


RESEARCH ARTICLE

# China, Ethiopia and the Significance of the Belt and Road Initiative

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## Abstract

The Belt and Road Initiative (BRI) mobilizes Chinese construction and investment in developing countries. Ethiopia is Africa's "model" BRI country, due to China's elaborate infrastructure financing and building and its many manufacturing enterprises. Based on field and documentary research, we examine the BRI's meaning, as understood from the perspective of Ethiopia, in comparison to many China-oriented studies. We find that it is an informal Chinese state promise that even when capital flows from China to non-BRI states are curbed, flows to BRI states will be encouraged, and that Ethiopia exercises agency in leveraging the BRI for its development agenda. Using a comprehensive data set, we show that Chinese investment has become even more important in Ethiopia with the BRI and that neither COVID-19 nor Ethiopia's civil war has reversed that trend. We also discuss local criticisms of Chinese activities, which challenge the wholly positive view of the BRI, but do not affirm the US-generated negative narrative.

## 摘要

一带一路倡议 (BRI) 推动了中国在发展中国家的投资和建设。因为中国对埃塞俄比亚基础设施的资助, 以及中国诸多制造业公司活跃在该国, 埃塞俄比亚有非洲的“模范” BRI 国家称号。我们通过实地调研和文献研究, 从埃塞俄比亚的视角理解 BRI 的意义, 因此我们的研究与许多基于中国视角的研究有所不同。我们发现, BRI 是一个非正式的中国承诺, 即使从中国流向非BRI国家的资本受到遏制, 流向 BRI 国家的资本也会受到鼓励; 而埃塞俄比亚则积极地利用一带一路倡议, 促进其自身的发展议程。从我们在埃塞俄比亚收集的相当全面的数据来看, 随着 BRI 的推进, 中国投资在埃塞俄比亚变得更加重要, 无论是新冠疫情还是埃塞俄比亚的内战都没有改变这一趋势。我们也指出埃塞俄比亚也有对中方活动的一些批评, 当地对 BRI 并不都是完全积极的看法, 但这些批评也并不附和于美国方面关于 BRI 的反向话语。

**Keywords:** Belt and Road; Ethiopia; Africa; Chinese investment; world systems; COVID-19; anti-Belt and Road; manufacturing

**关键词:** 一带一路; 埃塞俄比亚; 非洲; 中国投资; 世界体系; 新冠疫情; 反一带一路; 制造业

## Ethiopia, the BRI and the Counter-Mobilization

Among BRI countries, Ethiopia holds a special place: it exemplifies the intended replication of East Asian industrialization processes, including by attracting outbound foreign direct investment (OFDI) that stimulates local enterprising. China's top leaders encourage its companies to "go out" to Ethiopia to build infrastructure and manufacturing capacity. They frame Ethiopia as a

“bridge between the BRI and Africa’s development,” a “model of South–South cooperation,” and “a pilot country for China–Africa production capacity cooperation.”<sup>1</sup>

Ethiopia benefits from foreign direct investment (FDI), but needs a longer-term perspective, more technology transfer and backward foreign-to-domestic firm linkages.<sup>2</sup> Local firms with high absorptive capacity, plus non-exporters generally, receive positive spillovers from Chinese investment, although low absorptive capacity companies receive negative spillovers.<sup>3</sup> Ethiopian firms in the same sector and district experience competition shock from new Chinese investment, but upstream and downstream sectors benefit. The short-term effect on local economic activity is zero, the medium-term is more positive than negative, but after 6–12 years it is quite positive.<sup>4</sup>

In contrast to analyses that take a China-oriented approach, we assess the BRI’s significance for Ethiopia, especially whether it exercises agency, which is the capacity to act, practically achieved.<sup>5</sup> Based on documents and interviews with Ethiopian officials and scholars, as well as Chinese managers in Ethiopia, we argue that the BRI is not mere branding of existing activities. Chinese projects and capital in Ethiopia grew after 2013, when the BRI was announced, more still after its 2015 operationalization. While it is often assumed COVID-19 would lead to a wane in Chinese investment in Africa, the Ethiopian case reveals that Chinese activities were not much affected by either the 2020 global pandemic or the Ethiopian civil war. Ethiopian agency is articulated in how Ethiopians forge their own plans through industrial parks (IPs),<sup>6</sup> regard the BRI as leverage for their development agenda and can treat Chinese loans differently from other external finance.

Researchers have struggled to define BRI projects. Chinese Academy of Sciences scholars hold that “narrowly defined, only those projects derived from or included in cooperation-dialogues between China and the BRI countries can be identified as BRI projects.”<sup>7</sup> Analysts of BRI projects in Asia define a BRI project as one that is: (1) publicly reported as such; (2) financed by BRI institutions; (3) launched after 2013; and (4) implemented and financed bilaterally or multilaterally.<sup>8</sup> For our study of Ethiopia, however, infrastructure projects, even if initiated before the BRI era, are BRI projects, and all BRI-era manufacturing projects are BRI-related.

The BRI has contested significances. The US counter-mobilization against it claims the BRI enables China’s strategic domination, while pushing countries into debt traps through white elephant projects. The BRI also allegedly facilitates China’s “resource grab” and labour export. Our Ethiopia case and other studies show, however, that China does not foreclose on borrower assets.<sup>9</sup> Indeed, KC African Economics’ Irmgard Erasmus notes that “China has been very flexible with Ethiopia in accommodating Addis Ababa’s hard currency liquidity challenges and restructuring their loans.”<sup>10</sup> The BRI is not about white elephants, as scholars understand them,<sup>11</sup> because most Chinese projects are useful and not overpriced.<sup>12</sup> It is also not a drive for strategic domination, as the BRI is too disjointed to be called a strategy<sup>13</sup> and host states exercise agency in dealing with

1 “Xi proposes advancing China–Ethiopia ties,” *Xinhua* (XH), 12 May 2017, [www.xinhuanet.com/english/2017-05/12/c\\_136277974.htm](http://www.xinhuanet.com/english/2017-05/12/c_136277974.htm); “Ethiopia president hails China’s role in industrialization drive,” XH, 16 August 2018; “POWERCHINA wind project: Demonstration along Belt and Road,” *China Daily* (CD), 12 February 2019.

2 Hauge 2019.

3 Negash et al. 2020.

4 Crescenzi and Limodio 2021.

5 Braun, Schindler and Wille 2019.

6 Goodfellow and Huang 2021.

7 Liu, Weidong, Zhang and Xiong 2020.

8 Aminjonov et al. 2019; Mark, Overland and Vakulchuk 2020.

9 Kratz, Feng and Wright 2019; Acker, Brautigam and Huang 2020.

10 Marks 2020.

11 Prasser 2007.

12 Nyabiage 2021.

13 Jones and Zeng 2019; Wilson 2020.

China.<sup>14</sup> It is not about floods of Chinese migrants: workers at Chinese firms abroad are mostly locals, and Chinese are a tiny population in host states.<sup>15</sup> The BRI is not mainly about natural resources; Chinese enterprising, even where extractive industries exist, is diverse, while land acquisition is barely significant.<sup>16</sup>

We suggest that the BRI is an informal pledge that the Chinese state will not discourage OFDI or infrastructure building in developing countries, even when it curbs capital exports to developed countries.<sup>17</sup> That is evidenced after 2016, when China tightened OFDI approval.<sup>18</sup> A Ministry of Commerce foreign investment catalogue of planned, encouraged and restricted sectors, and the National Development and Reform Commission's 2018 measures for overseas investment shrank Chinese developed country OFDI, as did US restrictions. Flows to the US were US\$46 billion in 2016, but US\$5.8 billion in 2021; flows to Europe dipped from US\$80 billion in 2017 to US\$12.8 billion in 2021.<sup>19</sup> China's FDI flows to BRI countries grew, however, from 8.5 per cent in 2016 to 14.8 per cent of its global OFDI total in 2021.<sup>20</sup> China's flow to Ethiopia in 2019 was US\$2.5 billion; its 147 new ventures accounted for 60 per cent of all new projects.<sup>21</sup> All of Africa received US\$38 billion in FDI in 2020,<sup>22</sup> with US\$3 billion from China; yet, in 2020 Q1 alone, 41 new Chinese projects in Ethiopia had registered capital over US\$2 billion and were slated to create 10,000 jobs.<sup>23</sup>

## Ethiopian Agency and Chinese Presence

### *Ethiopia Backgrounded*

In the last four decades, Ethiopia has had famines, droughts and wars. An absolute monarchy until 1974, it was then ruled until 1991 by a military junta. For 28 years thereafter, the 9 million-strong Ethiopian People's Revolutionary Democratic Front (EPRDF) held power. After states of emergency in 2015–2018, Prime Minister Abiy Ahmed came to power and initially created more stability. The military remains highly influential however, as Abiy and many of his colleagues come from it. Political and business elites also still intersect. Abiy created the Prosperity Party out of three of the four EPRDF components, but many of its policies are resisted, with hundreds killed and millions displaced in ethnic conflicts and suppression of protests since 2018.<sup>24</sup> Western states, the International Monetary Fund (IMF) and World Bank (WB) have supported Abiy's economic liberalization with US\$9 billion in loans.<sup>25</sup> An Ethiopian diaspora leader notes that the reforms "basically matched one for one the points in [a 2018 US Congressional] resolution" on Ethiopia,<sup>26</sup> even though neoliberal reforms often create oligarchs.<sup>27</sup> Ethnic conflicts continue because the state was long-dominated by one group, Tigrayans (6 per cent of Ethiopians), and Ethiopia's nine

14 Alden, van Staden and Wu 2018.

15 Jayaram, Kassiri and Sun 2017; Sautman and Yan 2019.

16 Dollar 2016; Sautman and Yan forthcoming.

17 "The rhetoric may be changing but Xi is staying the course," *Financial Times (FT)*, 7 January 2019.

18 Jia Yuan Law Offices 2017.

19 "Chinese direct investment in US and Europe falls by 73 per cent to a six-year low as firms face tougher scrutiny," *South China Morning Post (SCMP)*, 14 January 2019; "Chinese outbound FDI held steady as global FDI rebounded," *Baker McKenzie*, 26 January 2022.

20 "Chinese investment in Belt and Road countries remains stable in 2017," *Global Times (GT)*, 17 January 2018; "China deepens economic development and trade cooperation under BRI in 2021," *XH*, 14 February 2022.

21 UNCTAD 2020.

22 UNCTAD 2021.

23 Tefara 2020; EIC 2020; Xiao 2021.

24 Dahir and Negeri 2020.

25 Marks 2020; "Ethiopia: donor support for economic reforms reached \$9bn," *Asharq al-Awsat*, 14 December 2019.

26 "How did US and Ethiopia become so close?" *BBC News*, 8 April 2019.

27 Gottfried 2019, 65–97.

ethnic-based states are legally entitled to self-determination.<sup>28</sup> Political instability is thus a substantial risk to the BRI in Ethiopia.<sup>29</sup>

While such factors impinge on the infrastructure and manufacturing development strategy Ethiopian and Chinese leaders support,<sup>30</sup> it is not without successes: as the world's third poorest and Africa's second most populous country in the 1990s, Ethiopia had a US\$650 purchasing power parity (PPP) gross domestic product (GDP) per capita,<sup>31</sup> but double-digit growth in the past 20 years was expected to push Ethiopia into lower middle income status by 2025.<sup>32</sup> The proportion of officially poor Ethiopians did fall, from 60 per cent in 2000 to 22 per cent in 2018.<sup>33</sup>

Natural resources, only 1.5 per cent of Ethiopia's GDP in 2017, play a minor role in Ethiopia-China links.<sup>34</sup> Agriculture accounts for one-third of Ethiopia's GDP, 70 per cent of employment and 85 per cent of exports by value,<sup>35</sup> and though famine exists in parts of Ethiopia, it is Africa's main land acquisition site. EU, US, Indian and Gulf firms have large plantations, which some Ethiopians resent as detached from localities, environmentally damaging and corruption-inducing.<sup>36</sup> China's agricultural presence is tiny however: of the sector's 316 foreign-owned or joint venture projects in 2019, only three were Chinese, none a large plantation.<sup>37</sup> That profile contradicts Western media claims that the BRI includes Chinese "buying up foreign land" for expansion.<sup>38</sup> Indeed, of 271 operational agricultural FDI projects in Ethiopia from 1992 to 2016, China had two, India 37, and other countries 232.<sup>39</sup> China may become involved in agro-processing however.<sup>40</sup>

Major problems persist for Ethiopia. Its Gini coefficient of income inequality was a mid-range .39 in 2015, but has since grown.<sup>41</sup> Inflation in 2021 was 25 per cent.<sup>42</sup> Population is adding at 2.9 per cent yearly, and the 2.5 million-strong diaspora reflects Ethiopia's brain drain.<sup>43</sup> In 2019, Ethiopia reached the 60 per cent debt-to-GDP ratio some see as imperiling.<sup>44</sup> The 2021 Corruption Perception Index ranked Ethiopia 87th of 180 states and Ethiopians fear official corruption will induce loan defaults.<sup>45</sup> Ethiopia's Human Development Index (HDI) rose by 45 per cent in 2002–2017: life expectancy was up by 15.8 years and expected years of schooling by 6.3;<sup>46</sup> yet, its 2022 HDI rank was 173rd of 189 countries, mean years of schooling were 2.7, 82 per cent of people lacked internet access, and 55 per cent had no electricity. Food deficiencies are common, export revenues have declined, while capital flight and forex shortages grow.<sup>47</sup>

Such problems make Chinese in Ethiopia wary. They also complain of unfixed tax rules, a forex shortage making it hard to import inputs and convert earnings, and transportation obstacles.<sup>48</sup>

28 Berhe 2017; Carmody 2018; "Ethiopia: ethnic violence in Ethiopia stoked by social media from US," Inter Press Service (IPS), 11 February 2018.

29 Tesfaye 2020, 109.

30 Gu 2019.

31 Kopf 2017.

32 Pilling 2020.

33 Interview, Gedion Jalata, consultant, Addis Ababa, 16 June 2018; Gelan 2018.

34 Shiferaw 2017.

35 Interview, Debebe Abebe, Ethiopian Chamber of Commerce, Addis Ababa, 13 June 2018.

36 Dorosch and Rashid 2015; interview, Tesfaye Tafesse, Addis Ababa University (AAU), 12 June 2018; Debebe Abebe interview.

37 Brautigam 2015.

38 Mitchell 2018.

39 Addis et al. 2021.

40 Morgan 2020.

41 WB 2019.

42 Statista 2021.

43 Worldometer 2018.

44 Onyekwena and Ekeruche 2019; Trading Economics 2020.

45 Interview, Messay Tefera, AAU, 12 June 2018; Transparency International 2021, 3.

46 Demissie 2017.

47 UNDP 2022; Obagharya 2018.

48 Interview, Li Yichun, Chinese Chamber of Commerce, Addis Ababa, 14 June 2018.

State-owned enterprise (SOE) insurer Sinosure (*Zhongguo chukou xinyong baoxian gongsi* 中国出口信用保险公司) decried Ethiopia's planning capacity after it lost US\$1 billion on the US\$4 billion Addis–Djibouti Railway (ADR) project. ADR loans had to be restructured because power shortages caused the railway's underutilization.<sup>49</sup> While the ADR was not supposed to make a profit but stimulate wider economic growth through industrial development and land investment,<sup>50</sup> the government of Ethiopia (GoE) could not manage it and gave over operations to Chinese SOEs until 2023.<sup>51</sup> Thus, when the GoE urges Chinese firms to buy local SOEs, they are reluctant.<sup>52</sup> They are also more cautious about big infrastructure projects: having financed and built nine of Ethiopia's ten largest pre-2018 projects, by 2018 they were doing just two.<sup>53</sup>

### *Ethiopia Agency in a Chinese Context*

Substantial Ethiopia–China economic relations date from 1998, when a Joint Ethiopia–China Economic Commission was set up.<sup>54</sup> Ethiopia hosted the 2003 Forum on China–Africa Cooperation (FOCAC), co-chaired the 2006 FOCAC and is visited by a top Chinese official every year.<sup>55</sup> Its prime minister addressed the 2017 and 2019 Belt and Road Forums.<sup>56</sup> The EPRDF's strongest foreign ties were with the CCP, as both controlled key economic sectors, were present in neighbourhoods and villages, and sought a common development practice.<sup>57</sup> Scholars note, however, that China “is unable to influence state shaping in Ethiopia, due to the country's own cultural background and particular context” and that “Chinese influence in the fields of governance and politics in Ethiopia appears to be quite constrained, due to the nature of Ethiopian statecraft and the strong vertical as well as horizontal dimensions of power and control practised by the ruling party.”<sup>58</sup>

The Eastern Industrial Zone (EIZ), opened in 2007 outside Addis, was aided by a US\$15 million Chinese state subsidy and is run by a Chinese privately owned enterprise (POE).<sup>59</sup> The EIZ's 131 firms in 2021 – up from 82 in 2018 – are mainly Chinese and do textiles, garments, footwear, construction materials, auto parts, etc. Most are small POEs, “relatively autonomous” from Chinese parents and often have complex relations with the GoE.<sup>60</sup> The GoE was impressed by this first-ever Ethiopian industrial park (IP) and launched its own zone programme. Based on China's experience,

the Ethiopian industrial zones concentrate first-class facilities, streamlined administration and preferential policy to attract investors to foster selected industrial sectors . . . Labour-intensive manufacturing investments that can employ large numbers of local workers and earn foreign exchange through export, for example garment and footwear making, are particularly targeted. As China dominates these sectors globally, investors from China also make up many of the first tenants to settle in the zones.<sup>61</sup>

49 “Botched Chinese railway project in Africa is a warning to Belt and Road Investors,” *SCMP*, 29 October 2018.

50 “Can China keep investment strategy on track as Ethiopian railways hit buffers?” *SCMP*, 8 March 2021.

51 “Ethiopia to take stake in Port of Djibouti, its trade gateway – state media,” Reuters, 1 May 2018.

52 Li Yichun interview.

53 “China scales back investment in Ethiopia,” *FT*, 3 June 2018; “Chinese caution opens up space for private investors,” Business Monitor International (BMI), 15 June 2018.

54 Shinn 2014.

55 “Focac summit to advance Sino-Africa cooperation,” *Herald*, 19 November 2015; State Council 2006.

56 “Finally, the Chinese government sent its senior diplomat...,” *Addis Fortune*, 9 January 2019; Tiezzi 2019.

57 Lejeune 2015; Ziso 2020.

58 Dittgen and Demissie 2017.

59 Gu 2019, 241.

60 Fei and Liao 2019, 631; Gebeyehu 2017, 44–46; Tegegn 2021; Chen, Weiwei 2021.

61 Calabrese and Tang 2020.

Both Ethiopian and Chinese policymakers identify IPs as key development strategy, and the latter also see IPs as the key BRI “cooperation platforms.”<sup>62</sup> Since 2014, Ethiopia’s Industrial Parks Development Corporation (IPDC) has run some parks, enforced compliance with global standards, vetted applicants and had one-stop service centres.<sup>63</sup> Some 40,000 IP jobs have been created.<sup>64</sup> All Ethiopian national IPs have been built by Chinese firms, and by 2019 Chinese ran seven of the 11 operating IPs. POEs without state support or prior IP experience make most investments in Ethiopian IPs. An additional ten IPs were under construction or planned by 2020, and Ethiopia intends to have 30.<sup>65</sup> A study indicates that “In contrast to ideas of neo-colonialism . . . these Chinese zones are not strategically planted in Africa to expand Chinese state capitalism. Rather, they involve entrepreneurs practising the most important lesson from industrialization in China: learning by doing.”<sup>66</sup> FDI growth in Ethiopia is mainly due to IPs, where 90 per cent of businesses are foreign-owned.<sup>67</sup> Chinese-built IPs produced US\$142 million in export revenue in the 2018–2019 fiscal year, up 50 per cent year-on-year,<sup>68</sup> and the industry’s share of GDP grew from 11.6 per cent in 2007 to 27 per cent in 2020.<sup>69</sup>

A study of work regimes in Chinese enterprises in Ethiopia has observed that “use of Chinese expatriate managers, engineers, and workers is arguably the most contentious aspect of China–Africa relations,” due to implications for local job opportunities, labour practices and workers’ welfare.<sup>70</sup> Tsinghua University’s Tang Xiaoyang found that in 73 Chinese manufacturing firms in Ethiopia, over 95 per cent of employees were locals.<sup>71</sup> Studies led by University of London anthropologist Carlos Oya noted that the over 90 per cent localization owes partly to Ethiopia’s strict work permit regime. Some Chinese major firm workforces in Ethiopia have 93–99.9 per cent local employees (Table 1), with a similar level for middle managers. Ethiopians are 40–50 per cent of higher-level managers in Chinese firms, and Chinese diplomats urge further localization.<sup>72</sup> SOEs are more localized than POEs, due to greater compliance with local laws and higher costs of hiring Chinese for SOEs.<sup>73</sup> Overall, Ethiopia’s Chinese firms “employ just as many local workers as non-Chinese companies, pay them more or less the same and train them to similar standards, though usually less formally.”<sup>74</sup> Major workforces are growing: thus, EIZ’s workforce was 15,600 in 2018–2019, but 19,100 in 2020–2021.<sup>75</sup>

Chinese firms see Ethiopia as a base for low-tariff exports to the West. In manufacturing, however, a sense exists that “Ethiopia will take five to ten years to scale up, as its infrastructure is not there yet.”<sup>76</sup> In 2010, only 10 per cent of rural Ethiopians lived within two kilometres of a road, and

62 Fei 2018, 229.

63 ADB 2018; IPDC 2018; Fei and Liao 2019, 623–644; interview, Belachew Mekuria Fikre, EIC commissioner, Addis Ababa, 17 June 2018; interview, Fekadu Niguissie, EIC IP One Stop Service coordinating director, 20 June 2018; interview, Mr. Belante, IPDC, Hawassa, 17 June 2018; interview, Sehayehu Habtewold, IPDC, Eastern Industrial Zone (EIZ), 19 June 2018.

64 Oya 2019a.

65 Schmidt et al. 2018, 20–25; Goodfellow and Huang 2021; “Ethiopia industrial park progress continues apace,” *Just Style*, 8 January 2019; “Ethiopia to commission six Chinese-built industrial parks before end of July,” *XH*, 2 January 2019; Tang, Keyi 2019, 9–10.

66 Goodfellow and Huang, 17.

67 Emid 2021.

68 “From rice to e-commerce: China supports Africa to boost self-development,” *People’s Daily (PD)*, 4 September 2019.

69 Statista 2018; Mohammed 2021.

70 Fei 2020a.

71 Tang, Xiaoyang 2019.

72 Interview, Han Chao, Economic & Commercial Section, Chinese Embassy, 12 June 2018.

73 Oya 2019a; Oya and Schaefer 2019.

74 Pilling 2020; “Ethiopia’s dam alters dynamics in horn of Africa,” *FT*, 9 July 2020.

75 Tegegn 2021.

76 Cochrane 2018.

**Table 1.** Workforce Localization at Chinese-Related Projects, Ethiopia in 2018–2019

Project	Ethiopians	Non-Locals	% Local
Hawassa Industrial Park	23,000	700	97
Eastern Industrial Zone	14,500	1,100	93
Transsion phone plant	1,000+	10	99.9
Huajian shoe plants	6,000	200	97
Ethiopia Hansom Glass	250	80	76
Addis-Djibouti Railway	1,500	1,000	60
Lifan Motors	152	8	95
Adama I & II Windfarms	2,000	580	78
Adey Abeba Stadium	600+	200	75+
ZTE	600+	400	60+

Source: Mills 2019; “Embracing a new trade model,” *China Daily* (CD), 8 September 2018; “Lives change after Africans ‘catch’ a job,” CD, 14 September 2018; “PhD students inspired by China’s success,” CD, 7 September 2018; “Manufacturers look to switch production to Africa,” CD, 15 October 2018; interview, Transsion managers, Addis Ababa, 21 June 2018; interview, Zeng Changqing, Huajian, EIZ, 19 June 2018; “CCECC plans to take-on real estate in Ethiopia, Africa,” *Reporter*, 8 December 2018; Klovert 2019; Chiyemura 2019; Fei 2020a; Li 2015.

by 2016 only 30 per cent of required roads existed.<sup>77</sup> Chinese firms have built 70 per cent of Ethiopia’s new roads, plus Addis’s light rail, which is heavily used and attracts adjacent investments, as does the ADR.<sup>78</sup> Ethiopia is 131st of 167 countries in the Logistics Performance Index: it takes five days to truck cargo 700 kilometres from Hawassa IP to the nearest port, in Djibouti.<sup>79</sup> Some 95 per cent of Ethiopia’s exports pass through the large Chinese-run terminal in Djibouti. Ethiopian infrastructure surrounds the Chinese-revamped port, and Chinese have Africa’s largest free trade zone there.<sup>80</sup> Manufacturing and infrastructure require capital goods imports, resulting in Ethiopia’s average annual trade deficit of US\$2.2 billion with China in 2006–2017.<sup>81</sup>

Power is also a challenge: 70 per cent of hard currency receipts are used to import oil, despite Ethiopia’s great hydropower potential.<sup>82</sup> The Growth and Transformation Plan (GTP) II (2015–2020) aimed to spend US\$20 billion to quadruple power capacity by 2020. These goals were far from met. Chinese did however finance the 1,870 MW Gibe III Dam and built the 6,450 MW Grand Renaissance Dam’s transmission lines, the 300 MW Tekeze Dam, 254 MW Genale Dawa III Dam, and the 51 MW and 153 MW Adama wind farms, facilities that may yet make Ethiopia an electricity exporter.<sup>83</sup>

An Ethiopian SOE has been Africa’s largest, most profitable airline and the country’s biggest foreign exchange earner, in part because more than 80 per cent of Chinese connecting to Africa have used it. Before the pandemic, one-eighth of all passengers transiting Addis’s airport daily were

77 “Ethiopia – Country Commercial Guide (ECCG) – Ethiopia: Roads and Railways,” 21 June 2017, [www.export.gov/article?id=Ethiopia-Road-and-Railways](http://www.export.gov/article?id=Ethiopia-Road-and-Railways); Foster and Morella 2010, 7.

78 Hosh 2017; Gardner 2018; Tarosy and Voros 2019.

79 WB 2018.

80 “Trains delayed: Ethiopia debt woes curtail China funding,” Reuters, 1 September 2018; “DP World seals Ethiopia deal after Djibouti terminal seizure,” JOC.com, 6 March 2018, [www.joc.com/port-news/terminal-operators/dp-world/dp-world-seals-ethiopia-deal-after-djibouti-terminal-seizure\\_20180306.html](http://www.joc.com/port-news/terminal-operators/dp-world/dp-world-seals-ethiopia-deal-after-djibouti-terminal-seizure_20180306.html); “Djibouti goes from position of strength to potential downfall,” *The National*, 10 August 2018; “China merchants signs US\$350 million deal for Shekou-style revamp of Djibouti port,” *SCMP*, 5 January 2021.

81 Trading Economics 2018; Shiferaw 2017.

82 “A miracle economy in East Africa,” CD, 8 October 2017.

83 “Chinese investment hotspot and a state of emergency: what’s going on in Ethiopia,” CNBC, 23 February 2018; “Energy a priority area in China–Ethiopia cooperation: Chinese ambassador,” *XH*, 18 May 2018; Nicolas 2017.

Chinese, and a Chinese firm built its new terminal.<sup>84</sup> The Ethio Telecom monopoly is Africa's largest mobile operator. Cellphone use is high in part because China-based firm Transsion produces cheap phones in Addis.<sup>85</sup>

While some analysts assume China "exerts political leverage over Ethiopian elites,"<sup>86</sup> the GoE has seen Western states as more useful politically and were "arguably America's closest ally on the continent of Africa." The 300,000 Ethiopians in the US are highly influential in Ethiopia itself. The US is Ethiopia's largest aid provider, over US\$4 billion in 2015–2020. It has trained Ethiopia's military, embedded senior US government officials at key Ethiopian economic ministries and said it would mobilize US\$5 billion for investment in privatized Ethiopian SOEs.<sup>87</sup> Yet, rewards from ties to Western states are not large: Ethiopia is among the world's lowest per capita aid recipient, at US \$13 annually, against a Sub-Saharan African (SSA) average of US\$29.<sup>88</sup>

As with many African states, Ethiopia's agency with China went unacknowledged until recently.<sup>89</sup> China's loans are demand-driven: proposals for infrastructure projects come from Ethiopians and decisions to go forward are theirs alone, pursuant to the Ethiopian Industrial Development Strategic Plan (EIDSP, 2013–2025). Officials are "adamant that Ethiopia hasn't seen any arm-twisting from China."<sup>90</sup> Loans from China were 18 per cent of Africa's external debt accumulated in 2006–2016.<sup>91</sup> They are mainly for transport and power, with US\$74 billion provided in 2000–2016.<sup>92</sup> From 2012 to 2017, 10 per cent of Chinese loans to SSA went to Ethiopia;<sup>93</sup> it became Africa's second largest recipient of Chinese loans, US\$13.3 billion in 2000–2016.<sup>94</sup> Loans in 2000–2018 were for transport (US\$4.37 billion), communications (US\$3.16 billion), power (US\$2.54 billion) and manufacturing (US\$2.02 billion).<sup>95</sup> A 2020 WB study pegged Ethiopia's Chinese debt at US\$8.5 billion or 32 per cent of public external debt.<sup>96</sup> Other lenders have been the WB (US\$6 billion), Turkey (US\$3 billion), India (US\$1 billion), and the EU (US \$1.5 billion). Average annual GoE revenues are US\$3 billion in aid and US\$6 billion in taxes.<sup>97</sup>

Chinese loans "are mostly concessional [with] longer grace periods, lower interest rates or both. They also come with less stringent preconditions, owing to China's policy of non-interference."<sup>98</sup> See Table 2 for some examples of the Import and Export Bank of China (IEBC) loans. The ADR loans were a mostly non-concessional exception. The GoE tried to get them restructured as concessional, but only got a repayment extension, from ten to 30 years.<sup>99</sup>

84 Yalew 2017; "Ethiopian Airlines' latest Chinese-built infrastructure to power continental ambition," *XH*, 31 January 2019.

85 Getachew 2020; Transsion interview.

86 Urusu and van den Berg 2018.

87 APO Group 2019; *BBC News*, 8 April 2019; UNCTAD 2020, 32.

88 ADB 2015.

89 Wu 2018; Soule 2019, 220–22; Belachew interview.

90 Interview, Kurvill Mathews, Addis Ababa, 12 June 2018; Gedion Jalata interview; Marsh 2018b.

91 "Lumpy 'SAIS-CARI' Data on People's Daily," SAIS-CARI, 8 June 2018, [www.chinaafricarealstory.com/2018/06/lumpy-sais-cari-data-on-peoples-daily.html](http://www.chinaafricarealstory.com/2018/06/lumpy-sais-cari-data-on-peoples-daily.html).

92 Eom, Brautigam and Benabdallah 2018.

93 "Sovereigns – Africa: China's lending supports growth, exacerbates fiscal and external pressures in sub-Saharan Africa," Moody's, 14 November 2018, [www.moody's.com/credit-ratings/Ethiopia-Government-of-credit-rating-806356915?stop\\_mobi=yes](http://www.moody's.com/credit-ratings/Ethiopia-Government-of-credit-rating-806356915?stop_mobi=yes).

94 Stevens 2018; "Chinese investment boosts Africa's sustainable development," *PD*, 4 June 2018.

95 Eom, Brautigam and Benabdallah 2018.

96 Huang, Yufang, and Brautigam 2020.

97 "Ethiopia set to boost tax earning by a billion dollar [sic]," *New Business Ethiopia*, 11 August 2017; Jubilee Debt Campaign 2018.

98 "If Chinese generosity seems too good to be true," *Addis Fortune*, 9 September 2017.

99 Sun 2017; "Ethiopia in talks with China to ease 'serious debt pressure' tied to New Silk Road rail link, envoy says," *SCMP*, 24 March 2019.



**Table 2.** Terms for Several Rail and Road IEBC Loans to Ethiopia

Year and Project	Amount	Interest	Grace + Repay (yrs)
2011 Light Rail System	US\$403 million	3.1%	3 + 23
2014 Addis-Adama Expressway	US\$320 million	2%	7 + 20
2016 Addis roads	US\$152 million	2%	7 + 20

Source: Dreher et al. 2017; “Committee defends nation’s debt payment capability,” *Reporter*, 31 December 2016.

A study further shows an aspect of Ethiopian agency in the BRI context. Chinese and a Turkish/European entity financed lines for the Ethiopia Railway Corporation. With the latter lenders, Ethiopia never misses a payment, but it has delayed loan payments and management fees to Chinese contractors, got China to reschedule its project debt and pressured it to set up skill transfer initiatives, finance new colleges and training courses, etc., actions the Turkish/European entity would not undertake.<sup>100</sup> “Put simply, the political elevation of the railway as a ‘Belt and Road’ project means it is politically unfeasible to allow it to fail, giving the Ethiopian government significant leverage and flexibility over loan repayments.”<sup>101</sup> Agency is also evinced in Ethiopian state support for Addis’s “Sheba Valley” information and communications technology (ICT) entrepreneurs who thereby “feel empowered to bring original ideas to the table and to design products for Ethiopians” when partnering with Chinese ICT entrepreneurs from Shenzhen.<sup>102</sup>

### *Chinese Adaptability and Ethiopian Complaints*

Most Chinese in Ethiopia are managers, engineers or skilled workers. Though Ethiopia bars foreigners from retailing, some Chinese do it through a local partner or spouse, creating one of several kinds of Chinese interactions with grassroots Ethiopians.<sup>103</sup> Chinese in Ethiopia remain a small, impermanent presence in a country of 121 million people (see Table 3), with some 40 per cent in Addis. In a 2015 study, “Not a single [Chinese] expressed a desire to remain in [Ethiopia] indefinitely,” including those already there for more than a decade.<sup>104</sup>

Although ranked 159th of 190 countries on the WB Doing Business Index 2020, Ethiopia received 5 per cent of Africa’s FDI inflow in 2019.<sup>105</sup> Chinese firms confront many problems however.<sup>106</sup> Some 30 per cent of senior Chinese managers’ time is spent dealing with officials and regulations. There are retroactive laws, unpredictable government audits and few complaint mechanisms. Acute skills shortages inhibit new projects. Only 30 per cent of young people complete lower secondary school, and only 6 per cent of college-age people enrol in higher education. While about one-third of undergraduate students and one-fifth of postgraduate students major in engineering or technology, among Technical and Vocational Education and Training students, only 15 per cent acquire factory-relevant skills. Chinese firms thus must bring in lead workers and train locals.<sup>107</sup> Work permits are hard to get, however, and must be renewed annually. Engineers get only one renewal, despite local engineers lack-

100 Chen, Yunnan 2021.

101 Chen, Yunnan 2020.

102 Meester 2021.

103 Debebe Abebe interview; Tesfaye Tafesse interview; Araya 2018.

104 Cook and Alemu 2015.

105 WB 2020a; “China remains to be top foreign investment source of Ethiopia in 2019: UN,” *XH*, 29 January 2020.

106 Gebrihiwot, Gebreeyesus and Weldesilassie 2020.

107 WB 2012; Salmi, Surssock and Olefir 2017; West 2015; Oya 2019b.

**Table 3.** Chinese in Ethiopia

Year	Population
1998	200
2007	100
2009	5000+
2010	3,000–10,000
Early 2014	20,000
Mid-2014	30,000
Late 2014	35,000–40,000
2016	50,000–60,000
2018	50,000
2022	30,000

Source: “Building roads, building a country,” *CD*, 5 September 2014; Burke, Corkin and Tay 2007, 63; Cook et al. 2016; “China empowers a million Ethiopians: ambassador,” *Africa News Agency*, 26 January 2016; Huang, Zhengli 2019; Li Yichun interview; Sany and Sheehy 2022.

ing experience for many infrastructure jobs.<sup>108</sup> Chinese firms’ knowledge transfer adds value to the labour force but is largely limited to lower skill levels.<sup>109</sup>

Ethiopia’s local private investment rate is the world’s sixth lowest.<sup>110</sup> Manufacturing growth is from FDI, as many local entrepreneurs prefer dealing in imports and lack global market knowledge. Ethiopian Investment Commission (EIC) data show Chinese firms were 39 per cent of operational manufacturing FDI projects by 2018. One reason is that manufacturing wages are a fourth of China’s. Unit labour costs (ULC; wages : productivity) are at Bangladesh levels. Ethiopia’s ULC for a shirt and loafers are one-half and one-fifth China’s level, although Ethiopia’s labour rights are better than in Bangladesh, Cambodia, Mexico or Malaysia.<sup>111</sup> Chinese managers regard Ethiopia’s security, low wages and low-cost electricity and water as attractive. Manufacturing still has a limited effect on overall employment, however, and few backward or forward linkages form,<sup>112</sup> though each job does create 2.2 jobs in other sectors and some workers acquire transferable skills.<sup>113</sup>

Chinese infrastructure is likely more impactful than investments. Chinese deal directly with an Ethio-China Directorate of the Ministry of Finance and Economic Development and are said to have “a different approach than the more traditional partners. Chinese officials [a]re described as having a better understanding of the GoE’s priorities and of which projects would have been of interest to the Ethiopian government.”<sup>114</sup>

Unlike the EU, China’s interaction is not mainly one of aid, but of “other official flows,” trade and investment, making China “the easiest alternative”<sup>115</sup> and an “alternative partner” that boosts Ethiopia’s leverage with traditional donors.<sup>116</sup> An EIC official has said Ethiopians perceive Chinese, unlike Europeans, as risk tolerant and willing to go outside businesses they already know. While Europeans reluctantly recognize Ethiopia’s potential, Chinese are said to adapt to complexities,

108 Interview, License Department, EIC, 12 June 2018; Debebe Abebe interview.

109 Alves and Lee 2022.

110 “Ethiopia: The state goes to market,” *Africa Report*, 16 October 2018, [www.theafricareport.com/Horn-East/ethiopia-the-state-goes-to-market.html](http://www.theafricareport.com/Horn-East/ethiopia-the-state-goes-to-market.html).

111 Stevens 2018, 10; Gelb et al. 2017; McKinsey Global Institute 2016, 1.

112 Barrie 2019.

113 Liu, Matt 2017; Veras 2018; Giannecchini and Taylor 2018, 28–35.

114 Overseas Development Institute 2017, 16.

115 Tarrosy 2020, 20.

116 Chakrabarty 2016; Hackenesch 2013.

such as cumbersome customs regulations. They work closely with local officials, are alert to opportunities in Ethiopia and glad to break even in a project's initial years, tolerate low short-term rates of return, and are mostly happy about longer-term rates. When they approach officials, they are prepared to invest, while others are not.<sup>117</sup>

Ethiopians do, however, display “a general lack of trust about the quality of Chinese products and services,” especially mobile networks, and complain of Chinese outbidding local construction firms.<sup>118</sup> An Ethiopian Chamber of Commerce official has said

Chinese companies have vast experience, good management skill, and finance, and these factors are their advantages in winning contracts. Ethiopian companies have problems, particularly a lack of experience, but also problems of quality [of work] and untimely delivery, plus a lack of capital.<sup>119</sup>

Local firms argue they cannot compete because Chinese build ties with officials.<sup>120</sup> Those who work with Chinese on building projects also encounter financial constraints, information exchange problems, cultural differences, unfamiliarity with Chinese work methods and project complexity.<sup>121</sup> Some say Chinese standards are below global norms, yet the GoE sees Chinese firms as efficient and by controlling construction material prices, equipment and finance, favours them. Chinese POEs that lack experience abroad allegedly engage in fraud and corruption and eschew corporate social responsibility. Work ethic differences can be acute: while Chinese “value discipline and teamwork,” Ethiopians “value freedom.”<sup>122</sup> Some resist the work regimen, although collective resistance is often hampered by low awareness of the need to unionize.<sup>123</sup> Chinese managers in turn complain of absentee rates that average 15 per cent and the many holidays. They say that factory workers, who are government-recruited, lack skills, require repeated instruction and may not speak the official language, Amharic.<sup>124</sup>

Firm-level relations are also problematic. Some footwear and garment plants have environmental issues. Ethiopia has no minimum wage for most sectors, weak unionism and little collective bargaining. A US labour NGO's interviews in 2018 at four garment and textile exporting plants in Ethiopia found a US\$39 average monthly wage.<sup>125</sup> Chinese shoe firm Huajian's workers said in 2018 they have a US\$51 basic salary, long hours, no unions and unsafe conditions.<sup>126</sup> There are many strikes, including about a dozen at Chinese enterprises in 2017–2019.<sup>127</sup> Chinese firms resemble other foreign companies in having low wages (see Table 4).

In fact, firms may collectively fix low salaries: Hawassa IP's basic wage in 2018 was US\$23, or US\$39 with benefits; experienced workers averaged US\$53. Chinese and other firms' excuse for that unsustainable wage (about one-third that of Bangladesh) is that productivity is one-third China's

117 Interview, Addisu Biazen, EIC Promotions Directorate, Addis Ababa, 12 June 2018.

118 Hackenesch 2013; Jalata 2009.

119 Debebe Abebe interview.

120 Esaiyas and Kahssay 2020; Antigegn 2020.

121 Ibid.

122 Ziso 2018, 185; Mo, Orr and Lu 2008, 21–23; Driessen 2014.

123 Fei 2020b, 21; Mitta 2019, 83.

124 Interview, Victor Sze et al., TAL Enterprises, Hawassa, 15 June 2018; “Textiles in Ethiopia: industry 4.0 at 20 euros per month to seduce fashion ‘sourcing’,” *MDS*, 6 November 2018, [www.themds.com/markets/textile-in-ethiopia-industry-40-at-20-euros-per-month-to-seducer-fashion-sourcing.html](http://www.themds.com/markets/textile-in-ethiopia-industry-40-at-20-euros-per-month-to-seducer-fashion-sourcing.html).

125 Workers Rights Consortium 2018, 3.

126 “Chinese firm featured in government-backed propaganda film accused of labour rights abuses,” *SCMP*, 2 May 2018; Kinetz and Meseret 2018.

127 “The everyday reality for China's Belt and Road plan in Africa is labour issues, rather than foreign relations,” *SCMP*, 19 April 2019.

**Table 4.** Monthly Wages at Foreign Garment, Textile and Shoe Firms in Ethiopia 2018

Firm, Location	Position	Wage (US\$)
H&M (Sweden), Hawassa, Mekelle	Lowest level worker	\$36
Hirdaramani (Sri Lanka), Hawassa	Lowest level worker	\$23
Wuxi Jinmao (China), Hawassa	Lowest level worker	\$39
Indochine (China), Hawassa	Experienced worker	\$53
Chinese-owned jeans factory, EIZ	Seamer	\$55–\$73
Shanghai Textiles, EIZ	Supervisor	\$92
Huajian, Light Industrial City	Lowest level worker	\$44
Huajian, Light Industrial City	Worker, two years' experience	\$90

Source: Woldie 2018; Davison 2017; “Ethiopian youth find key to better life in Chinese-built industrial zone,” *PD*, 30 August 2018; Marsh 2018a.

level, almost all raw materials must be imported and ethnic-based protests disrupt production.<sup>128</sup> Wages for EIZ workers are about 50 per cent higher than at local enterprises,<sup>129</sup> but the lack of a living wage means that the 100 per cent annual turnover rate will likely continue.<sup>130</sup>

### Chinese FDI in Ethiopia and the BRI

Chinese firms in Ethiopia are market-seeking greenfield investors. Their investment is attributed to the Ethiopia–China trade flow and Ethiopia’s GDP growth and FDI openness.<sup>131</sup> Market access and cheap labour, but not resource rent, are important for FDI in Ethiopia.<sup>132</sup> From 2012 to 2015, China’s FDI flow averaged 6.9 per cent of Ethiopia’s inbound FDI.<sup>133</sup> Its FDI stock rose from US \$606.6 million in 2012 to US\$1.13 billion in 2015, out of Ethiopia’s US\$13.7 billion total.<sup>134</sup> That was only 3.6 per cent of China’s Africa FDI, but because it is in labour-intensive projects, it created one-fifth of all new FDI-related jobs in Africa.<sup>135</sup> In 2014, 69 per cent of Chinese firms in Ethiopia were POEs, 15 per cent were private joint ventures and 13 per cent were SOEs.<sup>136</sup> In 2018, 60 per cent of Chinese FDI flow to Ethiopia was private.<sup>137</sup> Within five years of the BRI’s operationalization, China’s 2020 stock of FDI in Ethiopia quadrupled that of 2015, reaching US\$4.67 billion of Ethiopia’s US\$25 billion total.<sup>138</sup>

The number and proportion of Chinese FDI projects in Ethiopia in the three stages of project development (pre-implementation, implementation and operational) has grown over three time periods (see Table 5). Total FDI projects dropped during the BRI period, but Chinese projects increased in number, more than doubling their proportion of total projects.

128 Barrett and Baumann-Pauly 2019, 11.

129 Xiao 2021.

130 Marsh 2018a; Dean 2018.

131 EIC data and Gebretensaye 2015, 12.

132 Ergano and Rembabu 2020.

133 Asamere 2013.

134 “Ethiopia: double-digit growth or collapsing economy?” *East African*, 7 April 2016; Geda 2016; HKTDC 2018.

135 Ministry of Commerce 2016; “Foreign direct investment in African economies within global financial markets,” *African Review of Business and Technology*, 3 August 2017, [www.africanreview.com/finance/economy/foreign-direct-investment-in-african-economies-within-global-financial-markets](http://www.africanreview.com/finance/economy/foreign-direct-investment-in-african-economies-within-global-financial-markets).

136 Wolf and Cheng 2018b, 25; Gebretensaye 2015; Glans 2014, 28.

137 Gedion Jalata interview.

138 “Foreign direct investment (FDI) in Ethiopia,” Nordeatrade, 2020, [www.nordeatrade.com/en/explore-new-market/ethiopia/investment](http://www.nordeatrade.com/en/explore-new-market/ethiopia/investment).

**Table 5.** Number and Proportion of Chinese Projects among All FDI Projects in Ethiopia

	1992–2005	2006–2012	2013–July 2020
<b>All FDI Projects</b>	569	1,626	1,270
<b>Chinese Projects</b>	68 (11.91%)	401 (24.66%)	657 (51.73%)

Source: EIC data.

**Table 6.** Numbers and Proportions of Chinese and Non-Chinese Projects in Pre-implementation, Implementation and Operational Stages, 2011–mid-2020 (1998–mid-2020 for total)

Year	Chinese	Non-Chinese	Chinese % of total
2011	34	124	21.5%
2012	55	156	26.1%
2013	70	115	37.8%
2014	47	88	34.8%
2015	84	81	50.9%
2016	63	72	46.7%
2017	49	30	62.0%
2018	133	74	64.3%
2019	166	111	59.9%
2020	45	42	51.7%
<b>Total</b>	<b>1,129</b>	<b>2,310</b>	<b>32.8%</b>

Source: EIC data.

From 1992 until July 2020, 3,465 FDI projects in Ethiopia came from 85 countries, and nine of those countries had more than 100 projects: China was followed by India, the US, UK, Netherlands, Sudan, Turkey, Italy and Saudi Arabia. China had three times the number of projects that India had. Chinese projects were 32.5 per cent of all projects and 28.7 per cent of operational projects in 1992–mid-2020, but were 56.19 per cent and 65.71 per cent of all pre-implementation and implementation projects in 2018–mid-2020. Chinese firms are now by far the most prominent investors in Ethiopia.

In 1998–2005, Chinese projects were a very low proportion of all newly operational projects, but in 2006–2012, they were one-fifth to one-fourth. In the BRI era, from 2013 on, Chinese projects were one-third to three-fifths of annual totals (See Table 6). Many infrastructure projects finished over the years, so by 2018 there were some 400 Chinese projects,<sup>139</sup> or one-fifth of all operational FDI projects. By the end of 2020, however, there were more than 700 Chinese enterprises in Ethiopia.<sup>140</sup> China had the largest number of sole-owned and joint venture projects.

FDI projects in Ethiopia have mainly been in three of the 13 EIC official sectors (Table 7). The major sectors for Chinese investors, in numbers and as proportions of all FDI projects, and at all three stages of project development are given in Table 8. Chinese thus have a growing share of manufacturing, Ethiopia's leading FDI sector. In construction and real estate, there are fewer projects, but some are large and important.

139 "Chinese FDI in Ethiopia reached 4 billion USD," *Ethiopian News Agency*, 31 August 2018.

140 China–Africa Business Council 2021, 46.

**Table 7.** Proportion of All FDI Projects in Ethiopia by Top Sectors in Three Stages, 1992–2020

Sector	Pre-implementation % of Each Sector	Implementation % of Each Sector	Operational Stage % of Each Sector
Manufacturing	72.02%	80.00%	47.57%
Real Estate or Construction	Real Estate 9.17%	Construction 5.71%	Real Estate 21.22%
Construction or Agriculture	Construction 5.73%	Agriculture 11.43%	Agriculture 10.56%

Source: EIC data.

**Table 8.** Number and Proportion of Chinese Projects in Ethiopia, in Their 3 Major Sectors, as a Proportion of All Projects in the Three Stages, over Three Periods, 1992–2020

Sectors	1992–2005	2006–2012	2013–07/2020
Manufacturing	50 (8.39%)	240 (14.76%)	535 (42.13%)
Real Estate	3 (0.50%)	75 (4.61%)	39 (3.07%)
Construction	9 (1.51%)	48 (2.95%)	16 (4.72%)

Source: EIC data.

By 2018, the top 13 investing countries had 2,630 projects. Among the 1,516 *operational* projects, manufacturing absorbed 70 per cent of capital investment, construction 18 per cent, and agriculture 6 per cent. In 2018, 726 of the 786 Chinese projects (92 per cent) were in manufacturing, real estate and construction (Table 9). For the project proportions by mid-2020 in the three major sectors for Chinese FDI, see Table 10.

Among recently operationalized FDI projects, of the 75 in 2018, 73.3 per cent were Chinese; of the 23 in 2019, 87 per cent were Chinese.

In 2018, 77 per cent of Chinese operational capital investment in Ethiopia was in manufacturing and 19 per cent in construction, with large investments after 2013, especially after 2015. Chinese projects and capital have trended upwards, while non-Chinese FDI has diminished. Chinese capital investment surpassed *total* non-Chinese FDI by 2015. That Chinese projects and capital grew sharply from 2013, when the BRI was announced, and even more after its 2015 operationalization, indicates that the BRI is not a mere branding of existing activities.

**Table 9.** Operational Chinese and Non-Chinese Projects by Sector in 2018

Sector	Chinese Projects	Non-Chinese Projects
Manufacturing	532 (67.7%)	832 (38.9%)
Real Estate, Rent, Business	98 (12.5%)	533 (24.9%)
Construction	96 (12.2%)	103 (4.8%)
Hotels, Restaurants	31 (4.0%)	113 (5.3%)
Health and Social Work	10 (1.3%)	46 (2.2%)
Transport, Storage, Communications	9 (1.1%)	64 (3.0%)
Agriculture	3 (.03%)	313 (14.6%)

Source: EIC data.

**Table 10.** Chinese Projects as Proportions of All FDI Projects in Ethiopia by Sector and Stage

	Pre-implementation	Implementation	Operation
Manufacturing	65.61%	75%	41.68%
Real Estate	32.50%	100%	16.54%
Construction	72.00%	50%	49.26%

Source: EIC data.

**Table 11.** Percentages of Employees at All FDI Projects and Chinese Projects, by Sector, 2020

	All Projects' Employees	Chinese Projects' Employees
Manufacturing	46.60%	49.71%
Agriculture	21.56%	0.19%
Real Estate	17.88%	33.86%
Construction	10.63%	15.69%

Source: EIC data.

In mid-2020, there were 756,065 employees of FDI projects in Ethiopia, 40 per cent permanent workers and 60 per cent temporary workers. The proportion of workers by sector differed significantly between all projects and Chinese projects (Table 11).

Of the 546,413 Ethiopians at 1,984 FDI projects in operation or implementation in mid-2018, when 1,239 registered Chinese projects existed, 52 per cent worked for Chinese firms, while 46 per cent of all FDI project workers in 2020 were at Chinese firms. By August 2019, Chinese firms had created 451,941 jobs for Ethiopians. More than two-thirds of Chinese-created jobs from 2012 to 2017 were in manufacturing; at 70 per cent, Chinese firms employed permanent workers at a higher-than-average rate. Most Chinese manufacturing and real estate employees are permanent, but in construction fewer than half are, as it depends on winning contracts. In the BRI period, an even larger proportion of new FDI project workers are at Chinese firms: 64 per cent in manufacturing, 85 per cent in construction and 93 per cent in real estate. While 45 per cent of pre-BRI workers at Chinese firms were permanent workers, 76 per cent of BRI-era hires have been permanent workers. Employment data thus also shows that the BRI means more than just affixing a brand.<sup>141</sup>

### Perceptions of Ethiopians and Chinese in Ethiopia of the BRI

Among Ethiopians and Chinese we have interviewed, knowledge and perceptions about the BRI vary significantly. Ethiopian EIC officials and academics strongly imply Ethiopian agency when they assert Ethiopian resistance to neoliberalization, when they regard Chinese investments as leverage for their national development objectives, and when they lever Chinese difference in relations with the West. Some Ethiopians and Chinese in Ethiopia regarded the BRI as significant; others scarcely did. Most Ethiopian officials and academics had little impression of it. Some did not know Ethiopia is a BRI country, but all had much to say about Ethiopian–Chinese interactions. The EIC commissioner in 2018, a former human rights lawyer, saw Chinese businesspeople as “comfortable” in Ethiopia and related that

141 “Ethiopia eyes US\$527 million investment in manufacturing industries,” *The Exchange*, 1 November 2018; EIC 2020; Tefara 2019; Negash et al. 2020.

When talking to Chinese investors, we don't mention the BRI. But when talking to Chinese officials, it's politically important to talk about the BRI [as] we know of the finance and policy support from the Chinese government to the BRI. If something is seen as part of the BRI, the Chinese government will very much encourage it. So, when doing promotion, it may help to stress that Ethiopia is a BRI country.

The commissioner distinguished between Chinese and European investors:

For a Chinese investor . . . once you have an agreement, things can move very smoothly. Europe is different. They seem to have forgotten what happened in their Industrial Revolution. China's memory is fresh. It is not hard for Chinese to understand, for example, that we have very regulated telecommunications, banking and foreign exchange. These are hard for Europeans to understand. But, for Chinese, the 1970s and 1980s are not that far. [Chinese firm] JP Textile and an Italian company came at the same time, with very similar conditions. The Chinese identify themselves with the local context, but every single day you have to babysit an Italian company. At one AM, I answered a call from the [Italian firm] manager, because the lights went off in his residence. You don't get that from Chinese.

As to Western claims of "Chinese neocolonialism," the commissioner said such talk

comes from fear of the West of growing Eastern influence in Africa and other parts of the world. The difference is fundamental between colonialism and economic influence and that's even more so in Ethiopia. We've never been colonized. We're very clear about our own purpose. We have our own terms. When structural adjustment programmes were promoted, we said "No thank you." When investors come, we see them as our partners. Chinese dominance in terms of economic influence helps us, because it changes Western views, which consider Africa as a lost cause.<sup>142</sup>

In contrast, an EIC deputy commissioner, who became commissioner in 2019, stressed the BRI's importance:

We keenly follow the BRI's development [and have] adopted policies followed by China in its earlier industrialization 30 years ago. We've had a big increase in manufacturing investment. We must have China as an ally. To succeed, we should create a conducive investment environment, creating infrastructure and policy. If our country is to be the top manufacturer in Africa, we cannot succeed without China's help. We're working to leverage the BRI and position ourselves as the most favourable place in Africa. Most Chinese investment is from provincial governments or SOEs or private investors with government support. We now try to invite foreign investors into our previous SOE sector. We are very much in alignment with the BRI goals.

On the Western trope of the BRI depriving countries of sovereignty, the deputy commissioner remarked that

What infringes on sovereignty is a lack of development that creates dependence on aid, so that government has no means to deliver things to people. Our assurance is that we'll not cede a majority share in Ethiopian companies. What Western media is claiming is completely ideological; for example, the claims that Chinese are in Africa just to get natural resources. But we have no Chinese companies doing mining here. We should play the East and play the West to

142 Belachew interview.



our advantage. Our country is known for its strong autonomy. We have the same degree of agency with each country. Moreover, we have the same degree of agency with China as we have with the US. We have a high degree of agency, yet Western countries try to advise us about what our civil society law should be.<sup>143</sup>

An Ethiopian Chamber of Commerce official agreed that Ethiopians are not well-acquainted with the BRI but have perceptions about the Chinese presence, even believing that Chinese are one-fifth of Addis's 3.4 million people. He observed that "The Chinese here live together with the community. They rent houses among Ethiopians and are friendly to them. Some live among the rich, but some live among quite ordinary people." Chinese are seen as working 24 hours a day and not devoting enough time to social engagement. Yet,

China is the best partner for Ethiopia, compared to other countries. There are no demands on us from Chinese. There is mutual benefit, no pre-conditions and we're equal partners. But infrastructure building is not enough. And we need to strengthen the partnership by shifting from light to heavy manufacture. And we need more technology transfer.<sup>144</sup>

Addis Ababa University (AAU) development specialist Messay Mulugeta Tefara has said that even 99 per cent of AAU scholars and students do not know what the BRI is, but most Ethiopians are positive about China due to infrastructure building:

Europeans have been in Ethiopia for more than a hundred years and not a single building or road has been constructed by Europeans here. Chinese have built a lot in Ethiopia. Europeans do not teach people how to fish, but Chinese do. Had Europeans taught us how to fish, today we might be like South Korea. I'm from the countryside, and that is what I've heard researching and talking to rural people. For China especially, since 1998, things are different; 80–90 per cent of Ethiopians are positive about China [which] has done more in ten years than what Europeans have done in over a hundred years.

He contrasted an influx into Ethiopia of Westerners who intervene in politics, with Chinese concentration on business and said Ethiopians should learn from East Asia, as borrowing from the West had been a failure. Yet, Professor Messay also said that Ethiopians think Chinese firms contribute to debt by bribing officials, are more concerned about profits than construction quality, pay less than Western firms and work employees hard.<sup>145</sup>

AAU geographer Tesfaye Tafesse related that only officials know the BRI, because media talk of China is about IPs. Ethiopians do not believe external actors can transform their country, but the grass roots appreciate such aspects of the Chinese presence as cheap goods, which create employment for hawkers, who sell them to poor people who need them. No Ethiopians claim Chinese are neocolonialists, as they are known as infrastructure builders, but some criticize China's support for Ethiopia's regime, certain projects and communication barriers. China is also seen as boldly interacting with Africa:

The West has helped Africa during disasters but shies away from developing Africa. Perhaps they just want to keep Africa as a supply base of raw materials. China is not like the West, which interferes in Ethiopian domestic affairs when they provide aid. China has an unprecedented presence in Africa. A lot of what can be questioned is now being questioned, but then

143 Interview, Abebe Ababayehu Chekol, deputy commissioner, EIC, 20 June 2018.

144 Debebe Abebe interview.

145 Interview, Messay Mulugeta, Addis Ababa, 12 July 2018.

for ordinary people, politics is secondary, while economic development is more fundamental. China has a pragmatic approach on the ground, especially infrastructure [and] industrial parks are highly encouraging.<sup>146</sup>

AAU political scientists Gedion Jalata and Kurvilla Mathews have written that

[T]he Chinese in general have a positive image in Ethiopia. The local people are very impressed by the Chinese work culture . . . Chinese companies are also appreciated for their fast delivery of services . . . In the eyes of the public, the Chinese companies are also not afraid of taking risks, especially compared to the Western enterprises. The Chinese are everywhere and they work in very dangerous places, in small towns, in remote areas and in environmentally harsh places.

They report that four-fifths of Ethiopians deem Chinese “friendly development partners” and easier to deal with than Western firms.<sup>147</sup> Jalata has also remarked that Chinese in Ethiopia comply with most OFDI principles that China’s State Council prescribes.<sup>148</sup>

Among Chinese business people in Ethiopia, views of the BRI vary. Managers at JP Textiles’ Hawassa IP plant, 275 kilometres from Addis, stated that they just run a factory and do not encounter the BRI.<sup>149</sup> The general manager of the large Huajian shoe factory said he does not consider how the BRI affects his operation, as that is a matter for the board of directors.<sup>150</sup>

Other Chinese business people have a different view. The EIZ’s CEO said many Chinese small and medium-sized enterprises are indifferent to the BRI, but larger firms are interested in Ethiopia because of it, and many delegations of officials, firms and chambers of commerce visit.<sup>151</sup> The chief executive officer of a Guangzhou firm doing a soybean outgrower scheme with Ethiopian farmers said the BRI is extremely helpful to his company, in its influence in Ethiopia and in attracting specialists from China.<sup>152</sup> An EIZ sweater factory manager at SOE giant Shangtex said the BRI was a criterion in deciding to locate in Ethiopia:

The [Chinese] state offered us preferential loans. We have invested millions of dollars. For even larger later investments, the state will offer us loans at an interest rate at about 2 per cent. It also compensates for the cost of investigation teams going out for firms.<sup>153</sup>

Managers at the sweater factory said China’s State-Owned Assets Supervision and Administration Commission (*Guowuyuan guoyou zichan jiandu guanli weiyuanhui* 国务院国有资产监督管理委员会) very much supports firms going out and many want to go to Africa, although support for investing in other BRI localities, such as Pakistan or Southeast Asia, also exists.<sup>154</sup>

## Conclusion

The Ethiopia case shows Chinese activities there are most active in infrastructure and manufacturing and Chinese FDI’s growing concentration in manufacturing fits Ethiopia’s development focus. The case also indicates that the Chinese presence is not unproblematic, but anti-BRI claims are largely

146 Tesfaye Tafesse interview.

147 Jalata and Mathews 2017.

148 Jalata Gedion interview.

149 Interviews, Tony Gao, deputy manager, and Danny Leung, general manager, JP Textiles, Hawassa, 17 June 2018.

150 Zeng Changqing interview.

151 Interview, Gao Yangyang, Addis Ababa, 21 June 2018.

152 Interview, Zhang Xinqing, CEO, Guangzhou ECF Import & Export Co., Addis Ababa, 20 June 2018.

153 Ibid.

154 Interview, Yuan Chao, vice president, Lonto Garments, EIZ, 19 June 2018.

unfounded. For example, China holds much of Ethiopia's external debt, but loans are mostly at rates less than the 3 per cent that money placed in a central bank tends to earn, less than the 3.68 per cent average return China's foreign exchange reserves earned from 2005 to 2014 and less than the 5.94 per cent average return in 2007–2017 from sovereign wealth fund China Investment Corporation's overseas portfolio.<sup>155</sup> Unlike some creditors, China also does not demand privatization and austerity.<sup>156</sup> BRI infrastructure lacks short-term profit for China and host states but furthers manufacturing and trade.<sup>157</sup> The case also counters the anti-BRI canards of political domination, non-localization and Chinese migrant "floods." Our Ethiopian interviewees reject that China has determinative political influence and affirm that while many Chinese firms pay locals unconscionable salaries, so too do other investors.<sup>158</sup>

The Ethiopia case also shows that host country analysts can have balanced assessments of the BRI. Our interviewees saw it not as a *sui generis* development paradigm, but also not as geopolitical aggrandizement, economic predation or state-capture. They saw it in much the same way that a China-critical UK journalist has: mostly a "project to provide infrastructure to countries that desperately need it."<sup>159</sup> The BRI was also viewed as furthering Ethiopia's industrialization in response to the GoE's development strategy. Ethiopian analysts criticize aspects of the Chinese presence, but recognize that much of what Chinese enterprises do differs little from what others do<sup>160</sup> and that Africa–China complementarity facilitates the continent's development, even while enlarging markets and political support for China.

Does the Ethiopia case hint at BRI implications for the world system? World system theory posits a tripartite interregional division of labour, with core, semi-peripheral and peripheral economies.<sup>161</sup> The core has also long had a lock on the periphery's choice of natural resources. China accesses more marginal, costly resources. It thus has more interest in promoting the periphery's connectivity and complementary industrialization than does the core. Unlike some core economies, China cannot have a zero-sum view of the world economy. Indeed, studies show that in contrast to many core country investments, Chinese OFDI is export-diversifying and export value-increasing for the Global South.<sup>162</sup> Unlike many non-core economies moreover, China does not rely on IMF and WB loans, has escaped debt and currency crises, and acts in the global economy more on its own terms. That allows Chinese SOEs to invest in longer-term, riskier infrastructure projects that private entities might reject and to incur short-term losses while becoming more efficient and new market-penetrating. Thus, most Chinese manufacturing and construction in Ethiopia is not relocations from China but market-seeking new investment.<sup>163</sup>

In a sense Ethiopia's "success story" has given the BRI a boost: GDP increases averaged 10 per cent annually in 2005–2016, partly due to an FDI influx since 2008. It was still 8.3 per cent in 2019, when PPP GDP reached US\$2,312,<sup>164</sup> 6.1 per cent in 2020 and 6.3 per cent in 2021, despite the pandemic and war in Tigray,<sup>165</sup> neither of which much affected Chinese activities in Ethiopia.<sup>166</sup> Ethiopia, however, may not be a model for BRI countries, and its experience may not be

155 "China's Belt and Road Initiative will add US\$117 billion to global trade this year, a new study shows," *SCMP*, 23 January 2019; "China gives up two of its best kept forex reserve secrets," *SCMP*, 29 July 2019.

156 Smith 2019.

157 *GT*, 17 January 2019.

158 "Cheap labor makes Indian textile mills turn to Ethiopia," *Business Standard*, 23 January 2019.

159 Anderlini 2018.

160 Driessen 2015.

161 Wallerstein 1982.

162 Poon 2014.

163 Wolf and Cheng 2018a, 11.

164 Bezawagwa et al. 2018; WB 2020b; WB 2020c; EIC 2018.

165 Focus Economics 2022.

166 Calabrese, Huang and Nadin 2021, 17; Majed 2022.

generalizable.<sup>167</sup> It has advantages of size and strategic location, and Ethiopians are also regarded as highly adaptable to industrial discipline and have a large developed-country residing, home country-investing diaspora. We thus regard the BRI as likely contributive to, rather than transformative of, the current global system.

Whether or not Ethiopia is a model for BRI countries, it is an important African state that gives a key developmental role to Chinese infrastructure building and manufacturing. Because, for developed states, “the heavy [Chinese] capital outflow that began in late 2015 [is] well in the rearview mirror,”<sup>168</sup> one significance of the Ethiopia case for the BRI is that, for economic and political reasons, China cannot easily tamp down its OFDI flow to developing countries. Through BRI industrializing activities, Chinese firms also orient the periphery more towards non-core, especially Chinese, sources of capital, trade, standards, research and development, etc.<sup>169</sup> That may make countries more likely to eschew full-blown neoliberalization.

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167 Lin and Xu 2019.

168 Scissors 2018, 6.

169 Roussi 2019.

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