone, Niger, Cote d’Ivoire, Liberia, Ethiopia,

34 Cited in Tafirenyika Masimba (August 2012): "Harnessing African stock exchanges to promote growth" in *Africa Renewal Online*. Available at <http://www.un.org/africarenewal/magazine/august-2012/harnessing-african-stock-exchanges-promote-growth> [Accessed: May 10, 2013]

35 Baregu, Mwesiga (2008): "Africa-China-EU relations: A View from Africa", in Yan Yu (ed.): *China-Europe-Africa cooperation: Chances and Challenges*. The Sixth Shanghai Workshop on Global Governance. March 14-15, 2008. Shanghai: Institute of International Studies, p. 68

36 See for instance: "Africa's Hopeful Economies: The Sun shines bright" (*The Economist*, December 3, 2011), "The rise of West African Lion?" (*African Business*, March 20, 2013), "DW reporters in Africa's 'lion states'" (*Deutsche Welle*, March 21, 2013), 'African sunrise or false dawn?' (*the Hindu Business Line*, June 12, 2013).

37 *The Economist* (December 3, 2011): "The Sun Shines bright" in *The Economist*. Available at <http://www.economist.com/node/21541008> [Retrieved: May 15, 2013]

Burkina Faso and Rwanda and nearly a quarter of other African states grew at 7 percent or higher.³⁸ For this reason, African economies are now often referred to as 'lion economies' and the belief that they follow in the footsteps of Asian tigers is not unusual among African leaders.

The growth is also prone to continue owing to the emerging alternative partners who in the eyes of the African leaders “seem not to carry the legacies of the *ancien regime*.”³⁹ New partners include not only Asian tigers but also BRICS countries and recently some Central-Eastern European (CEE) investors who recognize possible opportunities for their enterprises in this world region: “Africa offers a chance for Europe, and not the other way round.”⁴⁰

Many investors see Africa as what CEE used to be after the collapse of communism - a vast market of opportunities. The case of African agriculture can illustrate this situation best. Africa possesses nearly 60% of the world’s uncultivated arable land in addition to 27% of the world’s arable land.⁴¹ However, agriculture remains insufficiently capitalized and labor efficiency per hectare is very low when compared with other continents.⁴² Such a state of affairs gives favorable chances to foreign investors engaged in this field of investment.

3.2. The Dragon vs. *Long*⁴³ - The Image of China in Africa

One of the actors seizing their opportunities in Africa is China. Its growing impact on African states sparks controversies among traditional Western players, which is additionally reinforced by media scaremonger discourse. Many of China's harmful practices have aroused wide concerns of international community and these should be further investigated but numerous other cases of China's alleged detrimental influence were a result of little knowledge about China and common misconceptions.

China tends to be mistakenly viewed as a homogeneous entity without admitting that

38 World Bank, the (2013): "Africa Continues to Grow Strongly Despite Global Slowdown, Although Significantly Less Poverty Remains Elusive" in *the World Bank Online*. Available at <http://www.worldbank.org/en/news/press-release/2013/04/15/africa-continues-grow-strongly-despite-global-slowdown-although-significantly-less-poverty-remains-elusive> [Retrieved: June 5, 2013]

39 Sidiropoulos, Elizabeth (2006): "Options for the lion in the age of the Dragon" in *South African Journal of International Affairs*, Volume 13, Issue 1, p. 98

40 Polish Radio, the (May 2013): "Kulczyk: 'Africa offers a chance for Europe'" in *Polish Radio Online*, Available at <http://www.thenews.pl/1/12/Artykul/135572,Kulczyk-Africa-offers-a-chance-for-Europe> [Retrieved July 2013]

41 Kobus van der Wath (June 5, 2013): "Letter from China: Africa could benefit from becoming China’s horn of plenty" in *Business Day*. Available at <http://www.bdlive.co.za/world/asia/2013/06/05/letter-from-china-africa-could-benefit-from-becoming-chinas-horn-of-plenty> [Retrieved July 15, 2013]

42 Ibid.

43 *Long* (simplified Chinese: 龙) – a legendary creature in Chinese mythology, often confusingly translated into English as *dragon*

it is a culturally, religiously and nationally diverse state or as Martin Jacques⁴⁴ argues

a civilization-state rather than a nation state:

[China] is not a nation-state in the European sense of the term. Indeed, it has only described itself as such since around 1900. (...) For over two millennia, the Chinese thought of themselves as a civilization rather than a nation. (...) Although China describes itself today as a nation-state, it remains essentially a civilization-state in terms of history, culture, identity and ways of thinking. China's geological structure is that of a civilization-state; the nation-state accounts for little more than the top soil.⁴⁵

The Western perception of China remains largely negative: "China's rapid engagement in the African continent has lent itself to harsh criticism and deep suspicious highlighting negative aspects and consequences of China's increasing involvement in the continent."⁴⁶ This is not to say that Chinese activities in Africa should not be approached with caution but the hostile attitude leads to new misconceptions and deepens the chasm between the traditional Western actors in Africa and the new emerging players such as China and India. Representatives of the Chinese business community in Ethiopia expressed their willingness to collaborate with European investors and organizations in order to improve business environment but pointed at the mistrust on the European side as one of the main obstacles for such cooperation.⁴⁷ In order to counter-weight "Chinese threat" theory and reassure partner countries that China does not seek any confrontation or intends to change the current world order, Chinese leadership under Hu Jintao initiated the so-called policy of "peaceful rise" or "peaceful coexistence"⁴⁸:

China, the largest developing country in the world, follows the path of peaceful development and pursues an independent foreign policy of peace. China stands ready to develop friendly relations and cooperation with all countries on the basis of the Five Principles of Peaceful Coexistence so as to contribute to peace, stability and common prosperity around the world.⁴⁹

Two opposing images of a dragon are can illustrate well the discrepancy in the perception of China by the broadly defined Western and by the Chinese. Whereas in the West

44 Martin Jacques - a British former magazine editor and academic and an author of *When China Rules the World* (2012),

45 Jacques, Martin (January 15, 2011): "Civilization state versus nation-state" in Martin Jacques Blog. Available at <http://www.martinjacques.com/articles/civilization-state-versus-nation-state-2/> [Retrieved May 10, 2013]

46 Mugumya, Geoffrey (2008): "China-Europe -Africa - Is There Possible Collaborative Partnership?" in Yan Yu (ed.): *China-Europe-Africa cooperation: Chances and Challenges*. The Sixth Shanghai Workshop on Global Governance. March 14 -15, 2008. Shanghai: Institute of International Studies p. 7

47 An off-the-record interview with a representative of Sinohydro in Ethiopia, Addis Ababa, March 2013

48 Zhiqun Zhu (2007): *China's "Peaceful Rise" in the 21st Century: Domestic and International Conditions* by Sujian Guo. In *China Journal*. No. 58 The University of Chicago Press. p. 229

49 FOCAC (2006): "China's African Policy" in FOCAC Archives. Available at <http://www.focac.org/eng/zt/zgdfzccwj/t230479.htm> [Retrieved October 10, 2012]

the dragon is perceived as an evil creature causing havoc, in China a dragon – *long* – is benevolent and symbolizes good luck: “Western caricaturists love to depict China as the European-style dragon (...) The truth is, the Chinese *long* are majestic, divine creatures, snake-bodied (...) and embody happiness, wisdom and virtue. In the West, on the other hand, it's a virtue to slay the dragon for a happy ending.”⁵⁰ This is exemplified by the following cartoon from the US edition of *the China Daily*.

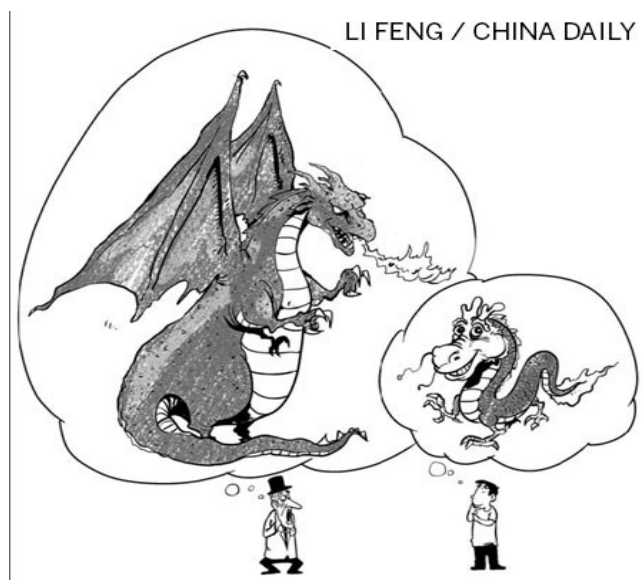


Figure 3.1. Metaphoric Portrayal of China as a Dragon

Tightening relations between China and Africa have caused anxiety and heated debates in the USA and the EU. Consequently, China's New African Policy met with largely negative media framing which warned against the looming China's threat as well as diminished positive aspects of China's engagement in Africa: “The rise of China as an international power has stirred a polarized debate in all parts of the world. It is driven largely by the threat opportunity issue and is often unbalanced, full of rhetoric, and sometimes counterproductive”.⁵¹ In the eyes of West, China’s motives towards Africa are far from obvious⁵² which fuels further speculations:

China is said to be the chief villain among the so-called new donors. It has been claimed that it strategically allocates its aid in order to get easy access to natural resources and to bribe countries to get their support in international politics. It is often said that it neglects the recipient countries’ institutional quality, thus undermining other donors’ efforts to promote the worldwide spread of democracy and the rule of law. China’s development aid has even been characterized as ‘rogue

50 Pattberg, Thorsten (January 16, 2012): "Long into the West's dragon business" in *USA China Daily*. Available at http://usa.chinadaily.com.cn/opinion/2012-01/16/content_14450359.htm [Retrieved May 15, 2013]

51 Alves, Phil and White, Lyal (2010): "China in Africa: A relationship of (Un)equals in the developing world." in *South African Journal of African Affairs*, vol. 13, p 55.

52 Op.Cit. Baregu (2008), p 85

aid'⁵³

Moreover, China is deemed irresponsible and profit-oriented, similarly to former colonial powers:

(...) the age of colonialism is over. It should be accepted today that global power brings global responsibilities. Tyranny, inequality and corruption offend universal values. In countries where it now has the ability to make a difference, China should think twice about offering its help with no strings attached.⁵⁴

Emma Mawdsley enumerates five ways in which China is mostly portrayed⁵⁵. Firstly, China and all the Chinese actors are shown as unvaried and having the same interests and aims. Secondly, much attention is paid to China's interests in oil over other commodities. Moreover, there is an excessive focus on China's negative influence on the continent, especially on issues and places of violence, disorder and corruption. In addition, Africans are presented almost exclusively as villains (Mugabe, the Sudanese government, Menes Zelawi) or victims (African populations, Darfur, the poor). Last but not least, the West is depicted in a very favorable manner and acute issues are rarely mentioned. Besides, Mawdsley highlighted that "More positive elements tend to get less attention (debt cancellation, investment, lower commodity prices for consumers, support for a greater international voice etc), with a preferred focus on problem issues."⁵⁶ The cartoons below are a visual representation of that discourse.



Figures 3.2 and 3.3: Visual representation of China's engagement in Africa

53 Dreher, Axel and Fuchs, Andreas (2011): "Rogue aid?: the determinants of China's aid allocation" Working Paper. Munich, Germany : Center for Economic Studies & Ifo Institute for Economic Research, p. 26

54 *The Guardian* (November 4, 2006): "Scrambling to Beijing". *The Guardian*. Available at <http://www.guardian.co.uk/commentisfree/2006/nov/04/comment.china> [Accessed on December 7, 2012]

55 Mawdsley, Emma (2008). "Fu Machu Versus Dr. Livingstone in the Dark Continent? Representing China, Africa and the West in British Broadsheet Newspapers". in *Political Geography*, Vol. 27, pp. 509-510

56 Op. Cit. Mawdsley (2008) p. 518

One of many reasons for China's biased portrayal in media is unreliability and selectivity of collected data. For instance Deborah Brautigam points out that in the article "The Charity begins Abroad" published in *The Economist* in August 2011, the author gives its credibility to statistics which raise many doubts:

the Wagner School" was actually a project done for the Congressional Research Service by students who collected rather indiscriminately all the media stories they could find on any aspect of Chinese state engagement in developing countries, defining this as "Chinese aid". By mentioning this thoroughly discredited statistic, even if with a hint of doubt, *The Economist* continues to give it credence.⁵⁷

There are also cases of presenting data, which is wrongly interpreted, e.g. *The Economist* claimed that "At Chinese-run mines in Zambia's copper belt they must work for two years before they get safety helmets. Ventilation below ground is poor and deadly accidents occur almost daily"⁵⁸ but as Brautigam notices they falsely referred to all fatalities in the copper mines, not only the Chinese ones which is very easy to be verified.⁵⁹

3.3. Sino-African Relations – Recent Developments

"We have turned east, where the sun rises, and given our backs to the west, where the sun sets" Robert Mugabe⁶⁰

Chinese engagement in Africa is multifaceted and varies from country to country. Its extent and influence depends greatly on the country's capacity, African authorities, their current needs as well as policies towards foreign actors. Thus, attempts to generalize China's presence in Africa often miss the complex nuances and characteristics of the continent's 54 countries which do not follow the same pattern in their relations with China.

China is often regarded to as a new player in Africa. But although the European presence on the continent was larger, the Chinese engagement in the 20th century started much earlier than commonly assumed. First encounters between China and Africa hark back to ancient times merchants initiated trade relations between both regions, although these were

57 Brautigam, Deborah (August 2008): "More Mistakes by The Economist: "Charity Begins Abroad" in China in Africa: The Real Story blog. Available at <<http://www.chinaafricarealstory.com/2011/08/more-mistakes-by-economist-charity.html>> [Accessed: October 10, 2012]

58 *The Economist* (April 20, 2011): "Trying to pull together" in *the Economist*. Available at <<http://www.economist.com/node/18586448>> [Accessed: October 10, 2012]

59 Brautigam, Deborah (May 2011): "The Chinese in Africa: The Economist Gets Some Things Right, Some Wrong" in China in Africa: The Real Story blog. Available at <<http://www.chinaafricarealstory.com/2011/05/chinese-in-africa-economist-gets-some.html>> [Accessed: October 10, 2012]

60 A fragment of a public speech commemorating Zimbabwe's independence day in the national sports stadium in Harare, 2005 Cited in Meldrum, Andrew (April 19, 2005): "Mugabe turns back on west and looks east" in *the Guardian* Available at <<http://www.theguardian.com/world/2005/apr/19/zimbabwe.andrewmeldrum>> [Accessed: October 10, 2012]

sometimes indirect (through the Arab Empire). Nevertheless, Chinese-African contacts were limited to the region of North Africa and East Africa and based solely on trade. Therefore, the former Chinese prime minister Wen Jiabao could proudly emphasize that: “In history China has never occupied a single inch of land in Africa, neither has it been engaged in slave trade.”⁶¹

Noteworthy, in 1873, Sir Francis Galton, a distinguished African explorer sent a letter to *The Times*, in which he presented his new method of colonizing Africa – a very daunting and racist proposal from a contemporary point of view. His plan was never put into practice:

My proposal is to make the encouragement of the Chinese settlements at one or more suitable places on the East Coast of Africa a part of our national policy, in the belief that the Chinese immigrants would not only maintain their position, but that they would multiply and their descendants supplant the inferior Negro race. I should expect the large part of the African seaboard, now sparsely occupied by lazy, palavering savages living under the nominal sovereignty of the Zanzibar, or Portugal, might in a few years be tenanted by industrious, order loving Chinese, living either as a semi-detached dependency of China, or else in perfect freedom under their own law.⁶²

In the post-war period, Chinese national interests in Africa were changing from decade to decade. Chinese-African relations can be traced to the Bandung Conference in 1955 and China’s assistance to Africa to post-independence period but China’s policy has taken a very new direction after the establishment of FOAC (2000).⁶³ PRCs foreign policy on Africa can be broadly divided into three stages.

1) the 1950s and 1970s

The Chinese and African leaders initiated mutual contacts at the Bandung Conference in 1955 and by the end of 1979 China had established diplomatic ties with 44 African countries. For years PRC's primary goal was to isolate Taiwan on the international arena.⁶⁴ In years 1963-1965, then Premier, Zhou Enlai, paid three visits to Africa and presented his Five Principles on developing Sino-African relations. The ideological concerns were of high importance due to the Cold War.⁶⁵

61 Cited in Shu Yunguo (2008): "Comparison of China-Africa and Europe-Africa Relations" in Yan Yu (ed.): *China-Europe-Africa cooperation: Chances and Challenges*. The Sixth Shanghai Workshop on Global Governance. March 14-15, 2008. Shanghai: Institute of International Studies, p. 9

62 A letter of Sir Francis Galton to *The Times*: "Africa for the Chinese", June 5 1873. Available at <http://galton.org/letters/africa-for-chinese/AfricaForTheChinese.htm> [Accessed: July 4, 2013]

63 McCormick, Dorothy (2008): "African Perceptions of Afro-Chinese Relations" in Yan Yu (ed.): *China-Europe-Africa cooperation: Chances and Challenges*. The Sixth Shanghai Workshop on Global Governance. March 14 -15, 2008. Shanghai: Institute of International Studies, p. 188

64 Vines, Alex (2006): "The scramble for resources: African case studies", in *South African Journal of International Affairs*, 13:1, p. 66

65 Yu Jinhua and Wang Zhen (2008): "China-Africa Strategic Partnership Ushered in the New Era" in Yan Yu

2) the 1980s and 1990s

In this period China embarked on its economic reforms and newly independent African states were developing their national economies. With the end of the Cold War, China directed its interests mostly to the economic and, to some extent political, dimension and abandoned the ideology-oriented approach. China's African policy did not act in line with the “post-Cold War new world order” i.e. promotion of democracy, good governance, political transparency or the respect of human rights.⁶⁶

3) the 2000s

The turn of the century began a new chapter in Sino-African relations. In 2000 China launched the FOCAC, a platform for the collective dialogue and multilateral cooperation between China and Africa. Another event of a great political prominence was the Beijing summit in 2006. It was attended by 48 African leaders (35 heads of state and 6 heads of government).⁶⁷ In the same year Chinese government published ‘China’s African Policy’ which outlined China's plans for a new Sino-African cooperation in a range of fields in the political, economic, cultural and social dimension. The paper underlines similarities in history and the struggle for national liberation against foreign powers as well as presents Sino-African relations as based on the principles guiding of sincerity, equality and mutual benefit, solidarity and common development.⁶⁸ China recognized four major fields of its cooperation and means to enhance good relations with Africa. These are the following⁶⁹:

- **The political field:** high-level visits, exchanges between legislative bodies, exchanges between political parties, consultation mechanisms, cooperation in international affairs, exchanges between local governments.
- **The economic field:** trade, investment, financial cooperation, agricultural cooperation, infrastructure, resources cooperation, tourism cooperation, debt reduction and relief, economic assistance, multilateral cooperation.
- **Education, science, culture, health and social aspects:** cooperation in human resources development and education, science and technology cooperation,

(ed.): *China- Europe-Africa cooperation: Chances and Challenges. The Sixth Shanghai Workshop on Global Governance*. March 14 -15, 2008. Shanghai: Institute of International Studies, p. 89

66 Gamora and Mathews (2010): "Ethio-China: challenges and prospects", in Axel Harneit-Sievers, Stephen Marks, Sanusha Naidu *Chinese and African Perspectives on China in Africa*. Pambazuka p. 94

67 He Wenping (2008): "China-Africa Cooperation: Partnership and Global Implications" in Yan Yu (ed.): *China- Europe-Africa cooperation: Chances and Challenges. The Sixth Shanghai Workshop on Global Governance*. March 14 -15, 2008. Shanghai: Institute of International Studies p. 39-52

68 FOCAC (2006): "China African Policy Paper" in *FOCAC online*. Available at <http://www.focac.org/eng/zt/zgdfzxcwj/t230479.htm> [Retrieved October 15, 2013]

69 Ibid.

cultural exchanges, medical and health cooperation, media cooperation, administrative cooperation, consular cooperation, people-to-people exchange, environmental cooperation, disaster reduction, relief and humanitarian assistance

- **Peace and security:** military cooperation, conflict settlement and peacekeeping operations, judicial and police cooperation, non-traditional security areas.

3.4. Motivations for African Interest in China

Most African leaders enthusiastically welcomed Chinese willingness to boost its engagement on the continent. This favorable attitude is determined by many factors. First and foremost, China has no history of colonial past in Africa or Cold War remaining affiliations which could undermine its position. Secondly, as a developing country, China seems an obvious ally to many countries of the global South and as mentioned before, Chinese leaders eagerly emphasize the significance of South-South cooperation. China is regarded as a “welcome alternative to the Western ‘white man’ burden policies” and an alternative to what many African leaders see as “western hypocrisy” and double standards⁷⁰ - with no doubt it offers a potential counterweight to the Western powers. Furthermore, African states are attracted by China's Five Principles of Peaceful Coexistence in the foreign policy: mutual respect for territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in internal affairs, equality and mutual benefit, and peaceful coexistence. In practice this means that China does not condemn governance and human rights abuses in African countries.⁷¹ The only condition China imposes is non-recognition of Taiwan. Moreover, China is the only developing country with a seat on the UN Security Council and thus it has impact on issues which are important for African states and can be used to protect states from international sanctions.⁷² Moreover, cheap Chinese products “have brought benefits to African consumers, while breaking the stranglehold of Western countries’ high-priced products in these markets.”⁷³ Business-wise, Chinese firms are less afraid of investment risk and take a longer-term view on investment return and thus invest in countries which were marginalized by the West due to the ongoing internal strife, corruption and human rights violations.^{74,75} For the aforementioned reasons establishing FOCAC in 2000 was

70 Op. Cit. Mugumya (2008), p. 7

71 Op. Cit. Vines (2006), p. 63

72 Ibid., p. 67

73 Xu Weizhong (2008): "Sino-African relations: new transformations and challenges" in Dorothy Grace (ed.) *China's New Role in Africa and the South*. Chicago: Pambazuka Press p. 69

74 Ibid., p. 63

75 Op. Cit. Mugumya (2008), p. 7

considered a positive sign to take Africa out of the Western dependency cycle.⁷⁶

3.5. Motivations for Chinese Engagement

Driving forces behind the Sino-African relations are complex. One of the underlying reasons is access to abundant raw materials which rapidly growing China desperately needs for maintaining its internal stability – an explanation given by Western and Chinese researchers alike⁷⁷: “(...) in the grim situation of global energy security Africa has become a major target of contention among powers, and as a result China’s energy development and cooperation in the region have unavoidably aroused Western powers’ attention and alert.”⁷⁸

What is more, large African markets offer ample opportunities for Chinese exports with its 54 countries.⁷⁹ Besides, a considerable advantage of trade agreements between Africa and US and EU play a vital part in China's interest in Africa: “Easier exports to Western markets from African countries may also attract Chinese manufactures, especially exporters, to relocate investment to Africa.”⁸⁰ Additionally, foreign investments provide China’s own surplus labor supply with opportunities. The number of Chinese migrants who choose to settle down and set up a company in Africa grows steadily every year.⁸¹

Last but not least, China seeks for assistance and support from Africa in international organizations, such as the UN and the WTO as well as constantly makes an attempt to limit international recognition of Taiwan which is the only official condition imposed on other countries.⁸²

3.6. Economic Engagement

Chinese trade and investment have grown rapidly over a past decade This tendency be illustrated by an increase in Chinese FDI in Africa in years 2003-2010 from merely 0.37% to

76 Ibid., p. 7

77 See e.g. Vines, Hackenesch, Zhang Tiejun

78 Zhang Haibing (2008): "China's Aid to Africa: Oil Oriented or Not" in Yan Yu (ed.): *China-Europe-Africa cooperation: Chances and Challenges*. The Sixth Shanghai Workshop on Global Governance. March 14-15, 2008. Shanghai: Institute of International Studies, p. 233

79 Fu Xiaochen (2012): Promoting Manufacturing Foreign Direct Investment from China to Ethiopia. Master Thesis, Harvard University. p. 14 Available at http://www.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/pdfs/degree-programs/mpaid/SYPA_XiaochenFu_2012.pdf [Retrieved July 15, 2013]

80 Ibid., p. 15

81 See Branwell R., Grandison S. and Rowlett J. (2011): *The Chinese are coming. Part I*. London, BBC2

82 Zhang Tiejun, (2008): "Good Governance vs. Effective Governance: The European and Chinese Engagement with Africa" in Yan Yu (ed.): *China- Europe-Africa cooperation: Chances and Challenges. The Sixth Shanghai Workshop on Global_ Governance*. March 14 -15, 2008. Shanghai: Institute of International Studies, p. 132

3.23%.⁸³ The same can be said about other BRIC countries: "A generation ago Brazil, Russia, India and China accounted for just 1% of African trade. Today they make up 20%, and by 2030 the rate is expected to be 50%. If China and India continue to grow Africa probably will too"⁸⁴ Besides, total FDI was more than \$55 billion which was "five times what it was a decade earlier, and much more than Africa receives in aid."⁸⁵

The figure below presents the African countries which attract most Chinese FDI. The top countries include South Africa, Sudan, Nigeria, Zambia, Algeria and the DRC. Ethiopia was placed 10th in 2011. This confirms the claim that China allocates most of its capital in resource rich economies.

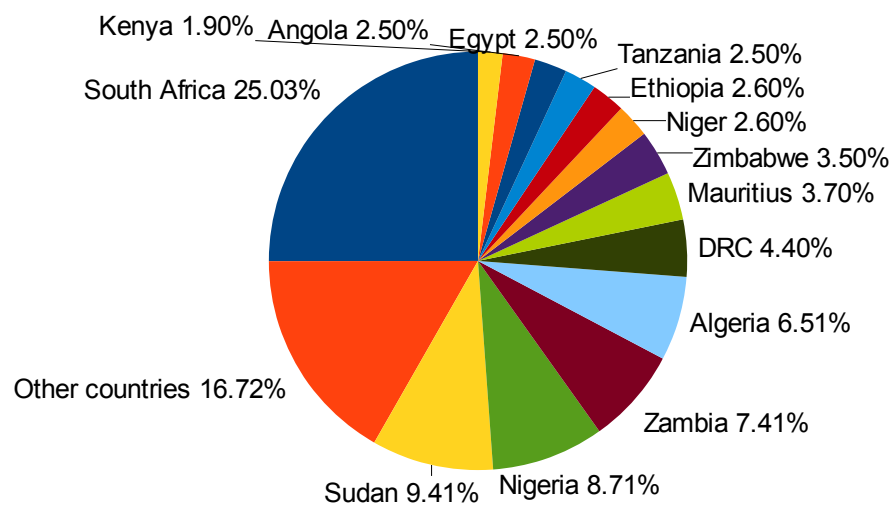


Figure 3.4. China's FDI Stock in Africa at the End of 2011 - by country

The other figure presents the sectoral distribution of Chinese investments in Africa. It indicates that they concentrate in four main sectors: mining, finance, construction and manufacturing. These four sectors constituted 82% of all Chinese FDI on the continent in 2011.

This data confirms that China's primary interest lies in natural resources (31%). However, during the past five years investment in manufacturing sector has in fact grown faster than mining: "from 2006 to 2010, manufacturing FDI has grown by 196.60%, faster than the mining FDI growth rate of 147.06%."⁸⁶ According to *The Economist* "despite the boom in mining, the share of total investment going into extractive activities has shrunk by 13%. That said, the riches are far from evenly spread: three-quarters of all investments are in

83 Op. Cit. Fu (2012), p. 10

84 Op. Cit. The Economist (December 3, 2011): "The Sun Shines bright"

85 Ibid.

86 Op. Cit. Fu (2012), p. 10

just ten big countries.”⁸⁷

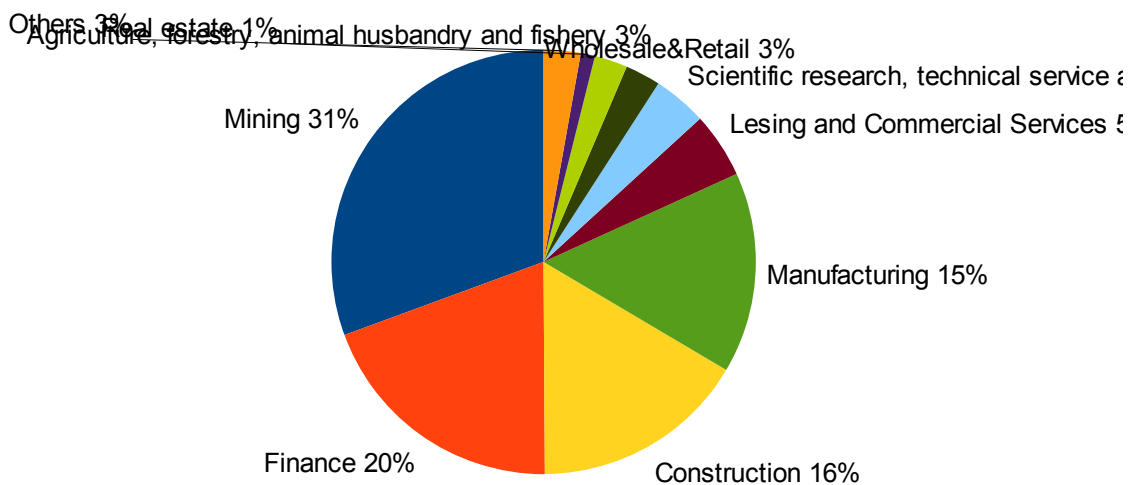


Figure 3.5. China's FDI Stock in Africa at the End of 2011 - by sector

Finance, as broadly, defined placed second. Construction and manufacturing were next two sectors. Construction may have a particularly beneficial impact on African infrastructure, especially on the road system development. The rise in manufacturing FDI can offer an excellent chance to Africa development in that industry:

China’s graduation from low-skilled manufacturing jobs will free up nearly 100 million jobs, more than double of manufacturing employment in low-income countries. Not surprisingly, Africa has emerged as one of the top destination choices for the Chinese private sector investment. According to the Ministry of Commerce of China, China’s manufacturing FDI flow to Africa tripled within four years, from \$93 million in 2006 to \$276 million in 2010.⁸⁸

Chinese direct investments in Africa can be categorized into three major groups⁸⁹:

1. Resource seeking FDI - targeting extractive industry sectors,
2. Market seeking FDI - focusing on sectors which allow Chinese investors to take advantage of AGOA, e.g. manufacturing, construction, etc.,
3. Efficiency seeking FDI – concentrated in sectors that may prove more productive overseas than in China, e.g. agriculture

Chinese investments may often seem far from obvious in the eyes of the Western entrepreneurs. However, one should bear in mind that the Chinese authorities tend to plan

⁸⁷ Op. Cit. *The Economist* (December 3, 2011): "The Sun Shines bright"

⁸⁸ Op. Cit. Fu (2012), p. 10

⁸⁹ AFRODAD (2011): *Mapping Chinese Development Assistance in Africa. An Analysis of the Experiences of Ethiopia.*, Causeway, Harare, Zimbabwe: African Forum and Network on Debt and Development p. 20

their policies decades ahead and do take decision which are not clear to the West at the moment. As Eric Olander observed: "The Chinese cannot wait for a red light but they can wait a hundred years".⁹⁰

3.7. "China's Stadium Diplomacy?"⁹¹- Chinese Development Assistance in Africa

"No country in the world can develop itself through foreign aid...
To develop your economy is your job. You have to do it yourselves."
Chinese ambassador to Malawi, 2008⁹²

Chinese aid differs greatly from conventional aid and is inextricably linked to Chinese investment and foreign policy

Chinese foreign aid is an integral part of Chinese foreign policy and is used to further a diverse range of foreign policy objectives including: securing sources of raw materials for Chinese industries, establishing markets for Chinese goods and services and building political and diplomatic alliances for Chinese regional and international interests (especially at the UN).⁹³

African countries are by and large the major recipient of Chinese aid which can be with the share of 45.7%, followed by Asian countries with 32.8%.⁹⁴ This can be seen in figure below which to the best of my knowledge is the last official data on China's development assistance published by Chinese authorities.

90 China-Africa Project (2012): "When China met Africa" [Audio Podcast]. Available at <<http://www.chinaafricaproject.com/>> [Retrieved July 15, 2013]

91 The title refers to the article by R. Will. See: Will, Rachel (2012): "China's Stadium Diplomacy" in *World Policy Journal*. v29 n2, pp. 36-43

92 Cited in Brautigam Deborah, (July 1, 2011): "Aid with Chinese Characteristics: Chinese foreign aid and development finance meet the OECD-DAC aid regime" in *Journal of International Development* v23 n5. p. 752

93 Op. Cit. AFRODAD (2011), p. 18

94 China's Information Office of the State Council (April 2011): *White Paper on China's Foreign Aid*. In *Chinese Government's Official Web Portal*. Available at http://english.gov.cn/official/2011-04/21/content_1849913.htm [Retrieved October 2012]

Figure 2 Geographical Distribution of China's Foreign Aid Funds in 2009

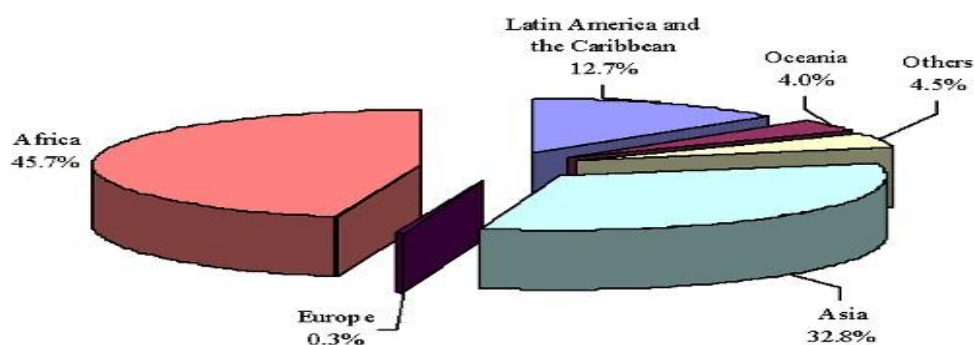


Figure 3.6. Geographical Distribution of China's Foreign Aid Funds in 2009

China has been often labeled as an “emerging” or “new” aid donor as opposed to “traditional”, “Western” donors. However, this discourse of newness is disputable. China's cooperation program to Africa dates back to 1950s. After 1964 Chinese foreign aid policy in Africa was shaped by guiding principles emphasized by Zhou Enlai⁹⁵: equality and mutual benefit, respect for sovereignty with no conditions attached, aid provided through interest-free loans, promotion of self-reliance, not dependency, quick results, best quality equipment of Chinese manufacture, emphasis on technology transfer through technical assistance, Chinese experts will live at the standard of local experts. This form of cooperation was very alluring to African states that had only shortly before gained independence from the colonial powers. However, from mid-1990s onwards aid has become “commercial or corporatist” oriented⁹⁶ unlike earlier emergency and humanitarian Chinese assistance.

At present, Chinese aid comes in a number of forms such as grant aid, aid in kind, zero-interest loans, subsidized trade concessions, commercial loans and direct foreign investment.⁹⁷ Due to the fact that it is so often mixed with the trade and investment, it may come as a problem to disentangle it from aid in accordance with the OECD definition. Although Chinese aid is not conditional, it is tied which means that that Chinese products must be purchased in return for the granted aid and Chinese companies and contractors are used for the subsidized projects, mostly without bidding.⁹⁸ The other condition is the recognition of Taiwan as a Chinese territory.

95 Op.Cit. Brautigam (2011), "Aid with Chinese Characteristics", p. 752

96 Op. Cit. AFRODAD (2011), p. 18

97 Ibid, p. 10

98 Op.Cit. Thakur (2009), p. 13

3.7.1. OECD Definition of Official Development Assistance (ODA)

The exact numbers behind Chinese aid are difficult to give because China rarely publishes any official reports on its financial flows and does not disentangle aid from other flows.⁹⁹ Besides, the Chinese development assistance does not meet the OECD definition that describes Official Development Assistance (ODA) as

flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (bilateral ODA) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies with the pure purpose of export promotion is excluded.¹⁰⁰

Moreover, China's official white papers on foreign aid present only those Chinese aid mechanisms that are close counterparts of ODA.¹⁰¹ Due to the differences in the definition of foreign aid by OECD and the PRC, some activities that are classified as foreign direct investment by the OECD, are viewed as foreign aid by the Chinese.¹⁰² Three instruments can be viewed as the Chinese equivalent of ODA: grants, zero interest loans, and concessional (fixed-rate, low-interest) loans. Through them China finances scholarships for African students, short-term training programs, youth volunteers, medical and technical assistance teams, infrastructural projects such as 'turn-key' construction of stadiums, government buildings, telecommunications networks as well as material aid (export of Chinese goods).¹⁰³ Some forms of assistance are not recognized by the OECD as ODA, e.g. military aid loans.¹⁰⁴ The table below presents main differences in counting aid between China and DAC member states.

99 Op. Cit. AFRODAD (2011), p.14

100 'Official Development Assistance' *OECD Glossary*. Available at <http://stats.oecd.org/glossary/detail.asp?ID=6043> [Retrieved: May 3, 2013]

101 Deborah Brautigam (2011): "Chinese Development Aid in Africa: What, Where, Why, and How Much?" in Jane Golley and Ligang Song (eds.): *Rising China: Global Challenges and Opportunities*. Canberra: Australia National University Press, p. 207

102 Op. Cit. AFRODAD (2011), p. 20

103 Op. Cit. Brautigam (2011): "Chinese Development Aid in Africa...", p. 204

104 Ibid.

Included in Chinese aid figures, but not in DAC member statistics:	Reported by DAC members, but excluded from Chinese aid figures:
<ul style="list-style-type: none"> • Construction of sports facilities • Military assistance • Subsidized loans for joint ventures and cooperative projects 	<ul style="list-style-type: none"> • Costs for foreign students • Debt relief • Costs for first year refugees in the donor country • Administrative costs for aid • Parts of loans that are commercial

Table 3.1. Chinese Aid vs DAC

3.7.2. Chinese Development Assistance According to the White Paper on China's Foreign Aid Policy

White Paper on China's foreign aid policy¹⁰⁵ offers a closer insight into China's foreign aid system. It underlines that “China's foreign aid policy has distinct characteristics of the times. It is suited both to China's actual conditions and the needs of the recipient countries.”¹⁰⁶

One of the features of Chinese aid is its self-development capacity which aims at developing country’s own potential:

(...) China does its best to help recipient countries to foster local personnel and technical forces, build infrastructure, and develop and use domestic resources, so as to lay a foundation for future development and embarkation on the road of self-reliance and independent development.¹⁰⁷

Moreover, unlike Western development assistance, Chinese aid is largely “unconditional” which is related to the principles of mutual respect and non-interference

China upholds the Five Principles of Peaceful Coexistence, respects recipient countries' right to independently select their own path and model of development, and believes that every country should explore a development path suitable to its actual conditions. China never uses foreign aid as a means to interfere in recipient countries' internal affairs or seek political privileges for itself.¹⁰⁸

However, one should be aware that the prerequisite for establishing relations with China is non-recognition of Taiwan, which *per se* imposes a condition on partner countries. Furthermore, the White Paper puts an emphasis on equality, mutual benefit and common development between developing countries:

China maintains that foreign aid is mutual help between developing countries, focuses on practical effects, accommodates recipient countries' interests, and strives

105 Op. Cit. White Paper on China's foreign aid policy

106 Ibid.

107 Ibid.

108 Ibid.

to promote friendly bilateral relations and mutual benefit through economic and technical cooperation with other developing countries.¹⁰⁹

Besides, it claims to respect the actual needs of recipient countries and follows their vision of development rather than imposes its own: “China provides foreign aid within the reach of its abilities in accordance with its national conditions. Giving full play to its comparative advantages, China does its utmost to tailor its aid to the actual needs of recipient countries.”¹¹⁰

3.7.3. Controversies over Chinese Aid

Chinese aid sparks many controversies and it is often considered a threat to Western donors who maintain that lack of condition hampers democratization of African countries:

In recent years, wealthy non-democratic regimes have begun to undermine development policy through their own activist aid programs. Call it rogue aid. It is development assistance that is non-democratic in origin and non-transparent in practice, and its effect is typically to stifle real progress while hurting ordinary citizens.¹¹¹

However, there is no proof that Chinese aid can indeed hamper Western efforts to democratize Africa.

An undeniable disadvantage of Chinese aid is its lack of transparency and accountability. Little is known about the size, purpose and means of administration of Chinese aid.¹¹² Although in recent years many Chinese officials and ambassadors made public statements about the scope of Chinese aid, still official announcements leave much to be desired: “The Chinese Government does not report its aid or other flows to the DAC—a practice adopted by OECD donors (and even many countries outside the OECD).”¹¹³ Lack of transparency make some researchers and scholars to investigate the case on their own – often jumping to conclusions.

Moreover, China does not pay much attention to environmental, health and safety regulations and standards and its own poor record in the fields is transferred to Ethiopia.¹¹⁴ However, not all Western actors abide by environmental, health and safety regulations in their aid or investment programs.¹¹⁵

109 Ibid.

110 Ibid.

111 Naím M. (February 15, 2007): ‘Help Not Wanted’ in *the New York Times*, available at <http://www.nytimes.com/2007/02/15/opinion/15naim.html> [Accessed on December 5, 2012]

112 AFRODAD, p. 33

113 Deborah Brautigam, “Chinese Development Aid in Africa: What, Where, Why, and How Much? In *Rising China: Global Challenges and Opportunities*, Jane Golley and Ligang Song, eds, Canberra: Australia National University Press, 2011, p. 215

114 Op.Cit. AFRODAD, p. 33

115 Ibid.

Moreover, it is suggested that China blurs the boundaries between aid and investment.¹¹⁶ D. Brautigam emphasizes that the Chinese have many more instruments for promotion of development than Western governments and that the West is not ready to accept that the Western pattern of aid is not the only righteous one: assistance for Africa does not have to necessarily only come in the form of aid.¹¹⁷

Last but not least, due to lack of China's country assistance strategies and its emphasis on local ownership, many of the conducted projects do not seem to contribute to poverty reduction but rather to a prestige of the authorities, e.g. new government office buildings, stadiums or conference centers.¹¹⁸

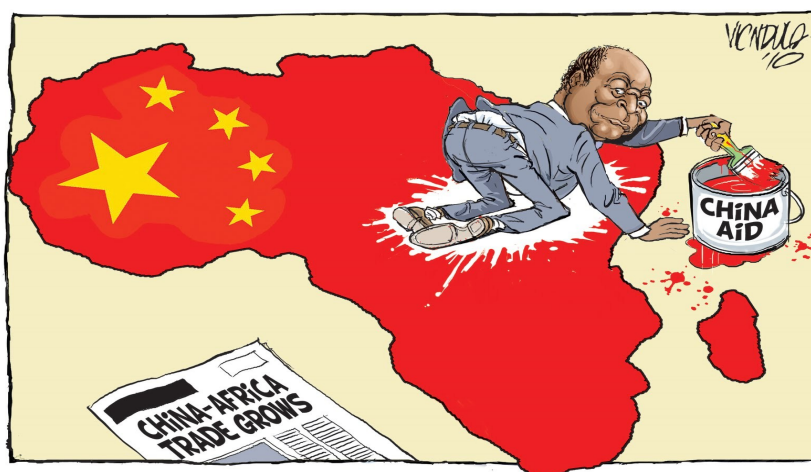


Figure 3.7. A Cartoon Presenting China's Aid in Africa

3.8. “Honey-moon phase” – Challenges to China-Africa Cooperation?

“The question that one should pose is how do African countries intend to define their international position, use their enhanced bargaining power and manage their domestic development. Thus far, Africa has not shown a coherent united strategy. Africa is still fumbling in the dark”¹¹⁹

China-Africa relations are believed to be in their "honey-moon phase" with both sides not recognizing plausible challenges to their cooperation and development. African countries in particular are regarded as unaware of threats resulting from Chinese interests in their economies. As the citation above implies, they lack a coherent strategy towards China and if remain indecisive, they may lose their bargaining power. Aspects of the cooperation which are often perceived as detrimental to Africa may be turned into a success story if wisely

116 *The Economist* (August 13, 2011): “Charity begins abroad. Big developing countries are shaking up the world of aid”. Available at <<http://www.economist.com/node/21525836>> [Accessed on December 7, 2012]

117 Op. Cit. Brautigam (August 2008): "More Mistakes by The Economist..."

118 Op. Cit. Brautigam (2011): "Chinese Development Aid in Africa...", p. 204

119 Op. Cit. Mugumya (2008), p. 8

embraced. For instance, Baregu believes that China's growing demand for resources can be turned into an opportunity for Africa to industrialize.¹²⁰ Therefore, much responsibility rests on African countries:

To reap the greatest benefit from its growing relationship with China, Africa must also take some positive actions. African countries need to work together. The African Union and NEPAD Secretariat have already played an important role in enabling Africa to speak with one voice, but more needs to be done to ensure that Africa coordinates its policies on China and defines its interests and relations with China realistically.¹²¹

Chinese engagement in Africa is complex: as in the case of other players from Europe, the US or Asia, it can bring benefits but also pose certain threats. Environmental and social standards are still disputable and in many aspects China does not pay much attention to pollution or labor rights. One should, however, question if Chinese entrepreneurs are the only ones to do so - not only among emerging economies but of all players in Africa, including those from the West.

Uwe Wissenbach notices that China and Africa may share common interests, but they should not underestimate many differences that lie between them, which are not discussed much in public. These include among others:

market access, industrialisation and diversification of the economy, different culture of labour relations, interest in commodities versus interest to escape the commodities curse, African values in terms of human rights, democracy (based on Africans' experiences with both colonialism and indigenous tyrants after independence not on Western prescriptions!). African diversity/disunity and lack of capacity (including regarding China) are additional factors.¹²²

Wissenbach also warns that China overestimates the strength of state structures in Africa, as well as their capacity to implement a development strategy and the effectiveness of the exercise of sovereignty.¹²³ Similarly, African leaders know too little about China and the ingredients of its economic success. They may not be aware or ignore the fact that China's reforms lasted 30 years and were based on comprehensive development rather than rent-seeking and that "extracting strong concessions from foreign investors in terms of compulsory joint ventures, forced technology and know-how transfer combined with selected protectionism notably in the early decades of opening up and reform."¹²⁴

120 Op. Cit. Baregu (2008), p. 74

121 Op. Cit. McCormick (2008), p.199

122 Wissenbach, Uwe (2008): "The Renaissance or the end of geopolitics? Towards trilateral cooperation in Africa" in in Yan Yu (ed.): *China-Europe-Africa cooperation: Chances and Challenges*. The Sixth Shanghai Workshop on Global Governance. March 14-15, 2008. Shanghai: Institute of International Studies, p. 56

123 Ibid.

124 Ibid.

Chapter 4:

Ethiopia - From a Failed State on a 'Hopeless Continent'¹²⁵

to the 'Lion Economy'?'¹²⁶

4.1. Historical Overview¹²⁷

Ethiopia presents itself as a unique case in the African context: a country believed to be the "home of mankind" (the earliest modern human fossil) with a long and rich history, never colonized with the exception of Italian occupation (1934-1941). Until 1972 Ethiopia had been ruled by monarchs. The last emperor, Haile Selassie, created the foundations for a modern state, introduced a constitution with an elected parliament (albeit powerless) and concentrated predominantly on international affairs. During his reign, Addis Ababa became the headquarters of the Organization of African Unity (OAU), and the UN Economic Commission for Africa. However, due to Selassie's refusal to change land policy or hierarchies of power, Ethiopia remained feudal and dominated by Amhara in bureaucracy and industry resulting in tensions with other nationalities. Selassie was replaced by the Derg regime through a coup d'état in 1974 largely due to his inability to tackle a "growing agrarian crisis, inequitable distribution of land, lack of development, the revolt in Eritrea, drought and famine in Wollo and Tigray in 1972-74 (in which at least 200,000 people died)"¹²⁸ as well as owing to the discontent among the military, students and workers. In 1977 Colonel Mengistu Haile Mariam seized power. Next, he launched the 'Red Terror' where the government security forces "systematically hunted down and killed suspected and alleged members and supporters of opposition groups." The Derg regime also became an ally of the USSR, leading to a deterioration in diplomatic relations with the US and the PRC. With the collapse of the Soviet Union, the Derg lost its main ally and was unable to continue its rule. It was toppled by EPRDF in 1989. In 1995 a new constitution was introduced and the same year Ethiopia was proclaimed the "Federal Democratic Republic", consisting of nine states and two

125 Reference is made to the (now in-) famous *Economist* issue of May 13, 2000, labelling Africa as a "hopeless continent". See *The Economist* (May 13, 2000): "Hopeless continent" in *The Economist*. Available at <www.economist.com/printedition/2000-05-13> [Accessed on March 5, 2013]

126 The same *Economist* regretted in December 2011 to have once labelled Africa as the hopeless continent, and instead, in its March 2-2013 issue suggested that "Africa is rising" and "a hopeful continent" See *The Economist* (December 3, 2011): "Africa rising" in *The Economist*. Available at <http://www.economist.com/node/21541015> [Accessed on March 5, 2013]

127 On the basis of the Website of the Ministry of Foreign Affairs of Ethiopia, "History of Ethiopia". Available at <<http://www.mfa.gov.et/aboutethiopia.php?pg=2>> [Accessed on April 10, 2013]

128 Ibid.

chartered cities. Meles Zenawi was elected Prime Minister and remained in power until his death in August 2012. He was followed by Hailemariam Desalegn Boshe.

4.2. Ethiopia and Global Power Shifts

Although Ethiopia is mostly perceived as a poverty-stricken, ever hungry country, it is currently one of the fastest growing economies not only in Africa but also in the world (12th as of 2012) and if it continues that impressive growth, it may reach middle income status by 2025¹²⁹:

Ethiopia will grow by 7.5% this year [2011], without a drop of oil to export. Once a byword for famine, it is now the world's tenth-largest producer of livestock. Nor is its wealth monopolised by a well-connected clique. Embezzlement is still common but income distribution has improved in the past decade.¹³⁰

How could Ethiopia have changed that radically over such a short period time? What were the internal and external factors that contributed to such a shift and what role did the globalization process played in that transformation?

Domestically, the fall of the oppressive Derg regime and economic reforms that followed under the cabinet of Meles Zenawi boosted a weakened, closed economy. During the Derg, Ethiopia remained isolated and Moscow-dependent. The late prime minister also encouraged many foreign investors to set up a business in his country. This warm welcome encouraged a.o. many Chinese entrepreneurs (e.g. Huajian shoe factory), as well as Indian, Saudi and recently Turkish investments.¹³¹

Abroad, the last decade experienced many events which started a visible shift in geopolitics and the balance of power. The Euro-crisis made many non-European investors to look beyond the EU. For instance, Turkish investors who before the crisis were connected with the EU markets, started searching for alternative business hubs.¹³² Similarly, China with many tariffs on its products, searched for alternative markets. Europe has historically been present in Africa (including Ethiopia), however, its focus was shifted after opening of markets in Central and Eastern Europe in the early 1990s and relatively pessimistic growth scenario's for Africa in the early 2000s.¹³³ When the sound bites on Africa started to become more upbeat a decade or so later, many EU companies interested in Africa are no longer in the

129 World Bank, the (June 2013): "Ethiopia Economic Update – Laying the Foundation for Achieving Middle Income Status" in *World Bank Online*. Available at <http://www.worldbank.org/en/news/press-release/2013/06/18/ethiopia-economic-update-laying-the-foundation-for-achieving-middle-income-status> [Accessed on June 30, 2013]

130 Op. Cit. *The Economist* (December 3, 2011): The sun shines bright

131 Off record interviews with IBF and TCC, Addis Ababa, April 2013

132 An off-the-record interview with a representative of the Turkish Embassy Addis Ababa, April 2013

133 An off-the-record interview with a representative of the EU Delegation to Ethiopia

comfortable natural backyard of Europe, but rather increasingly competing with emerging economies in Africa and also Ethiopia. The ongoing global shift of power has proven to be beneficial to Africa, mostly by widening its choice of economic and political partners.

4.3. Current Economic and Political Situation

According to the Constitution, Ethiopia is a multi-party democracy, but remains a *de facto* one-party state. Political parties are many but they are incapable of challenging the government's position. Similarly the participation of the civil society is close to none.¹³⁴ One of the prerequisites of the Ethiopian authorities is the preservation of national integrity and security. At the moment, the major challenges to integrity are mostly separatist movements in the Ogaden region, ongoing disputes with Eritrea, and relations with Somalia.¹³⁵

Ethiopia is among the most populous (with nearly 80 million citizens) but also the poorest African countries which is one of the reasons why it receives the most foreign aid on the continent.¹³⁶ However, it averaged 10.6% GDP growth per year between 2004 and 2011 which compares to 5.2% GDP growth in Sub-Saharan Africa as a whole.¹³⁷ Its economy is developing quickly and according to some prognoses Ethiopia will be the fastest growing African economy in the years to come.¹³⁸ It is now more open to foreign investors than ever before, but still maintains a protectionist approach to foreign investment. The GoE makes attempts to balance its relations with various actors, including China, India, the EU and the USA.

Due to the starting process of shifting productivity from East Asia to Africa and a global industrial redistribution Ethiopia stands a great chance of attracting FDI and upgrading its economic structure.¹³⁹ For example, Ethiopia, along with other low-income countries, can profit from the estimated 100 million jobs to be freed by China's steady withdrawal from low skilled manufacturing.¹⁴⁰ The current state of affairs offers opportunities to foreign investors.

134 Op. Cit. AFRODAD (2011), p. 12

135 Op. Cit. Thakur (2009), p. 15

136 Op. Cit. AFRODAD (2011), p. 14

137 Bazlyankova, Zornitsa (March 19, 2013): Ethiopia: Africa's Lion Economy Averaging 10.6% GDP Growth per Year. In *Meeting Place for Investors and Entrepreneurs* available at <http://www.merar.com/weblog/2013/03/19/ethiopia-africas-lion-economy-averaging-10-6-percent-gdp-growth-per-year/> [Accessed: June 15, 2013]

138 Ibid.

139 World Bank (November 2012): *Chinese FDI in Ethiopia. A World Bank Survey.*, Executive Summary, p. V

140 Ibid. p. VI

Ethiopian Investment Agency (EIA) enumerates ten main reasons to invest in Ethiopia:¹⁴¹

- Political and social stability;
- Macro-economic stability and growing economy;
- Adequate guarantees and protections;
- Transparent laws and streamlined procedures;
- Ample investment opportunities;
- Abundant and trainable labor force;
- Wide domestic, regional and international market opportunity;
- Competitive investment incentive packages;
- Welcoming attitude of the people to FDI;

However, one should bear in mind that although major economic sectors are liberalized for investment and marketing, the list of those restricted to the government and Ethiopian investors is long. Due to historic reasons, Ethiopians have a very strong sense of national independence and therefore prefer to avoid a situation in which one foreign actor would have too much influence on their internal affairs.¹⁴² At the same time, many sectors are closed to foreigners and only Ethiopians or the Diaspora can invest into those sectors. Such policies protect many sectors and the local business from foreign competitors.

The first group of sectors for Ethiopians are areas reserved exclusively to the government (postal services with the exception of courier services, transmission and supply of electrical energy through the integrated national grid system, and passenger air transport services using aircraft with seating capacity of more than 20 passengers).¹⁴³ The second group consists of areas reserved to Ethiopian nationals (banking, insurance and micro credit and saving services, travel and shipping agency services, broadcasting services, and air transport services using aircraft with a seating capacity of up to 20 passengers).¹⁴⁴ The last group includes more than 30 areas reserved for domestic investors, a.o. retail trade and brokerage; wholesale trade; import trade; export trade of raw coffee, chat, oil seeds, pulses, hides and skins bought from the market and live sheep, goats and cattle not raised or fattened by the investor; hotels (excluding star-designated hotels); bars and restaurants excluding

141 EIA website <http://www.eia.gov.et/english/articles/read_more/4/en/Why_Ethiopia?>

142 Op.Cit. EU Eelegation to Ethiopia

143 Ethiopian Investment Agency (February 2013): "Investment Regime" at the Website of the Ethiopian Investment Agency. Available at

<http://www.eia.gov.et/english/articles/read_more/5/en/Investment_Regime> [Accessed on June 5, 2013]

144 Ibid.

international and specialized restaurants; travel agency, car-hire and taxi-cabs transport services, commercial road and water transport services, museums, theaters and cinemas.¹⁴⁵

At the moment Ethiopia's major challenges are poverty and accelerated economic growth: "The major development challenges include abject poverty; the constant state of food insecurity; poor water and land management; inadequate access to health care, education and economic opportunities."¹⁴⁶ Ethiopia is mainly an agrarian-based economy which must focus on the diversification of its exports and take actions to increase the quantity of its value-added products.¹⁴⁷ Most of Ethiopian population lives in the rural areas (nearly 85%)¹⁴⁸ where the spread of technology is slow, where ploughing is still done with oxen, and tilling, planting and harvesting is manual. Therefore, the focus of the economic development should be placed on rural development.¹⁴⁹ Like most of other countries in sub-Saharan Africa, Ethiopia has poor standard indicators of infrastructure development, thus greater international support is needed in this field.¹⁵⁰

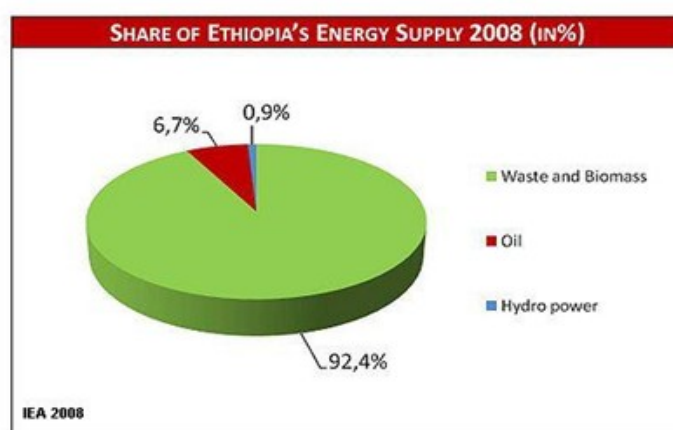


Figure 4.1: Share of Ethiopia's Energy Supply 2008 (Source IEA)

The road road system remains underdeveloped and thus hampers country's economic growth. Ethiopia has the lowest road density in Africa with a total length of 33, 297 km.¹⁵¹ Moreover, it has "one of the world's lowest levels of access to modern energy services, and

145 Ibid.

146 Op.Cit.Thakur (2009), p. 6

147 Op. Cit.Thakur (2009), p. 8

148 Ibid., p. 12

149 Ibid., p. 12

150 Ibid., p. 9

151 G. Gamora, K. Mulugeta, K. Mathews, Y. Hong (2010) "The Implementation of the 'Nine Principles' by Chinese Companies in Ethiopia", p. 50 in Marks S. (ed.): *Strengthening the Civil Society Perspective. China's African Impact*. Pambazuka

relies primarily on traditional biomass.”¹⁵² Figure 3.1 indicates that in 2008 waste and biomass constituted over 90% of country's energy supply, whereas oil (imported) and hydropower constituted 6.7% and 0.9% respectively.

Ethiopia's installed power capacity is in the order of 2.2 GW (as of August 2012). It lags far behind Egypt's (around 26 GW for a roughly equivalent population of some 90 million) and Sudan's (close to 4 GW).¹⁵³ The Ethiopian authorities plan to expand the energy sector in a dramatic way: the GTP has set an ambitious target of 10 GW of power generation capacity to be reached by 2015.¹⁵⁴

After 2002, the GoE's priority objectives have been poverty reduction and meeting MDGs which were approached by two strategies: Sustainable Development and Poverty Reduction Strategy - SDRP (2002-2005) and Plan for Accelerated and Sustained Development to End Poverty - PASDEP (2005-2010).¹⁵⁵ PASDEP distinguishes nine priority areas: agriculture, food security, water, education, roads, health power, industry and construction.¹⁵⁶ Since 2010, Ethiopia has been applying the Growth and Transformation Plan (GTP) which is a follow-up of SDRP and PASDEP and which aims at improvement the Ethiopia's economy by achieving a projected GDP of 11-15% by 2015:

The GTP identifies sustained rapid growth, emphasis on agriculture, the promotion of industrialization, investment in infrastructure, enhancement of social development, strengthening of governance, and the empowerment of youth and women as strategic pillars, and defines three strategic directions for strengthening governance: increasing implementation capacity; ensuring transparency and combating corruption; and securing participation in governance – all within a stable macroeconomic framework. It also underlines the importance of prioritizing public sector investment based on rigorous cost-benefit analysis, improving data quality and implementation capacity, maintaining fiscal prudence and continuing tax reform, containing inflation and promoting monetization and competition.¹⁵⁷

Other objectives of the GTP include "reaching a per capita GDP of about USD 700 (the current level is about US\$ 400); over 2 000 km of new railway line, 8 000 megawatts (MW) of additional power generation, mobile phone density of 8.5 per 100 (up from the current level of 1.5); and a road network of 136 000 km (up from the current level of 45 000 km). Farmers throughout the country are to be provided

152 Zeynep Erdal (February 2013): "Strengthening new bonds: Chinese investment's role in boosting Ethiopian industrialization" on *Consultancy Africa Intelligence* Available at http://www.consultancyafrica.com/index.php?option=com_content&view=article&id=1209:strengthening-new-bonds-chinese-investments-role-in-boosting-ethiopian-industrialisation-&catid=87:african-finance-a-economy&Itemid=294 [Accessed on March 10, 2013]

153 An off-the-record interview with a representative of the EU Delegation to Ethiopia

154 Ibid.

155 Op. Cit. AFRODAD (2011), p. 15

156 MoFED: "Economy (of Ethiopia)" in Website of MoFED. Available at <http://www.mfa.gov.et/aboutethiopia.php?pg=3> [Accessed on June 5, 2013]

157 Ibid.

with access to roads, electricity and telecommunication services.¹⁵⁸

Therefore, the development of infrastructure can be an efficient way of combating poverty and improving living standards by better transport and employment chances.

158 Ibid.

Chapter 5:

Chinese Engagement in Africa

- The Case of Ethiopia

5.1. Sino-Ethiopian Relations - A Historical Background

Both China and Ethiopia boast a long and rich history dating back to ancient times. Nevertheless, the early origins of Sino-Ethiopian relations are hard to trace back. It is highly likely that they started in the Antiquity with the Chinese merchants trading on a small scale with the East Africans.¹⁵⁹ and there is evidence that during the reign of the Song Dynasty in China (960-1276) Chinese commodities appeared in Ethiopia.¹⁶⁰ Some scholars argue that the contact was established because the Chinese were importing rhinoceros from Abyssinia.¹⁶¹

Speaking of the recent history, China was among six countries which did not recognize the Italian occupation of Ethiopia (other being Mexico, New Zealand, Spain, the Soviet Union and the US).¹⁶² Ethiopia had been changing its position towards China many times, e.g. it in 1958 voting against China's admission to the UN and changing its attitude completely only 3 years later.¹⁶³ Ethiopia was among the African states visited by the Chinese prime minister Zhou Enlai in 1964¹⁶⁴ but official diplomatic relations were established only on November 24, 1970 because the emperor Haile Selassie had been strongly siding with the Western powers, mostly with the U.S.A, during Cold War.¹⁶⁵ He showed more keen interest in Japan and its long-reigning monarchy than in China and was of the opinion that Ethiopia could not learn much from China in its pursuit of modernization.¹⁶⁶ Tensions between both countries appeared in 1967 when China supported the Eritrean People's Liberation Front (EPLF) both morally and materially. They eased only after China had agreed to recognize

159 Op. Cit. G. Gamora, et al. (2010) p. 40

160 Seifudein Adem (2012): "Imperial Ethiopia's relations with Maoist China". In *African-Asian Affairs. The China Monitor*. Issue no 1. Centre for Chinese Studies. Stellenbosch University., p. 33

161 Gamora and Mathews (2010): "Ethio-China: challenges and prospects", in Axel Harneit-Sievers, Stephen Marks, Sanusha Naidu *Chinese and African Perspectives on China in Africa*. Pambazuka p. 92

162 U.S., Department of State, Publication 1983, Peace and War: United States Foreign Policy, 1931–1941 (Washington, D.C.: U.S., Government Printing Office, 1943), pp. 28–32

163 Op. Cit. Seifudein (2012), p. 44

164 Op. Cit. Gamora and Mathews (2010), p. 93

165 Op. Cit. AFRODAD (2011), p. 17

166 Op. Cit. Seifudein (2012) p. 33

Eritrea whereas Ethiopia recognized Taiwan as the integral part of China (One-China Policy). In years 1970-1973 the mutual relations were relatively good but they worsened again during the time of the Moscow-oriented communist Derg regime (1974-1991), and were totally suspended in the years 1977 - 1982 due to the closeness of the military government with the Soviet Union and China's support to then regional enemies - Somalia and Eritrea Liberation Front. Only when Sino-Soviet relations had improved (after 1982), Ethiopia diplomatic ties were re-established. A significant betterment came with dismantle of the Derg regime and power takeover by the current ruling party - the Ethiopian People's Revolutionary Democratic Front (EPRDF) in 1991. Economic cooperation has accelerated rapidly since 1995.¹⁶⁷ Chinese aid, trade and investments considerably increased from that time on and especially since the rise of the Zenawi's government¹⁶⁸ although the economic and scientific co-operation between both countries harks back to the beginning of 1970.¹⁶⁹ With the end of the Cold War, China directed its interests to the economic and, to some extent, political, dimension of its co-operation with African states¹⁷⁰ which can be exemplified by its relations with Ethiopia. Currently, Chinese embassy is one the largest missions in Addis Ababa and hosts many more high-ranking delegations than any Western country' embassy.¹⁷¹ China's rapid economic development is viewed as a role model for Ethiopia, as one of the Ethiopian top officials at the Ministry of Foreign Affairs put it: "Never in modern history has a nation successfully made such a determined and massive effort as China has in achieving progress within such a short span of time. Ethiopia has been following this remarkable achievement with great interest and admiration."¹⁷²

Sino-Ethiopian relations are also enhanced by historic events such as a fascist aggression in 1930s (Italian in the case of Ethiopia and Japanese in the case of China), China's condemnation of an Italian attack on Ethiopia, Ethiopia's strong support for China's claim to become a member of the UN Security Council (1969, even if no diplomatic were established at that point) and to regain its seat at the UN (1971).¹⁷³ Besides, Ethiopia supported China when it had to face anti-China proposals at the UN Conference on Human Rights.¹⁷⁴

167 Op. Cit. Gamora, Mathews et al (2010), p. 41

168 Op. Cit. Thakur (2009), p. 9

169 Ibid.

170 Op. Cit. Gamora and Mathews (2010), p. 94

171 Op. Cit. Gamora et al (2010), p. 53

172 Cited in Alden, Chris (2007): *China in Africa*. London; New York: Zed Books. p. 35

173 Op. Cit. Gamora and Mathews (2010),p. 98

174 Ibid, p. 99

5.2. Motivations behind Sino – Ethiopian Cooperation

China refers to the Sino-Ethiopian relations as a win-win in which both countries benefit from their mutual relations. Ethiopia is regarded as China's strategic ally in the Horn of Africa, whereas for Ethiopia China has become an important partner in the economic and political transformation.¹⁷⁵ The Sino-Ethiopian partnership is viewed as unique in the African context as Ethiopia does not fit in the general pattern of "typical" African partners of China. This is mostly because it lacks abundant natural resources which have attracted China to many other African countries such as Angola, Nigeria or Sudan. Due to the country specific features, China seeks for a different type of engagement with Ethiopia.

5.2.1. Chinese Engagement in Ethiopia

As for **push factors**, China's rapid industrial modernization, growing burgeoning middle classes, rising incomes and purchasing power as well as amassed huge amounts of foreign reserves led to an increasing demand for natural resources, agricultural goods (e.g. cotton), processed commodities, light manufactured products, household consumer goods, food, etc. as well as a need of acquisition of assets abroad to employ its foreign reserves. Besides, one of the chief objectives of China's global policy is the increase of Chinese FDI, which has been further buoyed by steadily increasing labor costs in China, which is increasingly pushing Chinese companies abroad to stay competitive.¹⁷⁶ China's economic growth miracle has its other side: growing labor costs, stricter regulatory compliance make Chinese investors to search for new investment places. Moreover, Chinese investors view Ethiopia a safe place for investment where they do not have to face as fierce competition as in China.¹⁷⁷

The **pull factors** for China's interest in Ethiopia are plenty and were partially mentioned in the previous chapter.¹⁷⁸ First and foremost, it is an important player in the African politics and a seat of the African Union, many UN agencies and NGOs. Secondly, Ethiopia's political stability and low crime rates play a crucial role in attracting Chinese businessmen¹⁷⁹. Therefore, many investors regard Ethiopia as a hub for their business activities in the region, which is exemplified by the development of the Eastern Industrial Zone. Furthermore, opportunities provided by the current state of the Ethiopian economy such as the limited market capacity and low market competition, cheap labor, water,

175 Op. Cit. Thakur (2009), p. 4

176 An off-the-record interview with a representative of the EU Delegation to Ethiopia

177 Op. Cit. Gamora, p. 52

178 See p. 39-40

179 An off-the-record interview with a representative of Sinnohydro

electricity and land-lease contracts, as well the expanding Ethiopian market¹⁸⁰, are particularly alluring to investors. Another of China's objectives in Ethiopia is linked to infrastructure, i.e. achieving better access to Ethiopia's consumer market' which in terms of size and population, Ethiopia is one of the largest countries both in the region and in Africa as a whole.¹⁸¹ Besides, investment incentives provided by the Ethiopian government motivate many investors to set up their business in Ethiopia. These include e.g. tax holidays, tariff free policy for FDI equipment imports. Furthermore, Ethiopia lacks well-established brands which make it easier to penetrate the market. Besides, entrepreneurs' social networks exert a substantial impact on investors' interest in Ethiopia.¹⁸² For instance, most Chinese investors learn about opportunities on the Ethiopian market through personal channels. Noteworthy, managers and owners of 80% of Chinese companies surveyed by the WB came originally from three provinces (Liaoning, Zhejiang, and Fujian).¹⁸³ What is more, lenient health and security requirements were also enumerated as one of the reasons why Ethiopia can be attractive to foreign investors from emerging countries.¹⁸⁴ Low health and security requirements are on par with low salaries for the labor force in Ethiopia. Chinese investors may find Ethiopia even more convenient because of the similarities between governmental policies concerning human rights, labor rights, working environment, etc. They do not question those issues¹⁸⁵. In addition, Chinese investors praised Ethiopian license office for efficient and quick service and a lack of corruption¹⁸⁶. Furthermore, since Ethiopia belongs to COMESA, AGOA etc. it enjoys low-tariffs to the USA and the EU which offer a good opportunity for China to enhance its exports to these countries¹⁸⁷. Nevertheless, Chinese investors cannot benefit from the trade agreements immediately because "the strict Rule of Origin required by many agreements together with the underdeveloped supply chain network in most African countries have added obstacles for Chinese investors to take full advantage of the trade agreement immediately."¹⁸⁸

180 An off-the-record interview with the representative of the Indian Business Forum; Turkish Embassy

181 Op.Cit.. Thakur (2009). p. 10

182 World Bank (November 2012): *Chinese FDI in Ethiopia. A World Bank Survey.*, p.15;

183 Ibid, p. 15

184 An off-the-record interview with Turkish Embassy; EBF

185 Ibid.

186 Op. Cit. Sinohydro

187 An off-the-record interview with a representative of the European Business Forum, March 2013

188 Op. Cit. Fu (2012), p. 15

5.2.2. Ethiopia's Interest in China

Ethiopia's interest in China is multifaceted. Firstly, Ethiopian authorities regard China as one of many partners who can assist Ethiopia at achieving its goals. The GoE makes it quite clear that it does not want to rely solely on one player and prefers a co-operation with numerous foreign actors.¹⁸⁹ Moreover, like in other African countries, China is viewed as an alternative international partner that lessens Ethiopia's dependence on Western actors and thus Ethiopia can choose whom to cooperate with and on what conditions. Besides, as emphasized by Ethiopian politicians¹⁹⁰, China is considered an example worth following; its impressive alleviation from abject poverty in the time span of approximately 30 years offers a promising development model for Ethiopia. Furthermore, China exports lots of cheap textiles to Ethiopia, including shoes which despite their low quality, are affordable to the local population. Last but not least, the way in which China presents the cooperation: as based on mutual respect, understanding and equality – comes as very appealing to Ethiopia for which its independence and sovereignty is the integral part and a matter of national pride.

5.3. Framework of Sino-Ethiopian Cooperation

Sino-Ethiopian cooperation is regulated by many bilateral and regional fora, commissions and agreements. The most prominent are¹⁹¹:

- JECC - Joint Ethiopia China Commission (1988),
- Sino-Ethiopian Agreement for Mutual Promotion and Protection of Investment (1988),
- Sino-Ethiopian Agreement for Trade, Economic and Technological Cooperation (1996),
- Forum for China-Africa Cooperation (2000).

The GoE has preferred to use the JECC whereas the Chinese government has been using mostly FOCAC which is “situated within the Ministry of Foreign Affairs, but encompassing the Ministry of Commerce, to coordinate Chinese foreign policy objectives in Africa.”¹⁹² Thus, in practice this means that some negotiations take place through the formal channels of JECC and FOCAC and other at different levels, e.g. between heads of states.

189 Op.Cit. EU Delegation

190 See p. 45

191 Op. Cit. AFRODAD (2011), p. 25

192 Ibid. p. 25

5.4. Chinese Development Assistance to Ethiopia

The GoE is interested in Chinese aid for to the same reasons as other African leaders: it is disbursed fast, it is more certain than Western aid, and due to its lack of conditionality, it is viewed as compatible with Ethiopia's national goals and strategies. However, opposite to general perceptions, China's development assistance seems to be very modest when compared to other donors. However, unlike them, China's aid is channeled through the Ministry of Finance, the National Audit Office and related ministries according to different projects.¹⁹³

Chinese aid in Ethiopia can be traced back to the early 1970s but until the late 1980s, it was minimal and limited mostly to the form of emergency relief aid and manpower training.¹⁹⁴ Much had changed since mid-1990s mostly as a result of Ethiopia's market transformation: “this relationship has broadened and taken a more commercial or corporatist orientation, whereby Chinese aid, trade and investments in Ethiopia are often inter-woven.”¹⁹⁵ As already mentioned in the second chapter, although the Chinese aid is not conditional, it is often tied and thus cannot be differentiated from Chinese investments. Consequently, if Chinese aid is considered according to the OECD standards, it is indeed very low. AFRODAD shows that in 2010 Chinese aid has constituted less than 1% of total aid to Ethiopia in the previous 5 years.¹⁹⁶

5.4.1. Examples of China's aid in Ethiopia

Some of the best known examples of China's development assistance are Addis Ababa Ring Road, Gotera Flyover Road, the new African Union building, TVET College building and Ethio-China Polytechnic University. Moreover, China assisted financially new energy projects which led to a marked improvement of Ethiopia's energy situation, e.g. portable solar power (providing electricity to schools), marsh gas (light and heating in rural areas), and hydropower (the Abu-Samuel Hydropower Plant). It also financially supported other projects such as the first highway in Ethiopia, (planned to be finished by April 2014), Adama Windpower Station, the Bole-Hole Water Supply project, expansion of the Bole Road, etc.¹⁹⁷ Furthermore, the Chinese government enhanced human resource development by sponsoring more than 700 multilateral and bilateral training programs in various sectors. In 2012 only nearly 400 governmental officials and technical personnel traveled to China for the purpose of

193 Op.Cit. The White Paper on China Foreign Aid

194 Op. Cit. AFRODAD (2011), p. 10

195 Ibid.

196 Op. Cit. AFRODAD (2011), p. 14

197 A special meeting with the Chinese Ambassador to Ethiopia organized by DAG, February 2013

training.¹⁹⁸ Besides, China has actively assisted Ethiopia's agricultural development through projects such as the Agricultural Experts' Project, Agricultural TVET Project, Agricultural Trainings in China, building the Ethiopia–China Agricultural Technology Demonstration Center as well as over 100 schools in rural areas, and providing food aid in critical situations.¹⁹⁹ What is more, China offers medical assistance (Tirunesh - Beijing hospital, supply of medical equipment) and cooperation in education (e.g. through building three schools in rural areas). Besides, In 2007 Ethiopia was selected together with Nigeria, Angola and the Democratic Republic of the Congo to receive soft loans for developing Africa's infrastructure from China's state financial institutions, including the Export-Import (Exim) Bank of China.²⁰⁰

5.4.2. Controversies over Chinese Aid in Ethiopia

The Western donors see the Chinese development assistance as a potential threat to the democratization, good governance and popular dialogue. The underlying reason for their fears is the no-strings attached policy. This means that China provides Ethiopia with a regular aid flow even in the time of internal upheavals and government's abuses.²⁰¹ This can be illustrated by the developments after the controversial national elections in 2005. In the aftermath of increased human right abuses, Western donors suspended their funds for Ethiopia. Nevertheless, China continued providing Ethiopia with aid.²⁰²

Moreover, tied aid is claimed to be detrimental to the Ethiopian economy because “the use of Chinese companies and contract workers fosters monopoly induced inefficiencies and constrains learning by doing and lack of technology transfers and spillovers from Chinese aid and investment projects.”²⁰³ There were also fears that the tied form of aid would run Ethiopia into debts. AFRODAD argues that those warnings were premature because the aid to Ethiopia is relatively small and aid which is channeled through trade and investment projects comes in the form of grants, in-kind and interest free loans.²⁰⁴ China has been also including Ethiopia in its debt relief program – though on a small scale.²⁰⁵

198 Ibid.

199 Deborah Bräutigam; Xiaoyang Xiaoyang (2012): An Overview of Chinese Agricultural and Rural Engagement in Ethiopia. International Food Policy Research Institute (IFPRI) p. 6-10

200 Op. Cit. Thakur (2009), p. 9

201 Ibid., p. 11

202 Op. Cit. Gamora and Mathews (2010), p. 96

203 Ibid.

204 Op. Cit. AFRODAD (2011), p. 11

205 Ibid., p. 30

AFRODAD points out that Chinese and Western aid are complementary rather than exclusive because whereas the Western aid is program-based and barely focused on infrastructure construction or manufacturing, the Chinese aid is based on projects and concentrates heavily on infrastructure, construction and manufacturing. Nevertheless, Chinese aid has given Ethiopia more power to reject conditions of Western donors.²⁰⁶

However, so far, Chinese aid has proven to be in line with Chinese priorities in Ethiopia rather than Ethiopian policies. This does not mean that Chinese aid is wrongly allocated but it is visible that in areas which are not of interest to China, aid is relatively small.²⁰⁷ This is best illustrated by Chinese infrastructural development projects which represent a confluence of Chinese and Ethiopian interests.²⁰⁸ As noticed by AFRODAD, both Chinese development assistance and investment in Ethiopia concentrate in three sectors: manufacturing, construction and infrastructure.²⁰⁹ However, the GoE allocated most of the received foreign development assistance into its priority sectors, i.e. agriculture, infrastructure, education and health (as of 2009).²¹⁰

Besides, the civil society is not involved in the Sino-Ethiopian negotiations so the GoE is responsible for aligning Chinese aid to its development priorities.²¹¹ The lack of conditions which is a blessing to the GoE, may be a curse to the civil society and human right activists who view it as a threat to the democratization.²¹²

5.5. Economic Engagement: FDI, Contractors and Trade

The improvement of diplomatic relations between China and Ethiopia was followed by a huge influx of Chinese investments and enhanced trade relations. As time went by, China has become an important player on the Ethiopian market which has been particularly visible from the mid-1990s on.

5.5.1. Trade

As of 2012, in terms of overall trade, China is Ethiopia's second largest partner, surpassed only by the EU. However, when it comes to import, China comes out as the largest importer to Ethiopia (more than 1,3 billion Euro which constitutes 9.2% of all import to Ethiopia), followed by the EU. This is a marked increase since in 2004 China's imports were

206 Ibid.

207 Ibid. p. 16

208 Ibid.

209 Ibid. p. 21

210 Ibid.

211 Ibid, p. 26

212 Ibid, p. 28

barely EU 300 000.²¹³ In 2011 the trade figures were lower when compared with 2010, however, according to the IMF this decline was only temporary and resulted from frontloading of imports from the previous years.²¹⁴ Imports from China include predominantly electronic and telecommunications equipment, machinery, textiles (including low-priced clothing), tires, batteries, motor vehicles, and steel products.²¹⁵²¹⁶ As for exports, China is the second largest exporter (189 million Euro – 14%) surpassed by the EU (435 million Euro – 32.1%). Exported goods include mostly raw goods (sesame, oil seeds, leather, grains and gum).

The Major Imports Partners			The Major Exports Partners			The Major Trade Partners		
Country	Mln EU	%	Country	Mln EU	%	Country	Mln EU	%
China	1,311	9.2%	EU-27	542	27.3%	EU-27	1,762	10.9%
EU-27	1,220	8.6%	China	219	11.1%	China	1,531	9.5%
USA	1,105	7.8%	US	134	6.8%	US	1,239	7.7%
Saudi Arabia	824	5.8%	S. Arabia	132	6.6%	S. Arabia	955	5.9%
India	549	3.9%	Djibouti	54	2.7%	India	571	3.5%

Table 5.1. Ethiopia's Trade with Main Partners (as of 2012)

The table above indicates a significant discrepancy between the import and export levels. Ethiopia's trade balance with China is negative and the trade imbalance remains in favor of China. Nevertheless, Chinese authorities have taken some steps to reduce the imbalance. For instance, China suspended many tariffs on Ethiopian goods, mainly on agricultural products which resulted in a boost of Ethiopian exports:

In response to the imbalance, the Chinese government followed the example of the US-sponsored African Growth and Opportunity Act, under which 6 500 products are on the duty-free/quota-free list. The Chinese government provided special/differential treatment (duty-free and quota-free) to 442 commodities, and most of Ethiopia's exports are covered under this initiative²¹⁷

The positive outcomes of this policy can be exemplified with a 500% increase in sesame exports between 2005 and 2009.²¹⁸ However, Ethiopia lacks agricultural goods other than sesame which could be exported to China in large quantities. Coffee, Ethiopia's main export product is not popular in China; China counts for less than 1% of world coffee

213 Op. Cit. EU Delegation

214 Ibid.

215 Op.Cit. G. Gamora, et al. (2010) p. 41

216 Op.Cit. EU Delegation to Ethiopia

217 Op.Cit.Thakur (2009): "Building on Progress". p. 8

218 Ibid, p. 9

consumption.²¹⁹ Besides, it was agreed in 2012 that zero-tariff policy will be further expanded and applied to nearly 90% of African goods (before 65%).²²⁰

Voices have been raised against China's large-scale export of labor-intensive products, such as textiles and footwear products which forced out small-sized local producers from the market. This is seen as a serious challenge to the domestic growth and expansion of certain sectors. However, a study by Thakur argued that in a long-term perspective medium-sized local companies considerably improved their designs, quality and delivery time as well as acquired newer equipment in order to compete effectively with Chinese companies.²²¹ Accordingly, even if in the short-term perspective Chinese trade of low-quality cheap products can be regarded as detrimental, in the long-term perspective, it results in higher competitiveness and leads to the rise in quality and efficiency of local products.²²² Besides, Chinese contribution to the development of local infrastructure may assist Ethiopia's local business at achieving this outcome.²²³

Nevertheless, Thakur underlines that there is a need for monitoring the quality of imported Chinese goods: "The Ethiopian government has not yet established an agency or mechanism to monitor/verify these certificates or to ensure that products are of sound quality."²²⁴

5.5.2. Foreign Direct Investment (FDI)

FDI can be particularly beneficial to a host country as it is a necessary component of the maintained economic transformation. It plays a vital part not only because it sustains high investment rates but it is also crucial for highly desirable knowledge and technology transfer, and the development of infrastructure of host countries.²²⁵²²⁶ For decades Ethiopia's market had been closed to foreign investors but it has been gradually opening up since the late 1980s/early 1990s. Nowadays, some sectors are still closed for foreign investors.²²⁷

Process of investment in Ethiopia consists of three main stages as shown in figure 4.2. The three stages include investments that have received an initial license (pre-

219 Op. Cit. EU Delegation to Ethiopia

220 Ibid.

221 Op. Cit. Thakur, p. 8

222 Op. Cit. Gamora, Mathews et al. (2010), p. 41

223 Ibid.

224 Op. Cit. Thakur (2009), p. 9

225 Op. Cit. WB Survey, p. 1

226 Fu Xiaochen (2012): Promoting Manufacturing Foreign Direct Investment from China to Ethiopia. Master Thesis, Harvard University. Available at

http://www.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/pdfs/degree-programs/mpaid/SYPA_XiaochenFu_2012.pdf [Retrieved July 15, 2013]

227 See p. 40

implementation), have moved to the next stage (implementation) and finally to production (operation). Companies have a year or two to move forward from the pre-implementation to the next stage. If they fail to do so, their license is revoked.²²⁸

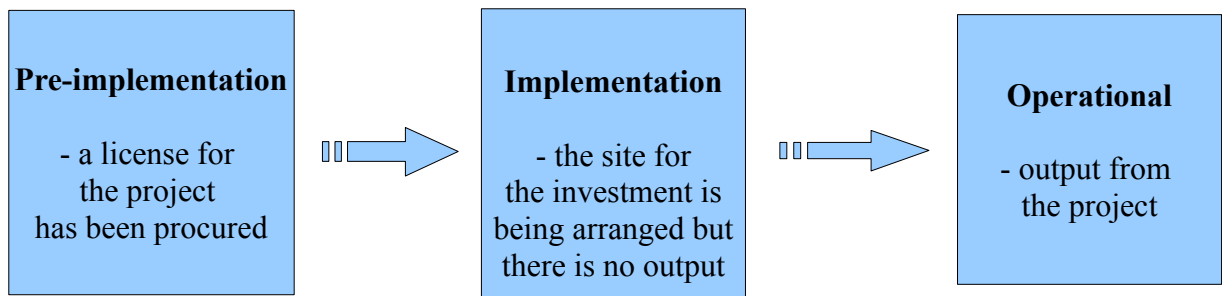


Figure 5.2. Stages of Investment in Ethiopia²²⁹

The data by EIA shows that most investors do not proceed to the final stage. The reasons are not clear on all cases and do often depend on a sector. ATA also points out that some investors in this sector have used acquired land not for investment but essentially for speculative purposes.²³⁰

As the figure below shows, opposite to common perception, China is by no means a top investor in Ethiopia. It places 6th after India, Turkey, Saudi Arabia, EU-27 and the USA. However, it is the top investor among all the aforementioned countries to have most investment in the final, operational phase of investment. This shows that Chinese companies are more successful in making their business operational.

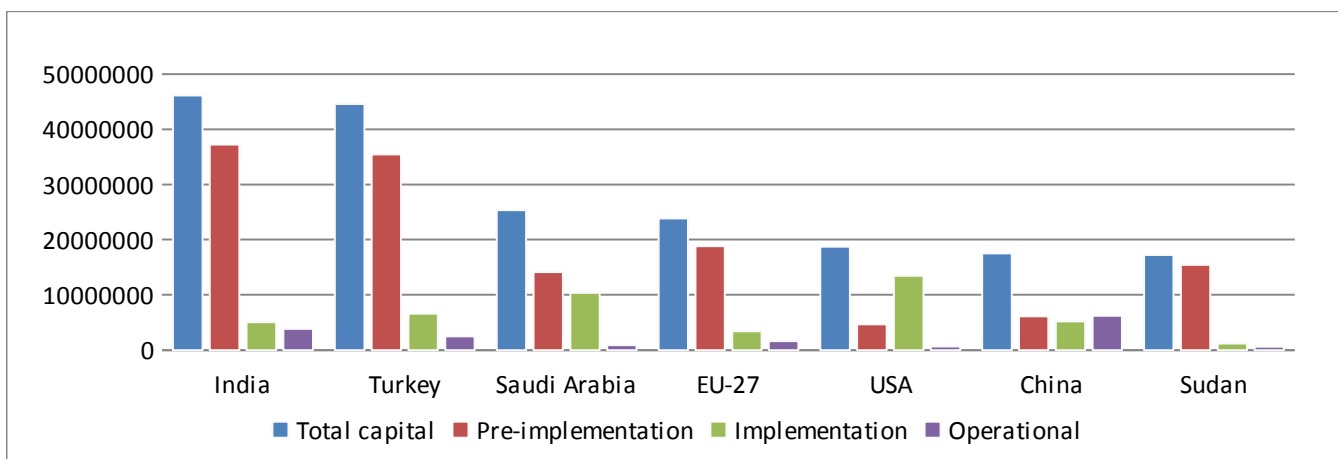


Figure 5.3. Top FDI by country of origin and capital (in '000' birr), January 1, 1992 - December 31, 2012 (Source: EIA, author's own calculations)

228 Op. Cit. Brautigam and Xiaoyang (2012), p. 14

229 Authors definition on the basis of information provided by the EU Delegation and EIA

230 An off-the-record interview with a representative of Ethiopian Agricultural Transformation Agency, April 15, 2013

The Chinese may not be a newcomer in Africa but in the case of Ethiopia, its presence was barely visible before the 21st century. As the graph below indicates, the number of new projects and the capital invested into them raised rapidly from 2003 on and decreased in the last four years. The reasons for the sudden increase of Chinese investments were mentioned before.²³¹

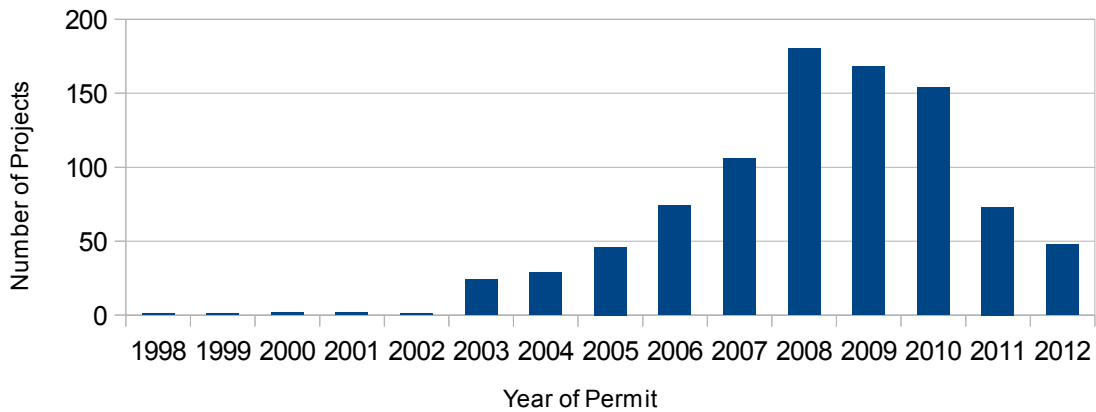


Figure 5.4. Number of All Chinese Projects by Year of Permit
(Source: EIA, author's own calculations)

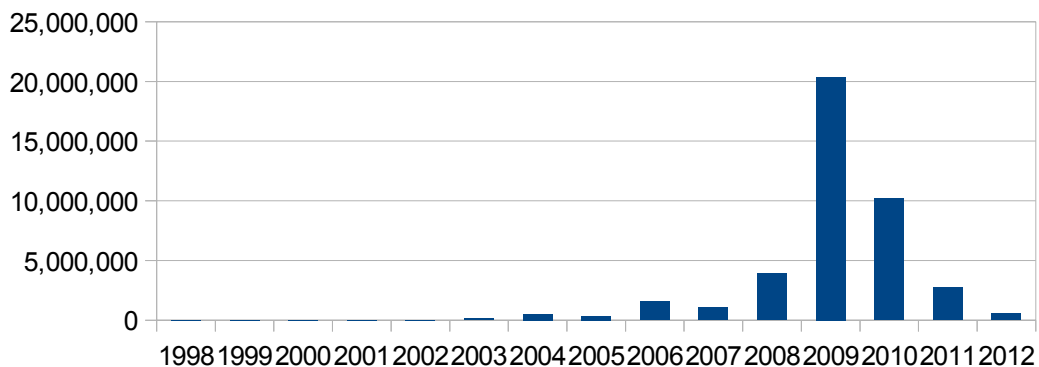


Figure 5.5. Chinese Investment Capital by Year of Permit (in '000' Birr)
(Source: EIA, author's own calculations)

The decrease in the last year requires further investigation. The fact that China has substantially less capital allocated in the pre-implementation stage could also suggest that China's interest to invest in Ethiopia is on the decline which was not, however, confirmed by the interviews with the Chinese businessmen and representatives of the Chinese embassy.

As one would observe from the table below, the EU and Chinese companies have undertaken considerably more projects than Turkish and Indian companies – 1474 and 877

²³¹ See pp. 45-47

respectively. However, for both the EU and China the average capital per project is relatively small when compared with Turkey and India. This implies that Chinese and European investors conduct numerous projects but of a relatively low value whereas Indian and Turkish investors, though less numerous, aim at high-value projects. This can be partially explained by the differences in the sectoral portfolios of the actors: with many projects in the services sector, relatively less capital is required than in the more capital intensive manufacturing and – to a lesser extent – agricultural sectors.

Actor	China	EU-27	India	Turkey
Projects	877	1,474	530	217
General Capital (in '000' ETB)	40,696,698	47,095,724	51,629,960	44,665,757
Average Capital per project (in '000'birr)	46,404.44	31,950.97	97,415.02	205,832.98

Table 5.2. Chinese, European, Indian and Turkish investment by number of projects, general capital and average capital per project, 2003-2012 (Source: EIA, author's own calculations)

Total Chinese investment volume as of 2012 was ETB 7.5 billion (US\$ 450 million).²³² Chinese investments are diversified but concentrates heavily in certain sectors. The graphs below presents China's main sectors of investment by capital and by the number of projects. In both cases, China's top sector is manufacturing: 55% of all projects and 73% of all Chinese capital in Ethiopia is allocated here. The runner-up is less obvious, by the number of projects it is rental and consultancy service (15% of all projects), by the capital it is construction (11%). The third sector is also not obvious: by the number of projects that is construction (14%), by the capital it is agriculture.

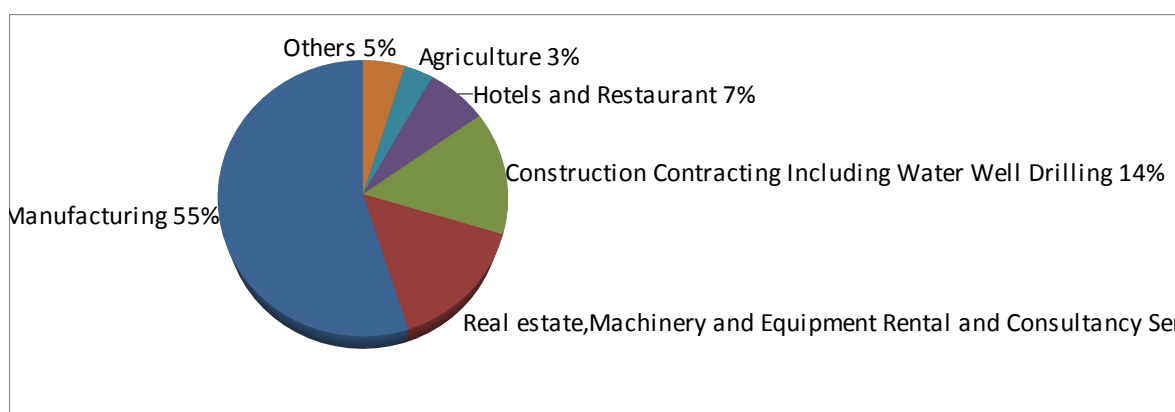


Figure 5.6. Chinese Investment by Number of All Projects per Sector, 2003-2012 (Source: EIA, author's own calculations)

232 Op. Cit. World Bank Survey (2012), p. 11

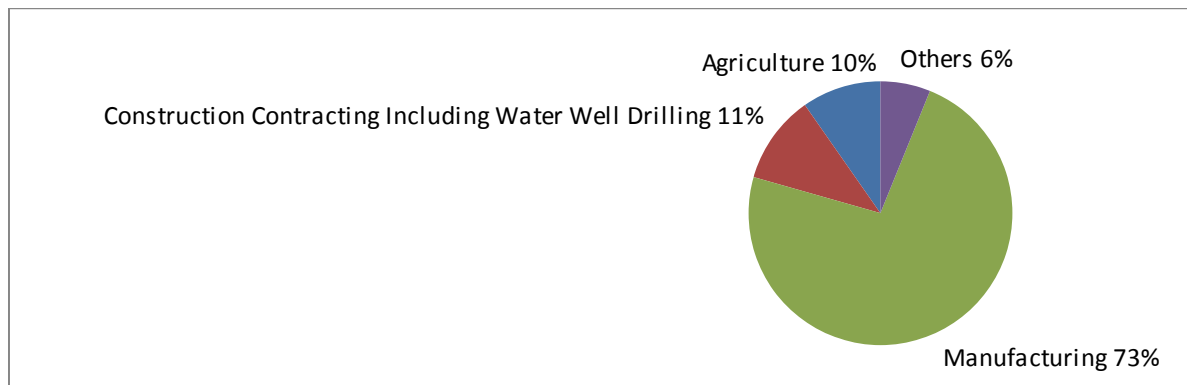


Figure 5.7. Chinese Investment by General Capital per Sector, 2003-2012 (Source: EIA, author's own calculations)

5.5.3. General Characteristic of Chinese Companies in Ethiopia

Chinese companies investing in Ethiopia are mostly privately owned (69 %) and only to a smaller extent joint ventures with an Ethiopian partner (15%) or SOE (a state owned enterprise - 13%).²³³ Chinese companies rely heavily on imported material inputs and supplies: in 2011, 91.5% of the companies surveyed by the WB imported materials and supplies, and 61% of their total material inputs and supplies were imported from abroad.²³⁴ The main reason is high costs of many materials in Ethiopia, underdeveloped supply chain systems, and unavailability of standard parts. e.g. tire prices in China are more than three times lower than in Ethiopia. Therefore, even if transportation and customs clearance cost are taken into consideration, the price remains lower than in Ethiopia. Chinese investment is strongly concentrated in Addis Ababa and the Oromia region.

Chinese companies follow mostly the strategy relying on offering a low price, reasonable quality and fast service delivery. Whereas companies usually seek for 15-20% profit, Chinese contractors are ready to work for less than 5% profit²³⁵ or as other suggest for less than 3%.²³⁶ Peng Mo et al. indicates that the Western companies do not even submit bids because the Chinese companies are too competitive.²³⁷ Therefore, the Chinese companies mostly have the advantage of cost-competitiveness over Western investors and contract agents as well as they pay much less attention to health and safety problems in the country.²³⁸ Besides, they are able to import cheap materials and equipment from their home countries (e.g. China imports inexpensive tractors). Moreover, investors and workers from emerging

²³³ Ibid.

²³⁴ Ibid. p. 13

²³⁵ Op. Cit. Gamora, Mathew et al., p. 50

²³⁶ Peng Mo, Ryan J. Orr, Jianzhong Lu (November 2008): *Addis Ababa Ring Road Project: A Case Study of a Chinese Construction Project in Ethiopia*, p. 8

²³⁷ Ibid.

²³⁸ Op.Cit. Turkish Embassy

countries seek low profit and are ready to work in very harsh conditions (e.g. remote areas with limited access to the electricity, sometimes low food supplies, and high temperatures).²³⁹ All the interviews rejected that they enjoyed a privileged status in Ethiopia and emphasized that opportunities are same for all investors and contract agents.

Ethiopia does not have to rely on China solely when it comes to infrastructure. Although China is cost-competitive, there are other emerging actors who can compete with China, e.g. India, Malaysia, South Korea, Turkey, etc.²⁴⁰

5.5.4. Employment of Local Workforce

According to one of widespread allegations, workers employed by the Chinese are underpaid uttered a.o. by Thakur.²⁴¹ According to the WB Survey, an average monthly salary for Ethiopian employees in Chinese companies is ETB 1,445 (USD 85) whereas employees working in domestic companies and businesses earn comparatively less.²⁴² Monthly salaries of unskilled employees working in governmental or state-owned companies in Addis Ababa range from ETB 300 for a cleaner to ETB 950 for security personnel. Skilled workers earn from ETB 1,114. WB quotes unofficial estimates which claim that the average monthly salary in Ethiopia is about USD 75.²⁴³ Nevertheless, it is worth noting that in comparison to the salaries of Chinese workers, Ethiopian salaries remain relatively low:

The average wage of employees hired by Chinese firms is about \$50, which is only 1/10 of the wage of Chinese workers in China's coastal area, and 1/20 of the wage of Chinese workers in Ethiopia. The motivation of seeking the cheap labor supply is fully reflected by the employment structure of the interviewed factories: the ratio of local workers to Chinese workers is as high as 8 to 10, and the ratio has kept going up gradually, as Ethiopian workers receive on-job -training and become less dependent on the on-site guidance from Chinese workers.²⁴⁴

Noteworthy, Chinese workers in Ethiopia who earn up to 10 times more than local workers have superior positions, requiring more skills, let alone that from the business perspective, cheap labor force is one of the driving reasons that attracted China²⁴⁵ and most other investors to Ethiopia.

As the figure below implies, in the time period of 2003-2012 India provided most general employment (around 300.000 jobs), followed by the EU (around 280.000). The total

239 Op.Cit. Sinohydro

240 Op. Cit. Turkish Embassy

241 Op.Cit. Thakur, p.10

242 Op.Cit. *Chinese FDI in Ethiopia*, p.12

243 Ibid.

244 Op.Cit. Fu (2012): p. 14

245 Op.Cit. Sinohydro

share in job creation of China and Turkey was considerably lower (125.000 and 75.000 respectively). However, it is to be emphasized that the EU created most permanent work places of all four actors, while India employed the largest number of temporary workers (mostly due to large Indian investments in the agricultural sector which requires high numbers of seasonal employees) .

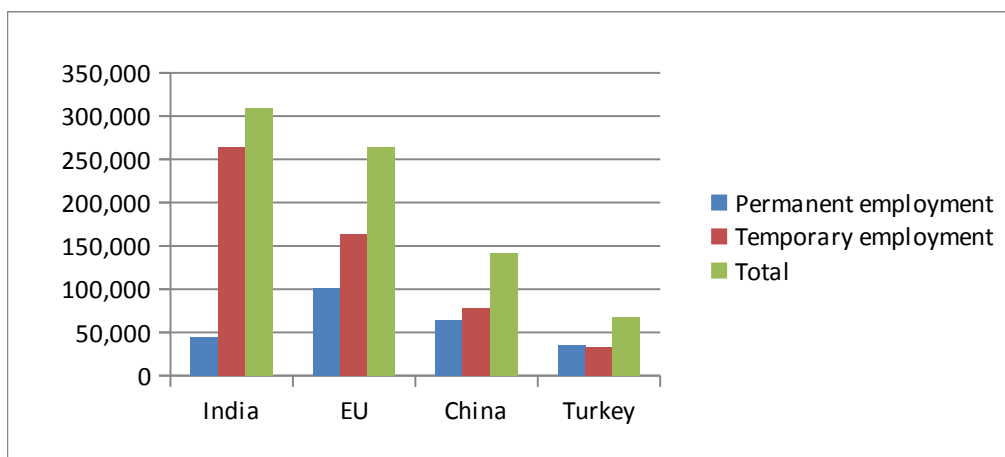


Figure 5.8. Number of Employees by Actor, 2003-2012

(Source: EIA, author's own calculations)

Noteworthy, China generates less employment than commonly believed. When considering that China is the second actor by a number of projects²⁴⁶, it may come as a surprise that it hires significantly less employees than India and the EU. On average India employs 583 workers per project, Turkey 312, the EU 179 and China 162. This can – amongst others – be explained by the sectors and 'character' of Chinese investment: e.g. its very low engagement in agriculture, relatively lower number of projects when compared to other actors but with higher capital invested per project, high percentage of low-skilled employees, etc.

Importantly, Chinese companies invest into the training of their workers: 69% of Chinese enterprises provided formal training for approximate 11,314 Ethiopian employees (in comparison to 38% of local companies).²⁴⁷

246 Op.Cit. EIA

247 IFC Enterprise Surveys, 2006 cited in WB Survey

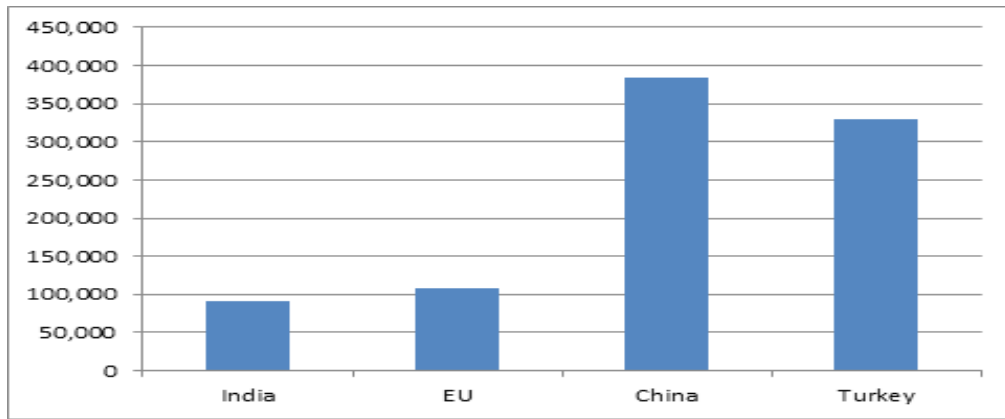


Figure 5.9. Capital per Employee in ETB (Implementation and Operation Stages)
(Source: EIA, author's own calculations)

What is more, as demonstrated by figure 4.9. capital per one employee is much higher in the case of Turkey, and particularly China, than is the case of India and the EU. This suggests that investments from these countries will generate less employment than the same amount spent by the EU and India.

5.5.5. Major Challenges for Chinese companies in Ethiopia

One of the largest obstacles foreign investors face is trade regulation and customs clearance efficiency²⁴⁸. The average custom clearance lasts approximately 44 days for all firms (but 47 for Chinese companies), whereas in Sub-Saharan Africa it is on average 37 (24 in Kenya, 18 in Djibouti)²⁴⁹. Moreover, restrictions on foreign currency transaction and conversion as well as foreign exchange rate risks²⁵⁰ pose a serious threat to all investors but especially to manufacturing and construction companies which rely heavily on imported supplies and equipment²⁵¹. Besides, obtaining loans from Ethiopian banks can be very complicated and the chances of success are rather slim²⁵². Additionally, tax law explanation is often vague and inconsistent, tax policies are interpreted freely by Ethiopian officials and very often changed without previous notices and thus they can be labeled as a “killer” to many companies²⁵³. Taxes and customs usually considerably higher than they expected.^{254,255} Another existing challenge is low education levels and inadequate skills of labor force as well

248 Op. Cit. WB Survey, p. 21

249 Ibid.

250 An off-the-record interview with the Sr. Public Private Partnership Advisor at ACIDI/VOCA, March 2013

251 Op. Cit. WB Survey, p.21

252 An off-the-record interview with the representative of the Indian Business Forum (IBF)

253 Op.Cit. Special DAG meeting

254 Op. Cit. Sinohydro

255 Op. Cit., WB Survey, p. 22

as discrepancies in the work ethics. Local workers are usually less educated than e.g. average Chinese workers, and lack sufficient training and crucial skills, especially in manufacturing and construction²⁵⁶. In addition, different approach to work poses often a problem mentioned by many sources and interviewees which can be illustrated by the case of Addis Ababa Ring Road Project: “Although Chinese staff pushed Ethiopian operators to work long hours, the Ethiopians usually would sneak in time to enjoy a cup of coffee.”²⁵⁷ It was emphasized that Chinese workers work hard, are disciplined and can work efficiently even without supervision.²⁵⁸ Similarly, Turkish and Indian actors stated that for example the low quality of Ethiopian cotton was blamed on a lack of disciplined and skilled labor force²⁵⁹. Last but not least, it was stated government's mistrust towards the private sector can also pose a potential challenge.²⁶⁰

5.5.6. Technology transfer

Technology transfer can be considered both as a threat and opportunity. It gives Ethiopian companies a chance of obtaining much needed technical and scientific knowledge. However, as Thakur notices the technology and machinery offered by the Chinese companies is very often obsolete and outdated.²⁶¹ All in all, even outdated technology can still be of much avail to Ethiopia than no or limited technology transfer.²⁶² According to Gamora, Chinese investments created an opportunity for skill transfer to local staff because they are offered official training which enables them to learn advanced technical skills.²⁶³ However, the transfer is limited when more advanced and key jobs are given to the Chinese, whereas locals are employed on a low-paid marginal positions.²⁶⁴ Some interviews made by the CCTV Africa in Chinese companies in Ethiopia show that the knowledge transfer in less challenging jobs is still crucial.²⁶⁵ After all, blue-collar workers producing shoes, learn from scratch the whole process of shoe-making which in the future may let them set up their own business, or find a better position if more companies open in Ethiopia.

256 Ibid.

257 Op.Cit. Peng Mo, p. 8

258 Op. Cit. Sinohydro

259 Op. Cit. IBF; TCC

260 Op.Cit. IBF, ACDI/VOCA

261 Op.Cit. Thakur, p. 11

262 EBF in Ethiopia

263 Op.Cit Gamora et al., p. 51

264 Ibid. p. 63

265 CCTV Africa (May 2013): "Chinese based Huajian making investments in Ethiopia"

<<http://www.youtube.com/watch?v=IAFxyYd6WZ4>> [Accessed July 17, 2013]

5.6. Chinese Engagement by Selected Sectors

5.6.1. Road Infrastructure and the "Chinese factor"

要想富，先修路
 “To end poverty, first build a road”
 A Chinese proverb

In 2011 the GoE began the fourth phase of RSDP (Road Sector Development Program) which is a strategic pillar of the Growth and Transformation Plan (GTP). Its chief objective is an increase of the road network from 49,000 kilometers to 136,000 kilometers in the period of five years.²⁶⁶ Such an ambitious plan creates opportunities for both domestic and foreign contractors.

Contrary to popular misconception, the road sector in Ethiopia is not dominated by the Chinese and it was not the case in the past either (with an exception of 2008/2009). In fact, since the early 21st century projects are increasingly contracted to Ethiopian companies. This trend to contract domestically has started in the early 2000s. The table below indicates that in the period 2002/2003 – 2011/2012 Ethiopian companies were awarded 70% of all projects with a total value of 52.3% of all road contracts.

Country of origin	Ethiopia	China	India	Turkey	EU-27	Others
Number of projects	200	47	2	1	0	10
% of all projects	70	16	0.7	0.35	0	12.95
% of all foreign projects	not applicable	78.3	3.33	1.67	0	16.3
Contracts value (in million ETB)	39,697,072,359.44	27,863,321,362.27	383,695,655.86	617,731,977.13	0	7,386,203,546.04
% of the value of all projects	52.3	36.7	0.51	0.26	0	10.23
% of the value of all projects (foreign contractors)	not applicable	76.90	1.10	1.70	0	13.1

Table 5.3. Contracts awarded under RSDP (fiscal years 2002/2003-2011/2012): Domestic vs. Foreign (China, India, Turkey, EU-27); (Source: ERA, author's own calculations)

However, the table also shows that among foreign contractors, China is an indisputable leader. Out of 60 projects awarded to 28 foreign contractors in the last 10 years, 47 (78.3% of foreign projects) were awarded to the Chinese contractors. The remaining contracts were awarded as follows: 8 to Koreans, 2 to Indians; Yemeni, Egyptian and Turkish

²⁶⁶ Op.Cit. EU Delegation

contractors undertook one project each. The successful performance of Chinese companies in the sector lies in cost-competitiveness in combination with an acceptable quality which makes China an inexpensive alternative to Western companies. In fact, with the strong emphasis on price, EU contractors have not been present in the sector since 2000.

Until the fiscal year 2008/09, Chinese contractors often were awarded contracts of a higher value than domestic companies. However, since 2009/10 Ethiopian contractors have a decisive advantage also by contract value as can be seen in the figure below.

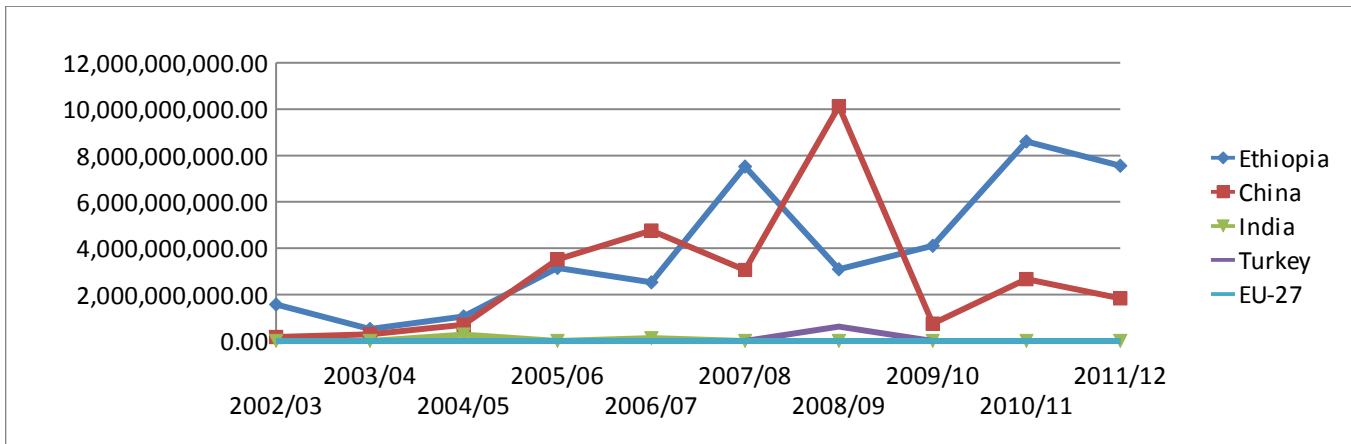


Figure 5.10. Contracts awarded under RSDP by contract value (fiscal years 2002/2003-2011/2012): Domestic vs. Foreign (China, India, Turkey, EU-27)
(Source: ERA, author's own calculations)

This development can be explained by the fact that where local contractors were infant with less capacity and expertise at the early years of RSDP they have gradually gained more expertise and have become increasingly competitive, therewith diminishing substantially the so called the Chinese factor in this sector.

As for the financing of RSDP IV (2011-2015), the main financiers are the GoE, including the Road Fund (79.5%), followed by IDA (4.6%), IDB (4%), EU (3.6%) and China (2.5%).²⁶⁷ In comparison, in the 1997-2010 period, the GoE contributed 65% (including the Road Fund), IDA 11.8%, the EU 8.6.% and China 2.1% to the overall development of the road sector.²⁶⁸ So, here we see a slight increase of the percentage share of China's financial involvement in the road sector versus a substantial reduction of the EU's contribution, which seems to be in line with the exit-strategy proposed for the sector in the 11th EDF.

Surprisingly, at present, Turkish companies allocated most of its capital in the generally defined construction sector (however over 90% of it is still at the pre-implementation stage) which suggests that there may be more upcoming Turkish projects in

²⁶⁷ Op.Cit. EU Delegation to Ethiopia

²⁶⁸ Source: Ethiopian Road Authority (ERA)

that sector in years to come.²⁶⁹

The figure below presents the strengths and weaknesses of Chinese contractors in Ethiopia and indicates possible threats and opportunities to Ethiopia.

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Construction experience in developing countries • Low-cost Chinese work force as compared to Western countries • Fiscal stability and low inflation • Support from democratic national 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • RSDP and dramatic increase of Road Construction Projects compared to the rest of Africa • Infrastructure development, including telecommunications • Increased and stable funding • Mining and resource development • Access to other national markets e.g. Sudan and Uganda
<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • Lack of skilled, semi-skilled labor • Weak communications / infrastructure • Low standards of health and safety and occupational hazards on job sites • Most construction materials imported from abroad e.g. fuel, bitumen, and cement • Internal managerial problems 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Most funding from abroad • Increased competition from other nations such as Korea, Pakistan and JVs • Failure to resolve some compensation claims • Continuing war between Ethiopia and neighboring countries Somali and Eritrea • Riots

Table 5.4. SWOT analysis for Chinese Road Contractors

The reasons for China’s success among foreign contractors is the price and efficiency:

This is due to a combination of factors, including access to cheaper capital and machinery than most foreign and local investors; limited pressure from the Chinese and Ethiopian government to adopt good environmental and labour standards; the use of Chinese materials and the almost predominant use of Chinese technical experts (and labourers); and the Chinese government’s provision of subsidies for investing abroad.²⁷⁰

The link between the infrastructure and the economic development is undeniable. Thus, China through its input into infrastructure contributes greatly to the overall economic development, even if Chinese contractors and investors have their own vested interests in it.

269 Op. Cit. EIA

270 Op.Cit. Thakur, p. 10

5.6.2. Energy Sector

Unfortunately, it should be mentioned at the outset that obtaining reliable data about the sector has proved to be more challenging than in the case of the road infrastructure and to a less complete picture could have been sketched.

When compared to the rest of Africa, Ethiopia is relatively poor in natural resources but the chances are high that it may be rich in crude oil. Currently British enterprises are most active in searching for oil in Ethiopia.²⁷¹ Chinese SOE, Sinopec, had been in the past involved in oil exploration in Ethiopia: two exploration wells were drilled in Gambella, one under contract by a Malaysian company (2006) and one under a Chinese company ZPEB (2007), and one in the Somali region (2007) but after the incident in Ogaden in 2007²⁷² the exploration endeavors were suspended and to date, Sinopec has not returned to Ethiopia.²⁷³ Energy will be a new 11th EDF focal sector and merits some attention as regards studying “the Chinese factor”.

Ethiopian authorities plan to expand the energy sector with a prime focus on the renewable energy. Although Ethiopian authorities have tried to attract technology transfers (for instance through to METEC in the fields of turbine manufacturing technology and solar PV panel manufacturing technology), the level of expertise of local companies remains low (similar to the level of expertise of Ethiopian companies in the road sector some years ago).²⁷⁴ As a result, the energy sector is still highly dominated by foreign contractors. In the field of hydropower generation, there is a strong presence of contractors from two countries: Italy (Salini) and China (mostly Sinohydro and CGGC). All 11 hydropower plants projects undertaken since 2004 have been awarded to foreign contractors: 6 to the Chinese companies (4 to Sinohydro and 2 to CGGC) and 5 to Italian companies (Salini). Five projects were fully financed by the Chinese and one partially; other financiers include the World Bank, the European Investment Bank, the Italian Government and the Ethiopian Government. Chinese companies have been contracted mostly for projects financed by the Chinese Government.²⁷⁵ A list of hydropower projects commissioned since 2004 can be found below.

271 Op.Cit. EBF

272 In 2007 the Ogaden National Liberation Front (ONFL) attacked Chinese oil exploration field. Seventy-four people were killed including 9 Chinese workers. Six Chinese workers were kidnapped.

273 Op.Cit. Gamora, Mathews et al., p. 46

274 Op.Cit. EU Delegation to Ethiopia

275 Ibid.

Name	Installed capacity	Commissioning	Contractor	Financing
Gilgel Gibe I	180 MW	2004	Salini (bid)	World Bank
Tekeze	300 MW	2009	Sinohydro (bid)	Sinohydro (49%), China Gezhouba Water and Power Group Ltd (30%), and Sur Construction (21%)
Beles	460 MW	2010	Salini (no bid)	GoE
Gilgel Gibe II	420 MW	2010	Salini (no bid)	Government of Italy and EIB
Gilgel Gibe III	1,870 MW	2013	Salini (no bid)	GoE and ICBC
Fincha Amerti Nesse (FAN)	100 MW	2012	China Gezhouba Group Co. (CGGC)	Exim Bank of China
Halele Worabese	440 MW	2014	Sinohydro Corporation	FairFund?
Gilgel Gibe IV	2,000 MW	2014	Sinohydro Corporation	Chinese
Chemoga Yeda	278 MW	2013	Sinohydro Corporation	Chinese
Genale Dawa III	256 MW	awarded in 2009	Chinese CGGC	Chinese
Grand Ethiopian Renaissance Dam	6000 MW	2018	Salini	GoE

Table 5.5. Hydro-power projects in Ethiopia (commissioned after 2004)²⁷⁶

It should be noted in addition that China is present in the field of wind generation (Goldwin and Sany) and, more importantly, in that of power transmission and distribution (with Chinese CET having recently won a 1 billion USD contract for the Renaissance dam

²⁷⁶ Authors own data coming from newspapers, governmental websites and the data of the EU Delegation

transmission lines and Indian transmission EPC company KEC having recently been awarded an AfDB-financed project).²⁷⁷

The table below shows current projects on Wind farms and the main financier. As can be seen, out of seven wind farms, China finances three which is a considerable share although the capacity of wind farms that it finances it relatively low (51 MW each in comparison to 100-300 MW in case of other wind farms) which also indicates that funds given by China are in all probability nearly equal to what France offered for one project.

Wind Power				
Name	Year	Size		Finance
Adama 1	2012	51 MW		China
Ashegoda	2013	120 MW		France
Messobo/Harena	2012	51 MW		China
Aisha	2014	300 MW		PPP, Germany
Asela	2015	100 MW		India
Debre Birhan	2014	100 MW		America
Adama II	2013	51 MW		China

Table 5.6. Current projects on Wind farms in Ethiopia
(Source: EU Delegation to Ethiopia)

Besides, Chinese Embassy has earmarked 1.5 million US dollars used to undertake energy potential assessment in Ethiopia²⁷⁸ whereas Hydrochina financially supported by the Chinese government conducted and submitted the study of Wind and Solar Master Plan to Ethiopia²⁷⁹.

5.6.3. Agriculture

One of the objectives of Ethiopia's Growth and Transformation Plan is boosting agricultural production through the introduction of modern farming methods and technology. To obtain this objective, the GoE (amongst others) intends to lease 3 million ha to both domestic and foreign investors by 2015. According to data available on the website of the Ministry of Agriculture approximately 450,000 ha has been leased so far.²⁸⁰ Most foreign investments are

277 Op. Cit EU Delegation to Ethiopia

278 Ethiopia News Agency (April 18, 2012): "Ethiopia: Study Reveals Country's Wind Power Potential Generates Over 1 Million Mw of Electricity" <<http://allafrica.com/stories/201204190689.html>> [February 13, 2013]

279 Ibid.

280 See Ministry of Agriculture Website: "Land Leased Information". <<http://www.moa.gov.et/web/pages/land->

based in the regions of Gambella, Oromia, Afar, Amhara SNNPR and Benishangul-Gumuz.²⁸¹

In the years to come China's needs for agricultural products will be growing. As Kobus van der Wath²⁸² notices for the time being China is still self-sufficient for food but its population constitutes 20% of the world's population whereas it has only 7% of the world's arable land, 6% of the world's water supplies (some of it is highly polluted). Moreover, China's farmland has shrunk by 6% since 1998 and fresh water supplies have shrunk by 13% between 2000 and 2009.²⁸³ Moreover, China is intensively urbanizing which in turn increases the food demand but the rural population is decreasing. Thus, domestic sources will soon be insufficient.²⁸⁴ Nevertheless, so far China's "going out" policy did not make investments in agriculture or agricultural developments in Africa its priority. This is confirmed by the Annual Report of China Academy of International Trade and Economic Co-operation which proves that Chinese FDI stock in Africa in 2011 constituted barely 2.5% of all Chinese investments on the continent.²⁸⁵

China's engagement in the agricultural sector is visible mainly in the development assistance but much less so in investments. First Chinese investment in agriculture dates back to 2004. As of November 2011, the EIA listed 71 Chinese firms at the pre-implementation stage, 9 at implementation, and 5 which were in operation.²⁸⁶ Brautigam enumerated the companies which were operative: China-Africa Overseas Leather Products (Since 2009), Ethiopia Beihua Farm – a vegetable farm (Since 2009), Friendship Leather Factory (Since 2010), Hunan Dafengyuan Agriculture Co. Ltd. Sugar Plantation (Since 2010).²⁸⁷

Chinese investment in the agricultural sector is incomparably less substantial than in other sectors in Ethiopia. China runs barely 7% of all projects respectively.²⁸⁸ However, capital distribution differs greatly: China's investment by capital constitutes 11%. The operationalization ratio by capital is only around 0,07% of Chinese investments in the agricultural sector.

leased [Accessed: April 2, 2013]

281 See the website of the Ministry of Agriculture <<http://www.moa.gov.et>>

282 the founder and group managing director of the Beijing Axis, an international company dealing primarily with support services related to investment and mining in Africa and China

283 Op.Cit. Kobus van der Wath (2013)

284 Ibid.

285 China Academy of International Trade and Economic Co-operation (2011): China-Africa Trade and Economic Relationship. Annual Report 2012, p. 6

286 Op.Cit.Brautigam and Xiaoyang p. 14

287 Ibid. p. 14-15

288 Author's own calculations on the basis of data provided by EIA

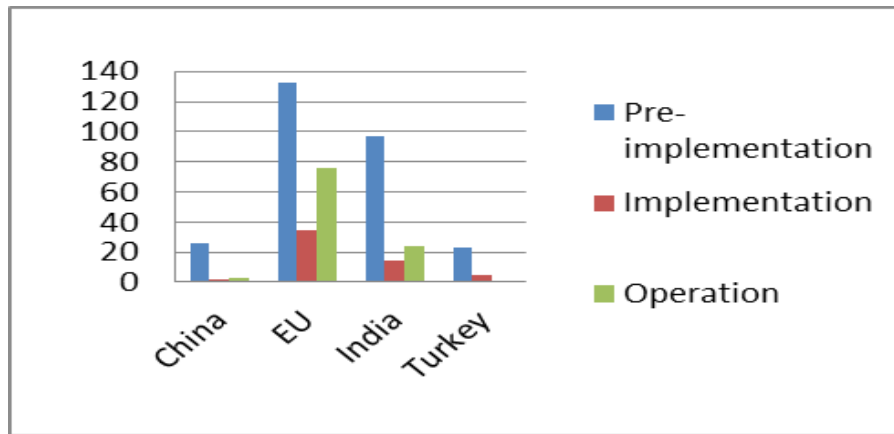


Figure 5.12. Different stages of Investment (in '000' birr) 2003-12 (by Number of Projects) (Source: EIA, author's own calculations)

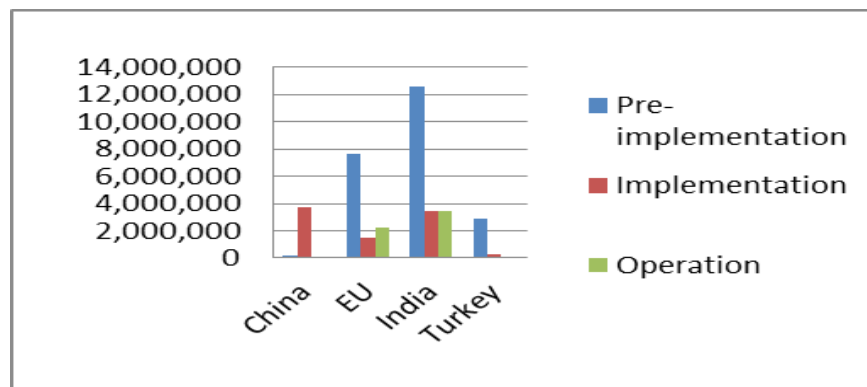


Figure 5.13. Different stages of Investment (in '000' birr) 2003-12 (by Capital) (Source: EIA, author's own calculations)

Discussion with the local Chinese Business Association²⁸⁹ has revealed that the Chinese would prefer to see quick results of their investments and they do not regard farming as business which can provide a quick gain. Unlike the manufacturing sector, it also does not consider to have a natural competitive and comparative advantage in this sector. This is a pity because as Thakur notices China has a solid learning experience in agricultural development and could greatly contribute to the development of Ethiopian agricultural sector but for the time being its investments are concentrated elsewhere.²⁹⁰ However, Thakur notices that China has food security interests in Africa in boosting agricultural production which the GoE should take a full advantage of.²⁹¹ Moreover, according to The White Paper on China's Foreign Aid Policy: "China makes agriculture, rural development and poverty reduction in developing countries priorities of its foreign aid."²⁹²

289 Op.Cit. Brautigam and Xiaoyang, p. 14

290 Op.Cit. Thakur, p. 12

291 Ibid, p. 12

292 Op.Cit. The White Paper on Foreign Aid

5.6.4. Manufacturing: “From made in China to made in Ethiopia”²⁹³

Enhancement of private investment in the manufacturing sector is a primary objective of the GTP. According to Fu Xiaochen, it comes as no surprise as manufacturing FDI can be more beneficial to the economic development of Ethiopia as a host country than other types of investments because it is labor-intensive, high-value-added, and export-oriented²⁹⁴ Therefore, it creates large employment opportunities and institutional innovation experience: 'manufacturing FDI is much more desirable than other types of FDI, such as mining, as manufacturing industries and related services generate more employment than minerals and natural resources and therefore implies larger scope of productivity-enhancing structural change in developing countries.'²⁹⁵ In year 2006-2010 Ethiopia was the fifth largest host African country to attract the manufacturing investment from China, even though it has scarce natural resources.²⁹⁶ Ethiopia was only the tenth country in Africa to attract overall Chinese FDI²⁹⁷ which shows how high the the manufacturing FDI to Ethiopia is. Therefore, it comes as no surprise that the Eastern Industrial Zone – one of few China’s special industrial zones in Africa – is located near Addis Ababa.

Chinese investments are strongly concentrated in manufacturing - both in terms of projects and capital. As the chart below shows, if only selected actors are taken into consideration, China is the leading player both in terms of number of projects in comparison to the EU, India or Turkey (44% of all projects in comparison to EU, India and Turkey) and by capital (33%).²⁹⁸

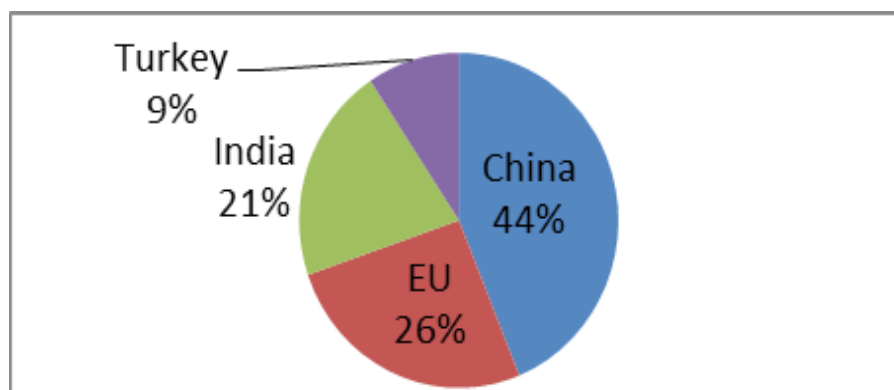


Figure 5.14. The Share of Chinese, EU, Indian and Turkish Investments in Manufacturing by projects 2003-2012; (Source: EIA, author's own calculations)

293 The title of one of podcats China in Africa Project

294 Op. Cit Fu, p. 8-9

295 Ibid. p. 8

296 Ibid, p. 8

297 See p. 25

298 EIA, author's own calculations

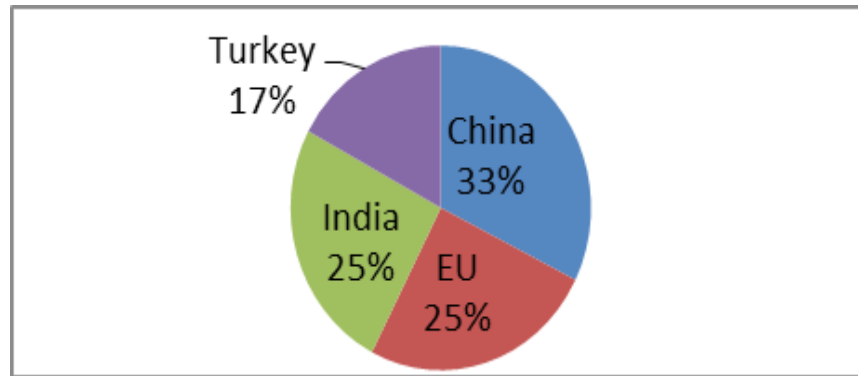


Figure 5.15 The Share of Chinese, EU, Indian and Turkish Investments in Manufacturing by capital 2003-2012 (Source: EIA, author's own calculations)

Besides, as the graph below shows, Turkey and China have relatively most of their projects in the manufacturing in the operational stage (respectively around 43 and 37%) in comparison to India (32%) and the EU 25%. The same tendency is even more pronounced when analyzed by capital. Turkey (around 25%) and China (19%) have a considerable larger share of their investment by capital in the operational phase than India (5%) and the EU (4%).

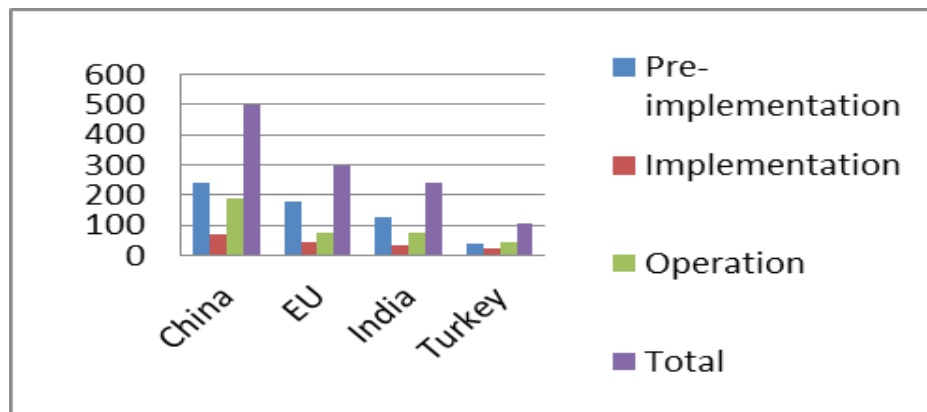


Figure 5.16. Different stages of Investment (in '000' birr) 2003-2012 by Number of Projects (Source: EIA, author's own calculations)

China's large number of projects in the pre-implementation stage suggest that many projects are still in the pipeline and will probably proceed to the operational stage in the years to come. On the other hand, most capital is currently located on the implementation stage as can be seen in the graph below.

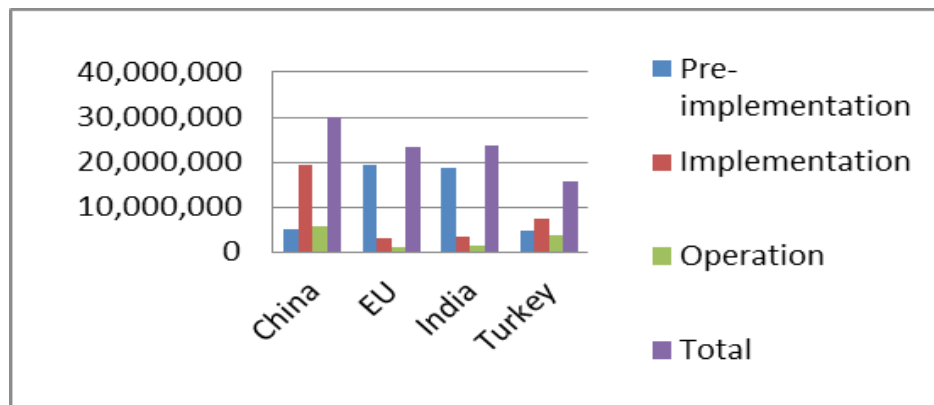


Figure 5.17. Different stages of Investment (in '000' birr) 2003-2012 by Capital (Source: EIA, author's own calculations)

Chinese investments, especially in the manufacturing sector are increasingly export-oriented. The most successful enterprises are Lifan and Huajian Shoe Factory. The manager of the latter, believes that Ethiopia has a great potential of becoming a hub for leather and footwear industry.²⁹⁹ The company was invited by Meles Zenawi in late 2011 to invest in Ethiopia. Currently it employs 600 local employees and 90 Ethiopian Addis Ababa University graduates were sent to China for a 2- month training in shoe making, managerial skills, and corporate culture.³⁰⁰

Another well known manufacturer is Lifan, a car company, almost a monopolist of the car industry in Ethiopia. Noteworthy, in Ethiopia prices of imported cars – both new and second-hand – are very high because of the he prohibitive tax rate of nearly 270%. Lifan as assembled in Ethiopia is incomparably cheaper, and dominated the local market although its quality was also put in questions by many Ethiopians. For a long time Lifan was regarded as a success story of Sino-Ethiopian joint ventures. Nowadays it is rather seen as a warning as to what may happen if the GoE is too lenient to foreign investors in the name of cordial relations:

Seeing this huge and potential market the Chinese partner (LIFAN) asked the Ethiopian partner to sell the company for them. (...). This has led to the disagreement between the two and LIFAN decided unilaterally to stop supplying the parts to the Ethiopian partner. The Joint venture then collapsed. The Ethiopian partner is then forced to find another Chinese partner. Now the parts of the new models will be imported from Anhui Jianghuai Automobile Co., Ltd (JAC) based in Shanghai, China. It has been mentioned in some quarters that the Ethiopian company is selling this new brands at a loss as they are relatively expensive owing to their superior quality to the original LIFAN model.³⁰¹

299 CCTV Africa (May 2013): "Chinese based Huajian making investments in Ethiopia"

<<http://www.youtube.com/watch?v=qLkJL-nBFlw>>

300 Op.Cit. Fu, p. 38

301 Alemayehu Geda Atenafu G.Meskel (2009): *Impact of China-Africa Investment Relations: Case Study of*

Although Chinese manufacturing FDI to China is relatively high, Fu claims that its scope of is still much lower than its potential. He suggests the following strategy to improve the current situation:³⁰²

- Cooperation with the People’s Bank of China and promotion of RMB cross-border settlement in Ethiopia to mitigate foreign exchange risks faced by Chinese investors,
- Identification of effective compensation and training schemes adopted by Chinese investors and facilitate productivity growth of Ethiopian workers,
- Clarification of the functional purposes of the SEZs before picking up the location of the zones. Provide more institutional facilities, such as one-stop-customs, inside the zones. Provide long-term discretionary tax incentives rather than limited tax holidays if the budget allows. Partner with the Chinese government rather than private companies to develop the zones,
- Maintaining political stability in the long-term perspective.

5.6.4.1. Special Economic Zone (SEZ) - Eastern Industrial Zone

There are seven special industrial zones initiated by the Chinese: in Zambia, Mauritius, Egypt, Ethiopia, Algeria and two in Nigeria.³⁰³ The Eastern Industrial Zone outside Addis Ababa is one of the largest industrial zones built in Ethiopia recently. It is still under construction but it has been built since 2006:

Because of the Chinese partners’ financial difficulties (related to the global economic crisis), the area of the zone has been reduced from 5 to 2 square kilometers (500 to 200 hectares) and the investment from renminbi (RMB) 1 billion (US\$146 million) to RMB 690 million (US\$101 million). (...) Meanwhile, the first project in the zone, the a cement plant, began production in 2010. Eleven enterprises with US\$91 million total investment have signed letters of intent to move in—these enterprises cover such industries as construction materials, steel products (plates and pipes), home appliances, garment, leather processing, and automobile assembly.³⁰⁴

The Chinese companies running in the zone were attracted by low cost land and infrastructure subsidies as well as the institutional and infrastructural support inside the zone, they can enjoy an extra 2-year tax holiday in addition to the regular 2 years for all foreign

Ethiopia African Economic Research Consortium. AERC, Nairobi, p. 25

302 Op.Cit. Fu, p. 36

303 Brautigam Deborah, Farole Thomas; Xiaoyang Tang (2010): *China's investment in African special economic zones : prospects, challenges, and opportunities*. Poverty Reduction and Economic Management Network p. 73

304 Ibid., p. 77

investors.³⁰⁵ Five Chinese companies are currently operating in the zone: a cement company, a shoe-making factory, a cement-packaging factory, a factory making ceilings, and a pick-up assembly factory.³⁰⁶

5.7. Mutual Perceptions

The mutual perceptions are often underestimated but play a vital part in building close ties between communities. Sadly, the knowledge about each others culture and country is very superficial and insufficient in the case of both China and Ethiopia. This gives basis to prejudices as well as negative and distorted perceptions. However, one should differentiate between the grass-root and elites perceptions.

The authorities seem to regards China as a partner who will not impede their own policies and strategies but assist them at achieving their goals. Thakur pays attentions that three factors decide about a positive attitude of the authorities towards China:³⁰⁷

- They believe that in a long run the Ethiopian trade will bring positive outcomes, even if there are many asymmetries at the moment,
- Moreover, the Chinese input into infrastructure will in the long-time perspective be beneficial to the country by strengthening its capacity as well as transferring knowledge. In addition, China own experience in getting out of poverty is inspiring to many Ethiopians who hope to follow this model,
- Last but not least, China's 'no-strings-attached' policy gives the Ethiopian authorities a room for implementation of their own policies but at the same time obtaining the most needed financial assistance, either in the form of the tied-aid or investment.

The attitude of an average Ethiopian towards the Chinese migrants and investors is less positive. The sudden influx of Chinese migrants into Ethiopia also changed the perception of a foreigner and nowadays it is not rare for a foreigner to be named “China/Chinese” in addition to the most popular “ferenji”. Due to the large number of Chinese migrants, they are often referred to as 'yet another Ethiopian tribe'. They stand for low quality products and exploiters of the local market. A popular joke also says that an Ethiopian woman married a Chinese and soon a child was born. The child died after a few months but when the depressed woman came to her parents to tell them the bad news her father commented: “What did you expect, that’s Chinese quality”.

The situation is not any better on the Chinese side. Uwe Wissenbach notices that

305 Op.Cit. Fu, p. 15

306 Ibid. p.16

307 Op.Cit. Thakur, p. 15

“Chinese leaders and up to now most analysts based in Beijing and even in China’s Embassies in Africa have had little understanding of how African societies and politics work.”³⁰⁸ Chinese scholars also recognize the problem of mutual lack of knowledge about each other:

Taking a long-term view, insufficient understanding on both sides, and the distorted perspectives resulting from this are unfavourable to the development of Sino-African ties. If in the future both, China and Africa pay insufficient attention to ‘mass diplomacy’, and do not broaden their knowledge of one another’s history, culture and customs, the danger is that cultural misunderstandings and a gulf between the citizens of both sides will develop, which could set back the continued development of Sino-African ties.”³⁰⁹

The Chinese community in Ethiopia was estimated to be 5,000 in 2006³¹⁰ but it has raised considerably since that time. Although the Chinese community in Ethiopia is constantly growing, it is reported to have a limited interaction with the locals. According to Thakur, Chinese workers, engineers and managers expressed racist views about Africa and Ethiopia. They perceived Ethiopians as “lazy”, “mentally inferior/stupid”, “lacking discipline, commitment and hard work” which led to tense relations between the Chinese and Ethiopian workers.³¹¹ During my visits to the field, I have never heard such a strong critic of the Ethiopian labor force, nevertheless, I was told that different working ethics were causing often problems but the Ethiopian workers were improving.³¹² The manager of the Huajian Group said that after applying special training and disciplining Ethiopian workers, they worked as efficiently as Chinese workers.³¹³ On the other hand, Gamora claims that the majority of local people are in awe with Chinese work ethics, strict discipline and achievements which may have a positive impact on their own productivity.³¹⁴ The research conducted by Gamora presented a rather positive and optimistic view among Ethiopians of the Chinese companies in Ethiopia.³¹⁵ As Fu notices:

Many long-established norms in Ethiopian society, such as people must attend neighbors’ funerals and will have to leave their jobs on that day, are very different from norms in China. On the other hand, Chinese investors have long been used to the hard-working culture and practical value of the Chinese society. Ever since the reform in 1978, hundreds of millions of workers migrated from rural China to work in manufacturing firms in coastal region. They have been facing fierce competition

308 Op.Cit. Wissenbach, p. 53

309 Xu Weizhong (2008) "Sino-African relations: new transformations and challenges" p. 73 in Dorothy Grace (eds) *China's New Role in Africa and the South*. Chicago : Pambazuka Press

310 Op. Cit.Alden, p. 52

311 Op.Cit. Thakur, p. 12

312 An off record interview with a representative of a Sinohydro

313 CNN.com June 2012: Huajian Group - Chinese shoe maker moved to Ethiopia

<<http://edition.cnn.com/2012/06/15/opinion/africa-manufacturing-hub>>

314 Op. Cit. Gamora et al., p. 51

315 Ibid.

and tried to earn and save as much as they can by working overtime frequently, which is quite different from the norms of Ethiopian society as well³¹⁶

As McCormick puts it “There is no single African perception of the China-Africa relationship. Perceptions, like the relationship itself, are multiple and multi-dimensional.”³¹⁷ Similarly in the Ethiopian context it seems that the perception of the Chinese is complex.

5.8. Opportunities for Ethiopia

Gamora views China as a chance to Ethiopia rather than a threat but admits that China is in Africa because of its own interests.³¹⁸ He underlines the emphasis on mutual cooperation, investment, trade, equality, respect and solidarity.³¹⁹ He implies that in the political sense both Ethiopia and China benefit greatly because they keep supporting each other on the international arena and in the international organizations (especially at the UN).³²⁰

Ethiopia may reap its own benefits if acts wisely in its relations with China. Infrastructure, one of China's areas of aid investments, is a base of development, poverty reduction, economic growth and amelioration of living conditions.³²¹ China is also an important alternative economic partner: “Chinese investment has been extremely positive for Ethiopia, especially in assisting development in infrastructure and manufacturing, creating employment, bringing in capital, widening local tax bases, increasing domestic investments, an improving local skills.”³²² Thanks to lack of conditionality of Chinese aid, the GoE is able to pursue its own development goals and national priorities without externally imposed conditions. This also offers Ethiopia a chance of leveraging power to other aid donors and makes aid and investment more competitive.³²³ Moreover, China's emergence in the region brings many opportunities which were mentioned earlier, for example domestic consumers can purchase cheap products from China (like plastic shoes etc.), local manufacturers may benefit from cheaper technology. Moreover as Thakur points out, China's demand for raw materials, investment opportunities and a consumer base can be an asset which consolidates Ethiopia’s dependence on primary product exports and secondary product imports, as well as boosts the development of labor-intensive industries, e.g. agro-business and manufacturing.³²⁴

316 Op.Cit. Fu p. 27

317 Op. Cit. McCormick (2008), p. 198

318 Op. Cit. Gamora and Mathews p. 104

319 Ibid.

320 Ibid.

321 Op. Cit. Thakur, p. 13

322 Op. Cit. Gamora et al., p. 49

323 Op. Cit. AFRODAD, p. 32

324 Op. Cit. Thakur, p. 14

However, Chinese engagement has its other side. Unconditional aid is often pointed at as the means of financing autocratic regimes with poor human rights records. Current Ethiopian government is only illusory democratic. Moreover, Ethiopia has to deal with the large trade imbalance. As Gamora suggests, this economic asymmetry poses a threat of China becoming a 'West Beijing' because Ethiopia's relations with the West were based on the same asymmetry.³²⁵ Another challenge is the dumping of low-price export products (especially plastic and manufactured goods).³²⁶

5.9. Living the “Chinese dream”?³²⁷ - China as a Development Model for Ethiopia

China is often viewed as an economic development model for Ethiopia. As a state whose economic reforms initiated by Dong Xiaoping in late 1970s transformed China into one of top economic global players and lifted nearly 600 million people out of poverty, China is very alluring to Ethiopians.

In his China-Africa Project podcast “China development model”, Eric Olander noticed that many Westerners are genuinely surprised when they are told that China could be a model country for Africa.³²⁸ However, many African elites view Western countries as the ultimate target but they see East Asian model countries as a stepping stone to achieve this model. They do also believe that the West tends to deny its own history by condemning practices which contributed to its growth.³²⁹ It was further mentioned that people in Ethiopia point at Bismarck as a model.³³⁰ Therefore, the Ethiopian authorities' admiration for China should come as no surprise. On his return from the 2006 FOCAC Summit late Prime Minister Meles Zenawi on his return from praised China as “an inspiration for all of us.” and “What China shows to Africa is that it is indeed possible to turn the corner on economic development”³³¹

Ethiopia follows the model of East Asian countries of the growth inducement through a variety of factors ranging from agricultural modernization, the development of new export sectors, strong global commodity demand to the government-led development investments.³³² In whole Africa there is one more similarity with Asian tigers: demography

325 Op. Cit. Gamora and Mathews,, p. 99

326 Ibid.

327 A term used by the journalist Girum Chala in rference to Chinese companies in Ethiopia. CCTV Africa (May 2013): "Chinese based Huajian making investments in Ethiopia" <<http://www.youtube.com/watch?v=IAFxyYd6WZ4>>[Retrieved July 17, 2013]

328 China-Africa Project (2012): "China Development model" [Audio Podcast] in China-Africa Project. Available at <http://www.chinaafricaproject.com/> [Retrieved July 15, 2013]

329 Ibid.

330 Ibid.

331 Cited in McCormick (2008), p. 197

332 Op. Cit. World Bank Survey (2012), p. 1

Africa's population is set to double, from 1 billion to 2 billion, over the next 40 years. As Africa's population grows in size, it will also alter in shape. The median age is now 20, compared with 30 in Asia and 40 in Europe. With fertility rates dropping, that median will rise as today's mass of young people moves into its most productive years. The ratio of people of working age to those younger and older—the dependency ratio—will improve. This “demographic dividend” was crucial to the growth of East Asian economies a generation ago. It offers a huge opportunity to Africa today.³³³

Rwanda and Ethiopia are said to be two most aggressive endorsers of China/East-Asian model.³³⁴ The path that Ethiopia will follow under the rule of the new prime minister is still uncertain. There is a strong feeling among elites that future leaders should be engineers, people "who can get their hands dirty" not useless humanity graduates.³³⁵ Education plays a vital part in following the Asian success: “Without better education, Africa cannot hope to emulate the Asian miracle.”³³⁶ Still, African education remains poor when compared with other world regions.

However, McComick argues that most references to China as a model for Africa ends on general similarities but the lack of a detailed African strategy on the implementation of the China’s development model indicates that it has received insufficient attention in Africa and that nobody makes an attempt to analyze the applicability of China's “alternative model” to Africa³³⁷

Role models can simply be admired, be imitated, or they can become mentors, encouraging the one being mentored to surpass them by using their own talents and resources to the full, but possibly in different ways. Africa needs to consider what it really wants from China. How can Africa best gain from China’s experience? Answering this question will require a thorough understanding of the Chinese development model, including its political, social and economic institutions, and the processes used to apply them³³⁸

Therefore, Ethiopia has makings to continue its economic up-swinging by learning from China. Nevertheless, much more attention should be given to underlying reasons that led to China’s economic miracle. This problem was already partially addressed in the previous chapter: Ethiopia can reap its benefits from the Chinese presence as well as Chinese experience if it only take the advantage of it wisely.

333 Op.Cit. *The Economist* (2011), "The Sun shines bright "

334 Op. Cit. China-Africa Project

335 Op.Cit. China-Africa Project (2012): "China Development model"

336 Op.Cit. *The Economist* (2011), "The Sun shines bright "

337 Op. Cit. McCormick (2008), p. 197

338 Ibid.

Chapter 6: Conclusions

This dissertation has investigated the recent developments in Sino-Ethiopian relations with a special focus on the economic aspect in selected sectors, and argued that, contrary to popular opinions, Chinese involvement in Ethiopia can under no circumstances be labeled as a modern-day scramble for Africa, and its alleged detrimental impact on Ethiopia cannot be univocally confirmed on the basis of the gathered data.

The purpose of the study was to determine the relevance of the world-systems analysis, the Eastphalia theory and the New Scramble for Africa discourse with the factual Chinese engagement in Ethiopia; assess the real scope of the Chinese economic engagement and development involvement in Ethiopia in general and in selected sectors (agriculture, road infrastructure, renewable energy, manufacturing); evaluate its impact on Ethiopia in a short-term and long-term perspective, and examine how it compares to the engagement of other foreign players in Ethiopia.

6.1. Major findings

Returning to the first research question, the general findings suggest that China's activities support the world-order analysis, with China having strong features of a semi-peripheral actor and Ethiopia belonging undoubtedly to the periphery. One of the reasons why Ethiopia expresses its interest in China is its hope to advance to the semi-peripheral category by following China's model of development. On the other hand, Ethiopian authorities may in fact aim at achieving the status of a core country in the distant future but they find the example set by semi-peripheral China more adequate to their domestic situation. In their understanding, the path to development suggested by the core states does not break the dependency cycle. It can be also argued that the relation between China and Ethiopia has traces of the core-periphery relation. As mentioned in the first chapter, according to the world-system analysis peripheral regions may be affected by the semi-periphery in the same way they are affected by the core states.³³⁹

One of the more significant findings to emerge from this study is that the concepts of the Eastphalian international system as well as the New Scramble for Africa are highly exaggerated and groundless in the case of Sino-Ethiopian relations. Although one can see China's increasing engagement in Ethiopia in various sectors, this comes as less striking if

339 See chapter 1, pp 8-9

compared with other actors, especially with Turkey or India. Until the early 1990s, Ethiopia had remained isolated from the world economy, and thus Chinese and other foreign investors (with an exception of the Soviet Union) had had no opportunity to appear before this time. Meles Zenawi's efforts to attract foreign investors to Ethiopia bore its fruit and not only Chinese but also Turkish, Indian and Saudi enterprises mushroomed in Ethiopia as a consequence of those incentives. However, after a boom of Chinese companies, one can notice that Chinese engagement is gradually coming to a halt – the number of enterprises does not grow rapidly but remains on the same level.

It was also shown that although Ethiopia has scarce natural resources, it is among the top ten countries into which China invests.³⁴⁰ Chinese investment concentrates in some sectors more than in others and, although this serves primarily Chinese interests, Ethiopia also reaps benefits from such a state of affairs. Noteworthy, in a short-time perspective Chinese investments and projects may come as detrimental, as confirmed by the case of shoe and road industry where Chinese entrepreneurs seemed at first to threaten local businessmen. Nevertheless, in a long-term perspective, they contributed to the enhancement of local companies and of the quality of their services, mostly owing to the knowledge transfer and increasing competitiveness of Ethiopian companies and their services as well as price-product ratio.

Speaking of the roads-sector, it was found that the erstwhile Chinese dominance is waning, with Ethiopian companies now being awarded the bulk of contracts in the sector. Unlike most other sub-Saharan African countries, the "Chinese factor" is increasingly fading in the road sector in Ethiopia. The concerted and successful efforts to consistently seek to transfer knowledge to Ethiopian companies and increase their competitiveness in the road sector provides valuable lessons for the energy sector, where foreign companies (notably Chinese and EU) are still the sole actors.

The conclusion that can be drawn from the study is that China is one of many foreign actors in Africa, and its practices do not vary greatly from the other players – including Europeans. Without a shadow of a doubt, China has been very successful on the Ethiopian market due to the low price and decent quality of its services but, as times goes by, Chinese companies are becoming more pricey and are losing their comparative advantage over other actors. Besides, as it has already been mentioned, Ethiopian enterprises are gradually growing competitive, and enjoy GoE support which enables them to successfully deliver their services.

340 See chapter 2, p. 25

Accordingly, China can be regarded as just another but very important actor in Ethiopia whose presence can contribute to the development of Ethiopia if it is wisely dealt with. However, one should bear in mind the case of Lifan³⁴¹ and learn a lesson from that negative experience. Although China's influence in Ethiopia has been rising, the chances that the country would grow heavily dependent on China remain low. Ethiopian authorities pay much attention to retain as much freedom as possible and have balanced relations with numerous foreign actors which in consequence boosts Ethiopia's bargaining power.

6.2. Research contribution

This work contributes to existing knowledge on Sino-African relations by providing a detailed insight into Sino-Ethiopian cooperation. It further enhances our understanding of China's involvement on the continent because not enough attention has been given to countries of a lesser economic importance. The case of Ethiopia proves that natural resources are not the only driver for China's involvement, but its motivations are much more complex than resource-seeking. Evaluation of Sino-Ethiopian relations without conducting a field study can easily drive to false conclusions, since most data can be obtained only directly from Ethiopian institutions. Even in Ethiopia this may still pose a challenge since many institutions may avoid providing data despite previous approval. This was also the main obstacle in my research for many weeks, but fortunately the data was eventually given. Moreover, this study undermines many false claims concerning the exploitative nature of China's engagement and its total dominance of the road and energy sector (at least when speaking of hydro and solar power). Accordingly, the current findings add substantially to our understanding of the complex nature of Chinese involvement in Africa, and contribute to a growing body of literature on Sino-African relations. Moreover, my research which culminated in a note has been sent to EU Member States and EU Headquarters (DG DEVCO, DG Trade, and the European External Action Service).

6.3. Limitations of the study

Finally, some caveats need to be noted regarding the present study. The most important limitation lies in the incomplete or missing data. Obtaining data on Chinese development assistance has proven to be a challenge. Data provided by many institutions vary greatly and must be taken with a pinch of salt. For the same reason, the study did not evaluate the energy sector as thoroughly as other sectors because obtaining reliable and factual data proved to be more problematic than initially assumed. Sadly, institutions which could

³⁴¹See chapter 4, p. 80

probably provide most accurate data refused to participate in research or left the requests for interviews/data unanswered. Therefore, some omissions are possible since those information could have not been confirmed. Moreover, some data obtained from Ethiopian institutions contained mistakes which were obscuring the whole research (e.g. on FDI in agriculture). All mistakes that were noticed, were consulted with the relevant institutions. However, there is still a risk of possible mistakes. Last but not least, since many Chinese companies refused to participate in the study, it could paint less of a complete picture of the Chinese approach to the evolving Sino-Ethiopian relations than it was originally desired.

6.4. Recommendations for further research

This research has thrown up many questions in need of further investigation. Further research might explore/investigate more closely the energy sector as well as delve into sub sectors of manufacturing. It would be interesting to assess the development assistance if possible, although most information on that subject is not made public. In addition, it is important to further follow developments in sectors that have been already examined owing to the rapidly changing situation. What is more, some other aspects of Chinese engagement should also be analyzed, e.g. the academic exchange. It would be also of a great value to know the Chinese approach to its engagement Ethiopia, since, to the author's best knowledge, no such publication has appeared so far other than one case study on Addis Ababa Ring Road Project co-written by Peng Mo, Ryan J. Orr and Jianzhong Lu (November 2008). Last but not least, examining the sudden decrease of Chinese investments in the last year also requires further investigation.

To conclude, there is no proof that China exerts a negative impact on Ethiopia, let alone that its practices bear resemblance to the infamous Scramble for Africa. Chinese engagement brings numerous opportunities to Ethiopia and many of them are successfully embraced. On the other hand, Chinese involvement may also bring certain hazards which the GoE should be prepared to face timely. Some of the pitfalls of the mutual relations are already worked upon by both sides. At the moment, Ethiopia still stands a chance of using China's presence to its advantage and its careful policy of not opening the market completely to foreign investors, as well as protection of local investors, prove GoE awareness of threats that foreign actors may bring with. Time will tell if Ethiopia seizes this opportunity wisely and if Sino-Ethiopian relations continue to flourish.

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Interviews

A special meeting with the Chinese Ambassador to Ethiopia organized by DAG, Addis Ababa, February 2013

An off-the-record interview with a representative of the Chinese Embassy in Ethiopia, Addis Ababa, February 2013

An off-the-record interview with a representative of the World Bank in Ethiopia, Addis Ababa, February 2013

An off-the-record interview with a representative of a Chinese hydropower engineering and construction company *Sinnohydro*, Addis Ababa, March 2013

An off-the-record interview with a representative of the Indian Business Forum (IBF), Addis Ababa, March 2013

An off-the-record interview with representatives of the European Business Forum (EBF), Addis Ababa, March 2013

An off-the-record interview with a representative of the EU Delegation to Ethiopia, Addis Ababa, March 2013

An off-the-record interview with a representative of ACDI/VOCA, Addis Ababa, March 2013

An off-the-record interview with a representative of the Turkish Embassy in Ethiopia, Addis Ababa, April 2013

An off-the-record interview with a representative of the Ethiopian Agricultural Transformation Agency (ATA), April 2013

An off-the-record interview with Professor Kay Mathews, Addis Ababa University, April 2013

Thematic Blogs

China in Africa: The Real Story at <<http://www.chinaafricarealstory.com/>>

China Africa Project at <<http://www.chinaafricaproject.com>>

China-Africa Blog at <<http://chinaafricablog.com/>>/

Malwina Dominika Talik

ul. Rzeczna 2
34-360 Milówka
Poland
malwina.talik@wp.pl
+48 502 243 177

Personal details

Date and place of birth: 27.12.1986, Żywiec, Poland
Nationality: Polish

Education

Oct. 2011 – Oct. 2013	University of Leipzig and University of Vienna Global Studies, MA (Erasmus Mundus European Master)
Sept. 2012 – January 2013	Fudan University, Shanghai, People's Republic of China Modern History and International Relations – a visiting student
February 2011 – June 2011	Eötvös Loránd University, Budapest, Hungary German studies and Hungarian - a visiting student (CEEPUS)
Sep. 2009 – Feb. 2010	University of Leipzig, Germany English Studies, German studies - a visiting student (Erasmus)
October 2008 – July 2011	University of Łódź, Poland German Studies, BA Academic Achievement Scholarship: 2009/2010 and 2010/2011
October 2005 – June 2010	University of Łódź, Poland English Studies, MA (a uniform 5-year magister level course)

Experience

January 2011 - ongoing	Amnesty International Poland Position: translator and proof-reader (volunteer) Duties: Translation and proof-reading of articles, documents, documentaries, reports and websites on Human Rights (EN>PL)
May 2013 – June 2013	Polish Permanent Representation to the OSCE, Vienna, Austria Position: intern Duties: representing Poland on meetings and conferences at the OSCE, writing and translating reports, publishing relevant information on the website of the Permanent Representation
February 2013 – April 2013	Delegation of the European Union to Ethiopia, Addis Ababa, Position: Researcher (Economic Section) Duties: conducting research on Foreign Direct Investment in Ethiopia in selected sectors (automotive, road infrastructure, renewable energy, agriculture and manufacturing), contacting and interviewing Ethiopian authorities (Investment Agency, Road Authority, Agricultural Transformation Agency Ministry of Foreign Affairs);

Chinese, European Indian, Japanese and Turkish companies (road and automotive sectors); business for a (European Business Forum, Indian Business Forum, Turkish Commercial Council), embassies, international institutions (a.o. World Bank, ACDI/VOCA)

April 2012 – May 2012

An International Research Project of the **Sophia University in Tokyo Conducted in Leipzig (Germany)**

Position: **junior research assistant**

Duties: data collection, conducting interviews, results description

Feb. 2012 – April 2012

Embassy of the Republic of Poland in London, the UK

Position: **intern in the Consular Section:** legal/criminal/visa/passport section

Duty: customer service, translation of legal documents, preparing correspondence, providing information and assistance to Polish nationals in London: social care, passport and visa issues, tracking Polish criminals through consultation with different Polish and British authorities, creating data bases, participation in the process of issuing visa and passports, work in archives.

June 2010 – September 2010

The Aktuel Translation Group, Henley-On-Thames, the UK

Position: **junior project manager, translator, admin**

Duties: managing projects, co-ordinating and monitoring deadlines, reviewing and registering incoming documents and mail, bringing important or urgent matters to the attention of supervisor, recording receipts and payments, preparing correspondence, translation (English-Polish, English-German) of documents, articles, patents and manuals on engineering and welding, customer service, recruitment of new translators, creating data bases

September 2008

Maria Konopnicka Secondary School, Miłówka, Poland

Position: **English language teacher** (intern)

Duties: conducting English lessons

Language skills

- Polish – mother tongue
- English – proficient (CPE - Certificate of Proficiency in English, December 2008)
- German – proficient (DSH-Zeugnis (Deutsche Sprachprüfung für den Hochschulzugang) – DSH 3 -a language proficiency certificate required to study at German higher education institutions, January 2010)
- Latin – advanced (Secondary School Final Examination)
- Amharic, Chinese, French, Hebrew, Hungarian, Romanian, Slovak – basic

Computer skills

MS Office, Windows OS, Internet skills, Graphics (Photoshop, Corel Draw), Trados 7, Wordfast 5.6.