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Chinese-initiated Special Economic Zones in Africa: a case study of Ethiopia's Eastern Industrial Zone

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Abstract: The current paper addresses the Chinese-initiated Special Economic Zones (SEZs) in Africa through a case study of the Ethiopian Eastern Industrial Zone (EIZ). The paper investigates the development potential of this innovative cooperation strategy for Africa based on the theoretical foundation of an unbalanced growth-strategy, offering a new perspective of understanding the role of SEZs as a development tool. In extending the theoretical foundation to include the role of global values chain, the potential for the EIZ to be a tool for development in Africa hinges on the four criteria of ensuring dynamic economic growth in the zone, creating strong backward linkages from the zone, the presence of firms conducive to join the global value chain in the zone and the working cooperation between the zone's main actors. The findings of the study show that while SEZs have the potential to be tools for development through an unbalanced growth process, the prospect for the EIZ to be such a tool is currently small as the EIZ does not fulfill the four criteria. However, if the policy frame surrounding the zone is improved, if more firms conducive to global value chains and appropriate to the Ethiopian context fills the zone and if the cooperation between the actors is reformed, the EIZ has the potential to improve this prospect and become a valuable development tool for Ethiopia in line with the theory of SEZs as an unbalanced growth strategy.

Key words: Special Economic Zones, China in Africa, Ethiopia, Eastern Industrial Zone, Unbalanced Growth

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List of Abbreviations

AFRODAD – African Forum and Network on Debt and Development	MOFCOM – Ministry of Commerce, China
CADFund – China-Africa Development Fund	MOFED – Ministry of Finance and Economic Development, Ethiopia
EIA – Ethiopia Investment Agency	MOTI – Ministry of Trade and Industry, Ethiopia
EIZ – Eastern Industrial Zone	
EPZ – Export Processing Zone	PASDEP - Plan for Accelerated and Sustained Development to End Poverty, Ethiopia
FDI – Foreign Direct Investment	SDPRP - Sustainable Development and Poverty Reduction Program, Ethiopia
FOCAC – Forum on China-Africa Cooperation	
GTP – Growth and Transformation Plan, Ethiopia	SEZ – Special Economic Zone
IISD – International Institute for Sustainable Development	

1 Introduction

In the last decade the economic cooperation between China and Africa has increased dramatically as the flow of trade, aid and investments has witnessed an almost explosive growth. The China-Africa trade increased to over \$100 billion in 2010 (IMF 2011), and the Chinese Ministry of Commerce, MOFCOM, reports that the Chinese FDI to Africa reached \$2.1 billion in 2010¹ (MOFCOM 2009, 2010). The increased cooperation has also been expressed through the tri-annual meetings of the Forum on China-Africa Cooperation, FOCAC, initiated in 2000, the creation of the China-Africa Development Fund, CADFund, in 2006 and China's Export-Import Bank's large-scale commitment to export-related finance across Africa (FOCAC 2013, CADFund 2011, China Ex-im Bank 2011). In relation to the Beijing Summit, the high-profile 3rd meeting of FOCAC in 2006, Chinese President Hu Jintao announced eight measures to forge and strengthen the Sino-African cooperation. As part of this pledge to increase the development assistance, debt relief and preferential loan agreements, Hu Jintao also announced that China intends to establish three to five Special Economic Zones (SEZs) in Africa (Hu Jintao 2006). During China's own rapid development process, the four SEZs set up in 1979 and the subsequent opening up of 14 coastal cities during the 1980's are perceived to have played an important, growth-fostering role (Cheesman 2012). In the Chinese case and in other SEZ-success stories, such as South Korea and Mauritius, the use of SEZ has been an important tool to promote economic growth and structural transformation in the initial phase of development. While the development of these successful zones has been well-documented, little is currently known about the new, Chinese-initiated SEZs in Africa. With the notable exception of the works of Deborah Brautigam (2009, 2010, 2011, Brautigam and Tang 2011, 2012a), little academic attention has been given to the progress of this new type of economic cooperation between countries. The Chinese overseas SEZs were initiated in 2006 and while most of the zones still are in their infancy, there is substantial scope to increase the current knowledge of their development. It is the aim of this study to expand on this knowledge through addressing the interlude between the topics of increased Chinese engagement in Africa and the potential of SEZs as development tools. Is the strategy of Chinese-initiated SEZs a promising and innovative development tool, or is it a tool to further Chinese interests in Africa without links to African development objectives? In order to address this overarching question, the Chinese-initiated

¹ The reliability of Chinese official statistics on outward FDI is often questioned, but MOFCOM's recorded increase of Chinese FDI to Africa from \$74.8 million in 2003 to \$2.1 billion in 2010 nonetheless indicates the dramatic increase that has taken place, even though the actual figure is likely to be higher.

SEZ the Eastern Industrial Zone (EIZ) in Ethiopia is researched as a case in point. During the past decade Ethiopia has experienced rapid economic growth, at an average of 10.6% during 2004-2012 (Goh & Geiger 2012a). The future challenge for Ethiopia's economy is to transform the high growth rate into sustainable development, a process that can only happen through a structural transformation. Structural transformation is in the current study investigated within the frame of Albert Hirschman's framework of unbalanced growth. Within this frame one sector of the economy should be prioritized as the leading sector, and the EIZ is viewed as such a prioritized sector.

Despite the potential that both the aspects of Chinese engagement in Africa and of a SEZ-strategy could provide for Ethiopia, the findings of this study offers little hope for the development success of the EIZ. Neither the overarching zone-strategy nor the cooperation between the Chinese and Ethiopian stakeholders are strong enough to provide the foundations needed in order for the EIZ to contribute to development and structural transformation. The overarching strategy has elements of problems concerning the type of enterprises that are in the zone, the amount of investment so far and the location, while the stakeholder cooperation is hindered by the lack of a coherent policy framework, lack of communication channels and unclear specification of responsibility. The study provides a number of policy implications to aid the prospects of the zone, but unless substantial improvements are made shortly, the development potential for the EIZ will be low.

The remainder of section 1 clarifies the significance of a study on the topic of Chinese-initiated SEZs in Africa, as well as specifying the aim of the study and the research questions pursued in order to reach that aim. Section 2 accounts for the previous research on the four main topics within the research area: Chinese engagement in Africa, SEZs as a development tool, earlier ("non-Chinese") SEZs in Africa, and previous research on the Eastern Industrial Zone. Having established the research frontier, section 3 outlines the theoretical framework on SEZs as a development tool with an unbalanced growth strategy and its connection to global value chains. The methodology of the EIZ case study is laid out in section 4, while section 5 offers the main contribution of the study by accounting for the analysis and discussion of that case study. The main findings are tied together and presented as conclusions and policy implications in the final section.

1.1 Significance of the study

There is substantial scope for this study to contribute to the current knowledge on Chinese engagement in Africa and specifically to the aspect of Chinese Special Economic Zones. A

study on this topic can make a significant contribution, as understanding how China's engagement in Africa affects the continent is highly called for in the literature. Large (2008) highlights the need for a deeper theoretical understanding of Chinese engagement in Africa, Brautigam (2009) stresses the importance of understanding the workings of the SEZs as a development tool in Africa, and Geda and Meskel (2009) urge for more research on the effects of the Ethiopian EIZ. Using the EIZ as a case in point, this study will aim to contribute to the knowledge in these areas in order to contribute to the debate on both the increased Chinese development in Africa and on the potential for SEZs as development tools

In addition to contributing the one aspect of Chinese engagement in Africa, the main scientific contribution of the study is provided by the new perspective of viewing SEZs as a possible strategy within a development process of unbalanced growth. The study connects the case of SEZs to Hirschman's theory in a way that has not been done before, and in doing so opens up for a new understanding of the workings of SEZs.

1.2 Aim and research questions

The objective of the study is to fulfill the dual aim of shedding light on both Special Economic Zones as a development tool and on one aspect of Chinese engagement in Africa. In order to reach the aim of the study, two sets of overarching research questions have been developed. The study has been carried out as an inductive study, and the overarching research questions have evolved together with the process of specifying the theoretical framework and with the overall research progress. In order to carry out the study on the EIZ as a case in point among the Chinese-initiated SEZs in Africa, the following research questions have been pursued:

- What are the prospects for the Ethiopian Eastern Industrial Zone to be a tool for development through aiding the process of structural transformation? Which criteria do those prospects hinge upon?
- How does the aspect that the zone is Chinese-initiated affect its prospects to lead to development and structural transformation? Does the existence of multiple stakeholders of the Eastern Industrial Zone improve or impair its prospects for success?

These two sets of research questions have guided the overall research process and set the overall frame of the study. The specific research questions and specific aspects that have been developed in order to carry out the analysis on the study are discussed in section 4, displaying the methodology of the study.

2 Previous research

While research on the recent Chinese SEZs in Africa is scarce, literature on the two overarching subjects of Chinese engagement in Africa and of the effects of SEZs is widespread. In order to place the current study within these bodies of literature, the main debates within the topics are reviewed below, followed by an account of the research frontier concerning past SEZs in Africa and the previous research on the Ethiopian EIZ.

2.1 Chinese engagement in Africa

In the last decade the economic cooperation between China and Africa has increased dramatically as the flow of trade, aid and investments has witnessed an almost explosive growth. The China-Africa trade has increase to over \$100 billion in 2010 (IMF 2011), and the Chinese Ministry of Commerce, MOFCOM, report that the Chinese FDI to Africa reached \$2.1 billion in 2010 (MOFCOM 2009, 2010). Beyond the increased trade and aid, the increased engagement has expressed itself through a number of instruments, such as lines of credit to Chinese multinationals, exports credits, resource-backed loans, the China-Africa Development Fund as well as through the instrument of main focus for this study - the Chinese overseas special economic zones (Brautigam 2010). While historically scare, the research body on the China-Africa relationship is now growing, gaining momentum by the high-profile meeting of the 2006 FOCAC summit in Beijing (Large 2008). At present, the flora of views on the engagement is diverse. One strand of the literature has adopted a quite favorable view on the development, where the increase Chinese engagement is seen as win-win situation of South-to-South partnership providing China with markets and Africa with investments (see e.g. Duarte 2012). Another strand instead call for caution concerning the increased relationship, as it may cause Africa to become less liberal (due to the Chinese practice of bribes), as China's engagement is an extractive hunt for resources, as China "exports" weak labor standards, or as the increase engagement may crowded out African initiatives (Eisenman 2012, Marysse & Geenen 2009: 392, AFRODAD 2012).

2.1.1 Chinese FDI in Africa

Within the growing research body on the China-Africa relationship, the role of FDI has perhaps been awarded the greatest interest. Substantial efforts have been devoted to determining the underlying motivation for China to invest in Africa: is a quest for markets, resources or soft power? The argument that China's interest in Africa is driven by a search for natural resources, as argued by e.g. Eureka (2010), is one of the most vocal arguments in the debate. However, this cannot fully explain the rapidly increasing Chinese interest, as it

includes both resource-rich and resource-poor countries. Brautigam and Tang (2011), argue that China's interests is mainly driven by the quest for markets, possibly as a step of an internationalization of the developmental state, while also recognizing that soft power - a term coined by Nye (2004), may play a role. China's emphasis on promotion of 'political mutual trust', friendship and cooperation, offers some support for the notion that soft power could be part of the driving force, which is eased by China's ability to simultaneously portray itself as a fellow developing country and as an important role model (see e.g. FOCAC 2012:5). Currently there is no consensus as to the driver of China's engagement in Africa, the discussion is moving away from simplistic assumptions that it is solely driven by resources. As Ethiopia is a relatively resource-poor country without oil- or mineral endowments beyond a modest supply of gold, the Chinese engagement in Ethiopia show that the interest is not solely driven by a question for resources. While no specific study has been carried out to identify the specific driver of Chinese FDI in Ethiopia, it plausible that the engagement in largely market-driven. Ethiopia has the third most populous country of Africa, and accessing this market would offer substantial possibilities for continued Chinese growth.

2.1.2 FOCAC and the China-Africa Development Fund

The Forum on China-Africa Cooperation, FOCAC, can be identified as the backbone of Sino-African relations. FOCAC was established at the Ministerial Conference in Beijing in 2000, with subsequent tri-annual meetings (Addis Ababa 2003, Beijing 2006, Sham el-Sheik 2009 and Beijing 2012). The aim of FOCAC is to foster cooperation and long-term relations between the two parties, based on equality, mutual benefit and friendship (Eneka 2010). In addition to the overarching frame of cooperation set by the FOCAC, a number of additional channels for increased Chinese investments into Africa have been initiated by the Chinese government. Already in the 1980's the Chinese government experimented with measures to encourage investment overseas, which was furthered by the bank reorganization in 1994, resulting in the creation of the China Export-Import Bank and the China Development Bank, that now both play important roles in promoting Chinese trade and outward investment (Brautigam and Tang 2012a). This development has been followed by the creation of the China-Africa Development Fund, a development initiative tasked to promote Chinese investment in Africa for Africa development. Three of the seven Chinese SEZs in Africa are financed through this initiative, sending signals that the Chinese SEZs in Africa may be driven, at least partly, by African development objectives (Brautigam 2010).

The debate on the Sino-African cooperation channels in general, and specifically the FOCAC, is divided. Some research, most notably Chinese researchers, view the FOCAC as a tool for mutual benefit and cooperation. While to some extent recognizing that there could be room for improvements, especially concerning the level of equality between the parties, this body of literature view FOCAC as a political tool caring for the good of the public (see e.g. Meibo and Xie 2012, Ming 2012). The other side of the debate instead argues that the FOCAC is more similar to a spectacle where the Chinese government bestows gifts on Africa, rather than a serious platform based on development objectives (Taylor 2012). The FOCAC is in this sense only a rhetoric facade emphasizing mutual reciprocity, under which the unequal political and economic relationship between the parties still exists.

Summing up the literature on Chinese engagement in Africa, one can conclude that the topic is hotly debated. While the research body is growing, more research is still needed. Little consensus can be found in any area of the matter so far, as the literature disagrees on whether the increased Chinese engagement provides important capital for Africa or crowd out African initiatives, if Chinese FDI is driven by resource extraction or provides a chance for Africa to join the global market and disagrees on the potential benefits of the FOCAC cooperation. As such, further research on the Chinese engagement in Africa is needed which the current study provides by its analysis of the Chinese-initiated SEZs in Africa.

2.2 Special Economic Zones: A tool for development or for a “race to the bottom”

Before exploring the debate of SEZs as tools for development, a short note on the history, definition and types of zones is provided.

The usage of special zones for economic reasons has a long tradition, starting as early as 1704 in Gibraltar and 1819 in Singapore. These early zones were geared towards facilitating trade, while the first manufacturing-based zone was established in Spain in the 1920's. However, considering the design and aims of zones of today, the Shannon EPZ (Export Processing Zone) in Ireland, established in 1958, can be considered the “mother of zones”, as it became instrumental in spreading the knowledge about SEZs globally (FIAS 2008, Aggarwal 2010 and Bolin 2004). The practice of SEZs have developed over time, and today a variety of different zone types with slightly different design and aims are implemented globally. These include Free Trade Zones, Export Processing Zones, Enterprise Zones, Free Ports, Single Factory Export Processing Zones and Specialized Zones (see FIAS 2008 for a discussion of the features of the different zones types). In the current study the

term Special Economic Zones (SEZs) is used interchangeably to include all types of zones adhering to the basic definition of a geographically defined area that offer certain incentives for businesses that locate there. The area usually employ liberal and flexible policies in order to attract FDI, to promote non-traditional exports and to generate foreign exchange earnings, employment, income, and spillover benefits, including learning by locally owned firms (see e.g. World Bank 1992, UNCTC/ ILO 1988 and FIAS 2008). Within the general definitions of SEZs, a further distinction of three different types of zones can be identified: 1) Export focused enclave zones with little integration with the host economy 2) Zones as a testing-ground for liberal policies and 3) Zones as a policy tool within a broader economic reform. The first type of zone were more common in the early days of modern SEZs, where the zone usually set up a as an export platform to attract foreign manufacturers seeking low-cost labor for the production of labor-intensive goods, e.g. clothes, toys and shoes (see Omar and Stoever 2008 for a discussion on this type of zone). Within this frame the zone does not develop a close integration with the host economy and there exists few cases where this type of zone has led to long term success. The most widely quoted example for the second identified zone type is China. In connection to China's opening up process from 1978 onwards, the SEZs was an integral part of the reform process, where the four first zones and subsequent 14 coastal areas served as a way for the Chinese government to "try out" a more liberal economic policy (Cheesman 2012). To many scholars, such as Wong and Chu (1984) and Brautigam (2010), the Chinese SEZs have played an important role in the Chinese rapid economic development, and it is highly probable that the Chinese SEZs' success story - headed by the transformation Shenzhen from a fishing village to a metropolis of 14 million inhabitants - have played a large part in the popularity of the SEZs as a development tool for other developing countries. The last type of zone that can be identified is zones that have been implemented as a part of a larger economic reform program. The distinguishing factor between type 2 and 3 is that in the third case the zone strategy follow, rather than precede, economic reform. The Masan zone in South Korea can be seen as a successful example of this type, where the zone was implemented as a transition policy on the road towards a larger economic reform process (see e.g. Radelet 1999 and Kusago and Tzannatos 1998). The third type of zone has a larger focus on linkages between the zone economy and the overall domestic economy than the other types. As further discussed in the theoretical framework, linkages are perceive to play an important role in the potential success of a zone, and therefore the focus here is to distingue if the EIZ has the potential to be a zone of the third type.

Having accounted for the history, definition and types of zones that can be identified from the literature the focus will now turn to establishing the knowledge frontier on SEZs. Despite 30 years of extensive research on the subject, there is no consensus on the workings of SEZs. The debate can broadly be categorized into two strands, one negative strand and one positive strand, which in turn can be categorized into two strands each, yielding the four strands of: the neoclassical argument, the argument of zones being a tool for a “race to the bottom”, the argument of zones being potential development tools and the argument that zones can have beneficial catalytic effects.

One of the earliest theories on the workings of SEZs draws on neoclassical theory and offer a generally negative view on zones a policy strategy. SEZs are in essence seen as a costly distortion strategy which distort trade, promote unfair competition between local and zone enterprises and is a production enclave of little economic contribution. Hamada (1974) provide the seminal work within this line of theory, concluding that SEZ benefits can at best equal foregone tax revenue and infrastructure expenditure and at worst hamper the host countries economic development. The argument boils down to that the final good price will be lower within the zone, due to the removal of tariff protection. This will lead to that the return to capital is higher in the protected domestic sector than in the zone, which will discourage FDI and, by extent, worsen the economic situation for the host economy. While later works within this line of theory has attempted to strengthen the argument by also considering the effect of intermediate - as opposed to only final - good tariffs as well (such as Miyagiwa and Young 1987), the core shortcoming of the neoclassical theory is that is limited to only consider a SEZ strategy as a second-best option. In certain aspects this logic is present also in more current literature, visible e.g. in Madani’s (1999) argument that a SEZ-strategy can only be useful as a second best, transition strategy on the road towards full liberalization. Recently, the neoclassical argument has lost ground within the debate on SEZs. This may partly be due to that the neoclassical platform has been forced to give way to other paradigms in the general economic debate, and to empirical success stories that do exist in relation to a SEZ strategy, but also to that the neoclassical argument offers a too static view of the potential of zones. In the past 30 years of modern SEZ-experience there appears to be a growing realization that a SEZ-strategy can be a dynamic tool to development and that it can potentially be more than a second-best option.

While the neoclassical view has become less present in the SEZ debate, another body of literature with a pessimistic approach to SEZs has grown, perhaps most vocally presented by Jauch (2002) and Jauch and Keet (1996). According to this line of theory SEZs

represent a liberalization policy tool that will spur a “race to the bottom” as countries compete for incoming FDI by providing the most generous incentives, the lowest labor cost and the lowest labor standards. Basing his argument on the experience of EPZs in Southern Africa in the 1990’s, Jauch (2002) argues that zone-policies spur costly and socially detrimental competition providing no economic benefits. Zimbabwe and Namibia agreed to suspend some of their labor laws in connection to the passing of EPZ laws in 1994 and 1995, and Mozambique and Malawi offered generous, and costly, incentives during their EPZ period during the 1990’s. The outcome of these measures has, according to Jauch, not been favorable. Instead of spurring economic development, the measures have had negative effects on working conditions as well as obstructing regional cooperation. The view that zones can induce a race to the bottom where countries scramble to provide the most attractive conditions for FDI at its own expense, is further supported by two ICTFU reports (2003 and 2004). According to these reports SEZs are not a good development tool as they will only attract “footloose” investments, with few links to the local economy.

The “race to the bottom”-argument has some merits, in that granting exemptions on minimum wage and labor rights in order to attract FDI will not spur a sustainable development process. However, based on extensive research on labor rights and wages in zones, it cannot be concluded that SEZs in general offer worse conditions than the outside zone economy. While there are examples of countries that have adopted more flexible labor codes in relation to SEZ policies (such as Zimbabwe and Namibia as discussed above, and Bangladesh as discussed by Cling et al 2005), this should according to most research on SEZ be considered as the exception rather than the norm (see e.g. Milberg and Amengual 2008, and Cheesman 2012). Also when it comes to wage levels, most research finds that zone wage is not worse than outside zone wage (see e.g. Kusago and Tzannatos 1998, Cling et al 2005 and Jenkins 2005). In the Indian case Aggarwal (2007) find that zone wage may even be slightly higher than outside zone wage. As such, the current study will not specifically focus on wages and labor standards of the EIZ, but as further discussed in the theoretical framework the research will instead focus on the broader development objective of the EIZ to spur a dynamic domestic economy.

In contrast to the two above mentioned strands of literature with a pessimistic outlook on the effects of SEZs, one strand of literature argue that SEZs can be a tool for development. In essence, zones are seen as tools to attract FDI and its associated benefits of attracting capital, know-how and generating employment. To a large extent this line of theory is based on the success stories of China and Mauritius (see e.g. Cheesman 2012, Omar and

Stoeber 2008). The possibility for SEZs to be an instrument for FDI and through that an instrument for development draws on elements of endogenous growth literature, developmental state literature and new institutional theory (Johansson 1994, Farole 2011: 46 and Aggarwal 2010). Based on this, zones are seen as government initiatives to fill the gaps of domestic firms in areas such as technology, marketing, managerial know-how as well as international distribution channels. If this frame is extended by incorporating literature of global value chain, as suggested by Aggarwal (2010) and further explored in the theoretical framework of this study, SEZs can be more than a second-best option. From such an instrumental view on SEZs - the view of the current study - it becomes possible for a zone strategy to be a viable policy measure on its own right, beyond being a transitional policy on the road to liberalization.

The last strand of previous literature that will be dealt with here is the literature discussing the catalytic potentials of SEZs. The catalytic effects of a zone strategy are the indirect effects of the zone, beyond the immediate effects within the zone on e.g. exports or employment. The concept is founded in Romer's (1993) notion of an "idea gap" in the developing world and was further developed by Johansson (1994) and Johansson and Nilsson (1997). Johansson (1994) first presents the concept of catalytic effects, in an effort to depart from the neoclassical view on SEZs and explore how SEZs can have developmental effects, followed by Johansson and Nilsson's (1997) attempt to develop a formal model for the catalytic contributions of SEZs using a gravity model. Based on the Malaysian experience in particular, the model shows the potential for SEZs to have catalytic effects on an economy by inducing a dynamic economy also outside the zone's boundaries. The practice of recognizing the catalytic effects of zones has gained ground in the recent years, closely connected to the literature viewing SEZs as a tool for development (see e.g. Aggarwal 2007, 2010, Cheesman 2012 and Litwack and Qian 1998).

In sum, there exists no consensus in the theoretical debate on the workings of SEZs to date, despite decades of research. In order to contribute to the debate, the current study applies a new theoretical approach to the workings of SEZ, through viewing it as a strategy of unbalanced growth, which is clarified in the theoretical framework.

2.3 African SEZs and Chinese-initiated SEZs in Africa

2.3.1 Africa's previous SEZ experience

An investigation of the previous SEZ-experience in Africa in general offers little hope for the success of the EIZ. From a global perspective the African SEZ experience is small, new and

generally a failure, as African zones only account of 4 % of the number of zones globally, have only been implemented since the 1990's, and presents few success-cases (Farole 2011:68). Jauch (2002), portray the African zone-experience of the 1990's as an exercise of downward pressure on wages and labor standards failing to stimulate investments, Tekere (2000) argue that the only successful zone experience in Africa was that of Mauritius but only in the sense of the SEZ as a 'second best policy' rather than a dynamic development initiative. Furthermore, Cling et al (2005) argue that all African zones with the exception of the Madagascan failed to diversify exports and thus to spur development, and Farole's (2011: 61) thorough comparison of six African zones and four in Asia/Latin America show that the African zones have neither spurred investment nor generated employment. Within the picture that most African SEZs have failed, Mauritius's zone experience stand out as one notable exception of success, as discussed by Auty (2011), Brautigam and Tang (2011), and Farole (2011:30), Tekere (2000) among others. Being a fellow resource-poor country, Mauritius's SEZ experience offers hope for the Ethiopian EIZ. However, the success of Mauritius's zone-strategy includes a number of context specific measures that may inhibit its replication. The Mauritian zone-strategy was by definition not a 'zone' as it was not bound by a geographically delimited area beyond the borders of the whole island. This is not the case of the EIZ in the large country of Ethiopia. Furthermore, Brautigam and Tang (2011) accounts for how the Mauritian government restricted local incentives from entering the zone, as it was assumed that these investors would invest in Mauritius anyway. Given the low investment capacity of the domestic initiatives in Ethiopia, the same assumption of that the zone-investments would grow in tandem with local, non-zone investment cannot be made in Ethiopia. Lastly, (Auty 2011), highlight that part of the Mauritian success lies in the government's large funding opportunities, collected from the successful sugar-sector, to manage and lead the zone-initiative. Despite the recent growth spurt in Ethiopia, such resources are not present in Ethiopia. The second successful zone-experienced mentioned in relation to African SEZ is the Magascarian SEZ. However, while Cling et al (2005) argue that the zone enabled diversification of exports and through that industrial upgrading, recent studies show that employment in the zone has collapsed, which substantially hinders its developmental effects (Farole 2011:69). Judging from the past experience of African SEZs, the potential for the EIZ appears to be quite limited.

2.3.2 *The Chinese-initiated SEZs in Africa*

In line with China's "Going Global" strategy, the Chinese government announced the initiative of creating 50 overseas Special Economic Zones worldwide in 2006, which later was specified to include 3-5 zones in Africa. Currently, 19 zones have been implemented worldwide, six of which in Africa, in: Ethiopia, Egypt, Mauritius, Nigeria and Zambia² (Brautigam and Tang 2012a). At the end of 2012, 140 enterprises had signed agreements to settle in the six zones (MOFCOM 2012). The zones are set up, development and invested in by Chinese enterprises, and enjoy the support of both the Chinese government in the local host government. The Chinese enterprise that is given the task to develop the zone is chosen by the Chinese Ministry of Commerce, MOFCOM, through competitive tenders. So far, two tenders have been held in 2006 and 2007 respectively, where the Yonggang Group won the tender for the EIZ in 2007 (Brautigam and Tang 2011, 2012a). However, the EIZ experienced some challenges in the initial setup, possibly due to lack of finance in relation to the global financial crisis of 2008, and the lead developer was changed to be the Jiangsu Qiyuan Group (Qiyuan Group 2013).

The Chinese-initiated SEZs form a unique development engagement in the global context, where the market-based decisions and investments made by the Chinese zone-developers in a foreign context are combined with the support and subsidies from the strong, developmental Chinese state. How successful can such an engagement be, and who will reap the benefits? The most extensive research on these Chinese-initiated African SEZs have been carried out by Brautigam (2010), who has attempted to specify the Chinese rationale for initiating the zones. The five strategic objectives of the zone are 1) to increase the demand for Chinese products, 2) to reduce trade frictions, 3) ease China's domestic restructuring, 4) assist China's enterprises to invest abroad by 'going global' in group and 5) to share China's successful development process with Africa. The objectives appear to be mainly market-driven, and could be seen as a way for China to enable its current structural transformation and "graduation" away from being an economy led by labor-intensive, low-tech production. In such case, the SEZs could prove to be useful for the African host countries too, even though the objectives are clearly Chinese-centered, as China's upgrade along the value chain would free up space for the African country to join at the entry stage. In line with the theoretical framework of this study concerning the global value chains, the initiative has the potential to be beneficial for both parties

² Initially one zone was to be implemented in Algeria as well, but Algeria has chosen to exit the program.

2.3.3 The stakeholders of the Chinese-initiated SEZs in Africa

An important distinction between the Chinese-initiated SEZs in Africa and the previous African SEZs is the number of stakeholders in the zone-initiative. While the previous zones mainly involved the national government, the current initiative involves the national government as well as the Chinese enterprise developing the zone and the Chinese government. Previous debate on stakeholders of zones have focused on the benefits of public or privately owned zones, where FIAS (2008) argue that privately-owned zone are more effective while Farole (2011: 125) states that there are no evidence that private zones would be better. However, due to the complex nature of the Chinese-initiated zones in Africa, little insight can be drawn from this debate. The largest shares of the Chinese-initiated zones are owned by the Chinese company that won the tender for the zone, which can be either a state-owned enterprise or a private enterprise (Brautigam 2010). In most cases, the host government owns a share of the zones as well, but in the Ethiopian case the EIZ is 100 % privately owned (Farole 2011:197). While the role of the main developer is important, it is not the sole stakeholder, as both the Ethiopian government and the Chinese government has an interest in the success of the zone. The responsibility between the stakeholders have been divided so that the Chinese enterprise, with the support of the Chinese government, is responsible for the development within the zone, while the African host government is responsible for the development outside the zone to connect the zone to the local context. In addition to the divided responsibility between the Chinese developer, the Chinese government and the African government, the responsibility of the Chinese government to support the zone is further divided between the levels of government. As an example, the Qiyuan Group receives support from the central Chinese government, the provincial government and the municipal government, further increasing the number of stakeholders (Zhangjiagang Daily 2008). There is a risk that the multiple actors concerned with the development of the zone may impair the development of the zone, as the development focus becomes scatter and communication becomes more difficult. There might also be risk that the all the actor will have diverging views on their own and other actors' responsibility, causing friction. This risk is especially prominent in the EIZ-case, as the zone lacks an overall policy document or statement of objectives, as will be further discussed in the analysis of the paper.

Despite extensive sourcing on the topic of the Chinese-initiated SEZs in Africa, it appears that very little is known about this innovative development strategy. Scattered information is provided by the Chinese MOFCOM, the Ethiopian MOFED, the lead developer Jiangsu Qiyuan group, the EIZ web page, news clippings and by the limited academic

literature on the subject, mainly conducted by Deborah Brautigam (2009, 2010, 2011 and Brautigam and Tang 2011, 2012a). However, no fully formed strategy of the zone exists. In the light of this, the current study is of crucial importance. Can these SEZs be the win-win tool of a successful investment opportunity for China and a development strategy for Africa that both parties hope for, or will one or more parties be suffer disappointing outcomes? Investigating the Ethiopian EIZ as a case in point, this study will attempt to answer this question.

2.4 Ethiopia and the EIZ

2.4.1 Chinese FDI in Ethiopia

In line with the increased China-Africa cooperation, the cooperation between China and Ethiopia has increased in the last years. This has taken form the form of increased trade between the parties where China now is Ethiopia's largest both export and import partner, through increased investment into infrastructure projects such as airports and the Addis Ababa ring road, and also so a small extent through Chinese investment into the Ethiopian agriculture sector (Geiger and Goh 2012, AFRODAD 2012 and Brautigam & Tang 2012b). Increased FDI has been a large part of the increased engagement, but the aspect should not be overemphasized. Placing the Chinese FDI into context, it accounted for 3.5% of the FDI into Ethiopia in 2009 (Geda & Meskel 2009). As Geiger and Goh (2012) show, most of this incoming FDI is in the manufacturing sector, which is in line with that Ethiopia is a quite resource poor country (Brautigam and Tang 2012a). The driving forces for the Chinese FDI includes to take advantage of the Chinese business networks that are already present in the country, to take advantage of the opportunity Ethiopia provides in terms of cheap labor, cheap land and an expanding market, as well as taking advantage of the cross-border investment incentives provided both by the Ethiopian and Chinese government (Geiger and Goh 2012b). As with the growing Chinese interest in Africa, the growing Chinese interest to invest in Ethiopia is not viewed favorably by all. As Adem (2012) notes, there are segments of the Ethiopian society - segments with vested interests - that are getting increasingly anxious in light of the sheer size of the bilateral relations between the parties. Geda and Meskel (2009) further notes that the increased Chinese FDI in the manufacturing sector could have potential negative impacts, as it can crowd out Ethiopian firms exporting labor-intensive manufactures by increasing the competition in the third market and displace them from the local market. However, Geiger and Goh's (2012b) survey and study of Chinese FDI in Ethiopia show that there are positive impacts of the Chinese FDI in Ethiopia so far, especially concerning the

extent of good quality employment generation with relatively high wages and levels of on-the-job training. However, if the same development pattern will be adopted by the EIZ as Geiger and Goh (2012b) identifies for the general situation of Chinese FDI in Ethiopia, two obstacles will potentially hinder the fruitful development of the EIZ. Firstly, most Chinese enterprises in Ethiopia has a high reliance on importing the intermediate input rather than sourcing it locally, which does not facilitate development in line with strong backwards linkages following e.g. the South Korean experience of the Masan zone with its extensive use of sub-contractors. Secondly, the low skill level of the Ethiopian labor force leads to that the Chinese firms chosen to fill the skill gap by employing Chinese labor at the skilled positions. This inhibits local learning, and if the same pattern is adopted by the firms in the EIZ, it will significantly lower the EIZ's development potential. As can be seen from this study of Chinese FDI in Ethiopia, there is reason for both hope and caution about the development potential for the EIZ.

2.4.2 The Eastern Industrial Zone

The Ethiopia Eastern Industrial Park is located 30 kilometers south of Addis Ababa. The original plans established at the 2007 MOFCOM-tender included plans of a 5 square kilometer zone of a \$146 million investment operated by the Yonggang Group and the Qiuyan Group, that would attract 80 investment projects in five years and create up to 20 000 jobs for Ethiopians (Brautigam 2011, Geda & Meskel 2009). However, during the implementation stage the plans have been changed: the EIZ has been shrunken to a target of 2 square kilometers and a \$101 million USD investment, and the Yonggang Group has left the project. The startup of the zone was delayed as the first firm moved in 2010, and currently the zone hosts 12 firms, far below its target. In the literature about the zone, it is difficult to discern what the focus of the zone is aimed to be. Brautigam (2011) state that the focus on the EIZ is on steel production, while Geiger and Goh (2012b) states that the focus is on textile, apparel and agricultural products, which is in line with Geda and Meskel's (2009) view of the zone focus. As will be evident by the analysis chapter, the zone focus at this point is difficult to pinpoint, as the few firms that are in the one represent a diverse flora of sectors. In line with the theoretical framework of the study, it would be more conducive if the firms had a focus more similar to that of Geiger and Goh (2012b) than Brautigam (2011) no such clear focus can be discerned.

The previous literature on the EIZ provides an insight into its initial challenges. Geiger and Goh (2012b) lift that the lack of funding has been a problem during the first phase,

due to high costs of the infrastructure development and the limited sources of revenue. Brautigam (2011) addresses the problems caused by the change of shareholders and decreased investment target. One possible cause could be the international timing of the investment - due to the global financial crisis at the time - but the initial challenges may also be due to the limited experience both the Yonggang Group and the Qiyuan group had of investing in Ethiopia before they won the tender. According to Brautigam (2011), most enterprises that won the tenders for the Chinese-initiated SEZs in Africa had previous experience in the context, but the Yonggang Group appears to have had no experience, and the Qiyuan Group made their first investment into Ethiopia only one before winning the tender (Brautigam 2011, Qiyuan group 2013).

To understand the Ethiopian context is not only important for the Qiyuan Group to make fruitful investment decision, it is also crucial in order to understand the role the EIZ can play in the country. In the last decade Ethiopia has experience rapid economic growth, averaging over 10% annually. If the EIZ can be a tool to transform this rapid growth into sustainable development and increase the low GDP per capital of \$513, the development potential of the EIZ in Ethiopia is high. Ethiopia has the potential for development due to its stable macroeconomic environment, the management of the previously high inflation rate, its large labor force and ample access to resources such as cotton, wood and cattle (Geiger and Goh 2012a, Dihn et al 2012, GTP 2010, WDI 2013). To explore how the EIZ takes advantage of the opportunities that the context of Ethiopia offer forms an important part of the analysis. Can the EIZ be a tool to transform the recent economic growth into structural transformation and development in Ethiopia? In order to answer this question, a thorough theoretical frame for how a SEZ can be a tool for development is needed, so that the question if the EIZ can be such a tool can be addressed.

3 Theoretical framework

3.1 Development as structural change

The theoretical framework of the study has been designed in order to explore the research aim of establishing the prospects for SEZs to be tools for development, in order to explore the prospects for the Eastern Industrial Zone to lead to Ethiopian development. In the study, the concept of development is understood as a dynamic process leading to structural change in a society, and the theoretical framework is therefore focused on establishing the mechanism through which SEZs, and the EIZ, can lead to such a structural change. The literature on structural change is widespread, and among the classic works are e.g. Fisher's (1939) and

Clark's (1940) theory concerning the development of a tertiary service sector, Lewis's (1954) model of a dual economy and Chenery and Syrquian's (1975) statistical exploration of the structural processes that accompany economic development across different stages of development. In the current study, Chenery and Syrquin's (1975) definition of structural change will be applied and structural change will as such be viewed as the changes in economic composition, output and employment that lead to sustainable development and increases in living standard. The main role of the theoretical framework is to establish through which channels SEZs and the EIZ can lead to structural change. The foundation for this is to a large extent drawn from the concept of "unbalanced growth", as popularized by Albert Hirschman (1958). From this foundation the theoretical framework is extended by drawing on literature on global value chains, in order to make Hirschman's theory on unbalanced growth applicable to the context of SEZs in today's globalized world.

3.2 Structural change through unbalanced growth

In 1958 Albert Hirschman presented his theory of unbalanced growth - a critique to the theory that a balanced growth strategy is the most suitable development strategy for developing countries. According to Hirschman (1958: 66) the task of development strategy should be to encourage - rather than eliminate - unbalance in profits and investments, as it is these imbalances that enable the economy to grow. Hirschman does not believe it feasible for all sectors of the economy to be encouraged simultaneously, especially not in a resource scarce developing country, and the development strategy should instead target certain sectors. The targeted sectors then become the leading sectors of the economy, and development occurs as growth is communicated from the leading sectors to the followers, from one industry to another, from one firm to another (Hirschman 1958: 62-63). The notion of promoting 'leading sectors' share the basic logic of a SEZ-strategy, in the sense that a zone-strategy give special emphasis to the zone over the rest of the economy. In the current study the EIZ is therefore viewed as a strategy of unbalanced growth, in line with Hirschman's argument. Hirschman further specifies two distinct measures of inducing an unbalanced growth strategy: through investment in Social Overhead Capital, SOC, (investments in all basic services that enable production in the primary, secondary and tertiary sectors) or through investment in Directly Productive Activities, DPA (Hirschman 1958: 83-97). Hirschman argues that both present valid options as development strategies, but the current study will only consider the strategy of investments in SOC. While partly due to the unconvincing argumentation in favor of investments in DPA, where Hirschman fails to assign adequate importance to the limitations

that a lack of SOC would imply for DPA investments, this mainly originates from that the EIZ should be viewed as a SOC, rather than a DPA, investment. The EIZ performs like Hirschman's envisions investments into SOC to perform, in the way it supports investments into DPA by providing important facilities.

3.2.1 The importance of linkages

In order for growth to be communicated from one sector to another, there needs to be strong forward and backward linkages between sectors. Forward linkages encourage investment in subsequent stages of production while backward linkages encourage investment in earlier stages of production. Key here is the word encourage, as linkages in the Hirschmanian sense go beyond interdependence and inserts a causal relationship between the sectors. Hirschman (1958: 116) further argues that backward linkages are more important than forward linkages, as sectors with strong backward linkages automatically create a demand for input in a sense that forward linkages do not (e.g. investment into the leather product sector will increase the demand for cattle, but investment into cattle will not directly increase the demand for leather products). As most SEZs focus on exports, Hirschman's emphasis on backward linkages will be retained in the study, and the analysis will to a large extent focus on the level of integration of the EIZ through its backward linkages.

3.2.2 Extending the Hirschmanian frame

While Hirschman to a large extent present a fully formulated theory of a development strategy based on unbalanced growth, certain aspects are not covered within this frame. The unbalanced growth strategy pays little attention to the development of agriculture, beyond stating that it is a low-productive sector of few linkages. Given the importance that agricultural productivity increase has played in the structural transformation and transition out of poverty for almost all economies (city-states like Hong Kong and Singapore being exceptions), this is aspects in unsatisfactory addressed (Timmer 2005). However, in the Ethiopian context the role of agriculture is promoted in all major policy documents, including the three overarching development plans in place since 2002 (SBPRP 2002, PASDEP 2005, GTP 2010). As such, the strategy of unbalanced growth can be applied in addition to this focus, so that the agricultural development is not neglected. The main drawback of the theoretical framework so far in this study is instead the lack of direction as to the "degree" of unbalance. Hirschman (1958: 79) attempts to address this issue, but little guidance can be drawn as to how to specifically implement the unbalanced strategy. In order to link Hirschman's strategy closer to the implementation of SEZs and to more clearly specify how

SEZs can be a tool for development through inducing structural change through unbalanced growth, Hirschman's (1958: 111-113) discussion of setting up "last industries first" will be coupled with literature promoting light manufacturing as a conducive starting point for development and industrialization, and with literature on global value chains.

3.3 Unbalanced growth through promotion of "last stage industries"

In line with the focus on backward linkages, Hirschman (1958:117-119) argues that the most conducive way to induce unbalanced growth is to place focus on the "last stage industry" first. Last stage industries create stimulating backward linkages and are also relatively easy to set up as the input initially can be imported, if it is not available domestically. As the demand for the intermediate input grows in the local market, the incentive of supplying the input locally will increase, which will spur a dynamic economic development. In relation to the Ethiopian context, the World Bank publication "Light manufacturing in Africa" (Dihn et al 2012) argue for a development strategy similar to that of last industries first, as it sets out to show how Ethiopia could benefit from an increased focus on light manufacturing. Much like the strategy of last industries first, light manufacturing is perceived as a sector that can be induced with relative ease to then facilitate the processes of structural transformation through the dynamisms that the sector's externalities create. The focused approach of encouraging specifically light manufacturing is justified on grounds similar to that of Hirschman, as "developing countries cannot afford to wait until all of the problems across sectors are resolved" but need a more focused approach (Dihn et al 2012: 47). Addressing Ethiopia specifically, the report lifts that Ethiopia has good prospects to embark on a development strategy of light manufacturing due to its natural resources (e.g. wood, cotton and cattle), large labor pool (Ethiopia is the third most populous country in Africa) and recent high growth rate. In the analysis of the current study the aim will be to investigate the prospects for the EIZ to encourage last stage industries in the form of light manufacturing, in line with Hirschman's (1958) and Dihn et al (2012) arguments that this could facilitate a structural transformation in Ethiopia. However, a crucial aspect for this line of theory to hold is that the backward linkages from the last stage industries/light manufacturing in fact lead to a higher domestic demand for intermediate goods, rather than increased import of intermediate goods. The analysis of the study will therefore concern itself both with the type of industries that the EIZ host (if the firm in the zone belong to the category of light manufacturing as a last stage industry), but also how these firms fit into the Ethiopian context. Is it possible to supply the needed intermediate inputs in Ethiopia, and/or does Ethiopia have a comparative advantage in

producing those products? If the increased demand for intermediate input is supplied by imports rather than creating a domestic demand and to stimulate the domestic market for the input, the EIZ will risk becoming an enclave zone with few links and effects on the Ethiopian development.

3.4 Unbalanced growth and the global value chain

In an effort to tie Hirschman's framework of unbalanced growth to today's globalized world, the theoretical framework has been supplemented by an additional focus of how the EIZ can facilitate Ethiopia's insertion into the global value chain. As the world has become increasingly globalized, the possibility of producing goods in multiple stages, where each stage is carried out at the most (cost-) efficient location has increased dramatically (Aggarwal 2010). Through this, global value chains have developed. Being integrated into the global value chain can offer an important development opportunity for a country. Dihn et al (2012) lifts the importance for an economy to elevate its position on the global market in order to develop and Aggarwal (2010) view entry into the global value chain as a way to strengthen the competitiveness of local firms and increase their capabilities. Incoming FDI can greatly facilitate a country's insertion in the global value chain as FDI enables access to new technologies, skills and capital. As a SEZ can facilitate the attraction of FDI by creating an enabling business environment, a SEZ has the potential to enable the insertion into the global value chain. Exploring various types of FDI, McMillan and Rodrik (2011) find that manufacturing FDI is the most desirable form of FDI as it generates a high level of employment which facilitates productivity-enhancing structural change. At the current moment there is substantial scope for an increased manufacturing sector in Ethiopia and Sub-Saharan Africa, as the light manufacturing from the region accounts for less than 1% of the global production (Dihn et al 2012). While this low number may appear to discourage investments into sectors within the focus of light manufacturing as a last stage industry, the current global environment offer opportunities for growth in the area. Currently China accounts for the lion share of low-skilled manufacturing jobs globally, but as China is moving up the global value chain the global composition of these jobs will change. Lin (2011) estimates that China's transition will free up almost 100 million manufacturing jobs - more than double of the manufacturing jobs in developing countries today. In this sense China's engagement in Africa through the SEZs is offering the double opportunity of both benefiting from China's direct investment and from its indirect effect of increased employment opportunities.

An important aspect when connecting the theory of unbalanced growth to the more modern concept of global value chains is that this shifts the focus from inter-sector linkages to inter-firm linkages. The unbalanced growth theory concerns itself with the linkages between sectors, but when FDI enter the picture this focus is altered as FDI embodies investments into a specific firm rather than to a sector as a whole. As such, the linkages between firms on different stages of the production become more important, e.g. through the use of sub-contractors. The current study will attempt to consider both the inter-sectoral linkages and the inter-firm linkages. The overall focus is how the EIZ - viewed as a sector - spur unbalanced growth with the “local economy-sector” in Ethiopia. However, in order to make this focus researchable it is supplemented by a focus on potential inter-firm linkages that each specific enterprise in the EIZ may develop with local firms. As a sector in essence is build up by a number of firms this approach is justified and will enable the study to research the potential for inter-sectoral linkages through analysis of the potential for inter-firm linkages.

3.4.1 The integration of SEZs with the local economy

In the literature concerning SEZs, the focus often lies on exploring how well the zone interacts with the international economy. Through measures such as cost-benefits analysis³ or analysis based of neo-classical theory this type of literature emphasis that the role of a SEZ is to interact with the international economy in order to gain e.g. foreign exchange and tax revenue from international companies. Within the theoretical framework of this study, based on the concepts of unbalanced growth and global value chains, the focus instead shifts from the SEZ’s interaction with the international economy to the SEZ’s interaction with the domestic economy. Within this frame, the SEZs’ “major contribution lies in getting the domestic firms inserted into global supply-production-distribution networks” to use the words of Aggarwal (2010:54), exploring the role of SEZs in the Indian context. The notion of shifting the emphasis from the interaction with the international economy to the interaction with the domestic economy is comparable to Johansson’s (1994) and Johansson and Nilsson’s (1997) concept as ‘catalytic effect’, as discussed above. It is the view of this study that the catalytic effect – broadly defined as the mesh of secondary effects that a SEZ can have - is the key to a successful SEZ experience, and that the stronger the linkages there are between the zone economy and the local economy, the more potential the zone has to have such

³ A crude measure of SEZs success where zone benefits such as foreign exchange earnings and tax revenue is compared to zone costs such as subsidies, administration costs and infrastructure expenditure (see e.g. Warr 1989 and Jayanthakumaran 2003).

secondary effects. Through the secondary effects stimulating the domestic host economy, the zone has the potential to facilitate the insertion of the host economy into the global value chain, spurring an unbalanced growth process between the zone economy and the local economy, which will lead to structural transformation and development.

However, one note of caution is needed to the above appraisal of the development potential of joining the global value chain. The potential benefit of the global value chain lies in that it offers the opportunity for industrial upgrading along the chain, increasing the development effects of being part of the global production-supply network. Taking the highly successful development process of East Asia as an example, the key to this success was not only to enter the value chain at the first level of labor intensive, low-tech production but that this entry enabled the countries of the region to elevate its position from the entry-level of assembly to increasingly expand the local production and sourcing, the domestic design and eventually the domestic branding of production (Gereffi 1999). From the opposite perspective, the development experience of the Dominican Republic serves as an example that while a SEZ may be helpful for entering the global value chain, it does not automatically facilitate industrial upgrading. During the 1990's and early 2000's, the SEZs experience of the Dominican Republic was often cited as a success case (e.g. Johansson 1994, Johansson and Nilsson 1997), as it facilitated the country's transition from an agricultural dominated economy to a manufacturing-led economy. However, it appears now that the country "got stuck" on the first level of the global value chain, due to an over-reliance of preferential trade agreements and tax exemptions, and too little focus on structural change (Burgaud and Farole 2011). In order to avoid such an over-reliance of low taxes and, by extent, failure of the Chinese-initiated zones, these new SEZs in Africa need to be integrated into larger development initiative in the country. Through that, the benefits of entering into the global value chain through a SEZs policy can be reaped, leading the country onto a path of industrial upgrading and structural transformation. Despite the risk that the development of the Dominican Republic represents, the focus of this study on the SEZs potential to facilitate entry into the global value chain, rather than upgrading along it. While entering into the global value chain is not a sufficient condition for development in its own right it is here viewed as an important component within an unbalanced growth strategy.

3.5 The criteria of SEZ-success

The theoretical frame specified above is used as measure to translate the general importance of SEZ-linkages – now popular to emphasis by most SEZ researchers (see e.g. as Omar and

Stoeber 2007, Farole 2011, Cheesman 2012, and Milberg and Amengual 2008) – into researchable criteria for SEZ-success. This has been done by viewing the SEZs as a promoted sector within an unbalanced growth strategy, where the main links between the EIZ and the local economy is through backward linkages. In order to theoretically explain which sectors/firms have the potential to create such conducive linkages, the frame rests of the logic provided by the notion of “last industries first”, which itself is extended and modernized through the focus of light manufacturing. The focus on light manufacturing opens up for the discussion of global value chains, as light manufacturing can be an important first step to join this chain, which in itself provides a promising road towards development, based on the successful East Asian experience. As such, the EIZ will be successful if it is a dynamic economic zone with backward linkages, in line with Hirschman’s logic of unbalanced growth. The potential for the EIZ to become a dynamic zone is strongest if the zone focuses on light manufacturing, in general based on Hirschman’s argument for promotion of last stage industry’s first, and specifically for the Ethiopian case based on the World Bank publication “Light manufacturing in Africa” (Dihn et al 2012), which lift the potential for Ethiopia to embark on a development process through light manufacturing. If the EIZ focus on this, it has the potential to spur a development process and structural change, in the way it will provide Ethiopia an opportunity to join the global value chain. The prospect for the EIZ to be a development tool as such hinges on four criteria:

- The zone needs to be economically dynamic, so that the growth between the promoted sector and the other sectors is actually unbalanced.
- There needs to be linkages between the zone and the local economy, so that economic dynamism spread to the local economy.
- The dynamisms spurred in the local economy should enable the domestic firms to become part of the global value chain, to further facilitate the process of structural transformation.
- In the special case of the Chinese-initiated EIZ, success also hinge upon the nature of the cooperation between three stakeholders in the zone process (the Ethiopian government, the Chinese government and the Chinese enterprises).

If the above four criteria are fulfilled, the EIZ has good prospects to be a development tool for Ethiopia and facilitate a structural change in the country. The study researches the possibilities for these criteria to be fulfilled through analysis of the policy framework, the

firms currently in the EIZ and the macroeconomic climate in Ethiopia. The specific measures of the analysis are displayed in the following methodology chapter.

4. Methodology

In order to pursue the research aim of the study, an inductive, qualitative case study approach has been applied. Being a flexible and inclusive method, this method has served the aim of the study well, given the scattered and scarce nature of the data on the Chinese-initiated SEZs in Africa. In light of the relative recentness of these zones - the announcement of their creation first being made in 2006 and the implementation of the EIZ being delayed until 2010 - a causal study is not possible yet. At the current time it would be close to impossible to discern which development progress in Ethiopia could be derived from the creation of the EIZ and the general development progress of the country. Therefore, traditional methods to measure development through structural change such as analyzing changes in sectoral composition or in diversification of exports cannot be applied in a fruitful way. Rather than such a causal study, the study has been conducted as an explorative study of the initial phase of the EIZ, including analysis of its design and implementation, initial progress/challenges and of the context the EIZ is implemented into. In order to apply this method, the study relies heavily on the specified theoretical framework to explore the criteria for success set out there. The close connection between the theoretical foundation and analysis of the study was made possible through the inductive nature of the study. The theoretical frame, the research focus and the analysis of the study has co-evolved throughout the research process, enabling the research to move forward. Given the limited available information of the specific research interests of the EIZ, this has been a necessary technique. The main method of the study has been to explore the four criteria set out in the theoretical framework, through the following researchable questions:

- Criterion 1: “The zone needs to be economically dynamic, so that the growth between the promoted sector and the other sectors is actually unbalanced.”
 - How much investment and capital is flowing into the zone? How many companies are in the zone and of what size? Is the location of the zone conducive for a dynamic economy?
- Criterion 2: “There needs to be linkages between the zone and the local economy, so that economic dynamism spread to the local economy.”

- What type industries/sectors do the firms in the zone represent? What type of linkages (backwards or forwards) can these firms provide, and to what extent? If there are linkages, do these fit with the Ethiopian context, e.g. can Ethiopian provide the input that the backward linkages demand?
- Criterion 3: “The dynamism spurred in the local economy should enable the domestic firms to become part of the global value chain.”
 - What is the level of labor-intensity of the firms in the zone, and the level of technology? Is the EIZ a conducive trade facilitator in terms of the infrastructure it provides?
- Criterion 4: “In the special case of the Chinese-initiated EIZ, success hinge upon the nature of the nature of the cooperation between three stakeholders in the zone process (the Ethiopian government, the Chinese government and the Chinese enterprises)”.
 - What are the channels for cooperation and communication between the stakeholders? What is the division of responsibility and how is that carried out?

The main method of pursuing these research aspects have been to explore the policy framework surrounding the zone, including policy from both the Ethiopian and the Chinese government, the type of firms currently operating in the EIZ and the context the zone is being implemented into. Based on these overarching methods four areas of data to analyze was specified: 1) the EIZ policy frame, 2) the initial phase of the EIZ, 3) the China-Ethiopia cooperation and 4) the Ethiopian economic context. The content of the four data-areas and the specific methods applied within each area is further accounted for below.

4.1 Strength of used method

Even though the EIZ has only been in progress for a short period of time, there is substantial scope for a study of this type to be carried out at this point of its development. A study of the early phase of the EIZ process has the potential to reveal areas of possible improvements and offer policy guidance that can aid the future development of the zone. Furthermore, the potential to be able to draw meaningful conclusions on the SEZ-strategy at this point is large, in line with the findings from the FIAS-report: “To a great extent, zone initiatives determine their own destiny from the start, with the establishment of policy frameworks, incentive packages, and various other provisions and bureaucratic procedures“ (FIAS 2008: 48).

Applying a qualitative method to explore the potential benefits of the zone strategy is well in line with the current literature on zones, as e.g. Omar and Stoeber (2008), Aggarwal (2010) and Jenkins (2005) all lift that the potential development effects from SEZs should be addressed from a nuanced perspective, covering aspects beyond static contributions to foreign exchange, investments and employment. It is the level of integration of the SEZ and the host economy that determines its success, and in order to analyze this at this point for the EIZ, a qualitative case study design is needed. Aggarwal (2010) lifts that overemphasis on employment generation and investment levels are common in SEZ analysis, and the current study is an attempt to avoid this and incorporate important, non-quantifiable objectives of a SEZ-strategy. As Baissac (2003) discusses, the SEZ contribution to employment and/or exports does not set the standard for the potential SEZ-benefits. Instead the focus of this study and its methodology will be to address the role of SEZs to create a dynamic economy through stimulating structural change of the economic composition. Much like the successful zones of e.g. South Korea and Taiwan the main channel for the EIZ to do this is to enable Ethiopia to achieve sustainable development through encouraging diversification of the economy into high-value-added manufactured goods, through entry into global value chain (Rhee and Balot 1990, Haywood 2000).

The method of exploring the surrounding economic climate in Ethiopia is crucial to the analysis. Milberg and Amengual (2008) highlight that explaining why some countries succeed with SEZ-strategies while others do not requires analysis of condition beyond the zone itself, while Mandani (1999) argue that zones are sensitive to the national economic environment, which is supported by Romer's (1993) and Alter's (1991) findings that zone perform better in a sound macroeconomic climate with a sound exchange rate policy frame. As such, the potential contribution of a qualitative study incorporating the overall Ethiopian climate at this early point of the EIZ is large, and the methodology suitable for the research aim.

4.2 Data

4.2.1 The EIZ policy frame

In order to analyze the EIZ policy frame, numerous policy documents were sourced and analyzed. These include the three overarching development plans that the Ethiopian government have been working according to since 2002: the Sustainable Development and Poverty Reduction Program (SDPRP) 2002/03-2004/05, the Plan for Accelerated and Sustained Development to End Poverty 2005/06-2009/10 and the Growth and Transformation

Plan 2010/11-2014/15, as well as the specific Ethiopian policies that can have an impact of the EIZ, mainly those relating to investments, export strategies and labor standards: the Investment Proclamation 280/2002, the Investment Regulation 84/2003 and its amendment 146/2008, the Investment Regulation 270/2012, Investment Proclamation 769/2012 and the Labor Proclamation 377/2003. Supplementary data on the EIZ frame was also sourced from documents from the five FOCAC summits, in order to gain a fuller picture of the EIZ policy frame.

4.2.2 The initial phase of the EIZ

The EIZ was first initiated in 2007 and have been in operation since 2010, meaning that it was possible to source some data on the EIZ development so far. The main bulk of the data was provided by the EIZ webpage and the Qiyuan webpage. All news entries from both web pages have been included in the analysis, and this was supplemented by analysis of an interview with Mr Shuaiji Wu, management member of the EIZ, as reported by the Ethiopian Herald (The Ethiopian Herald 2012). However, the main analysis on the initial phase of the EIZ has concerned itself with analysis of the list of current enterprises in the zone, compiled from various sources such as the EIZ and Qiyuan web pages but also the data availability from the Ethiopian Investment Agency and e-mail contact with the Qiyuan group.

4.2.3 The China-Ethiopia cooperation

Aided by the extensive work of IISD (Bernasconi-Osterwalder 2012) of compiling and translating China's policies on Outward Direct Investments, the data for this section include the Chinese policies of outward FDI, to enable analysis of the development of Chinese-initiated SEZ both the relation to China's "Going Global" policy and in relation to the growing China-Africa engagement. This has also been supplemented by analysis of the declarations and action plans for China-Africa engagement produced by the five FOCAC summits.

4.2.4 The context of Ethiopia

Data on the economic climate of Ethiopia is the most readily available data concerning the data needed for the current study. A number of World Bank publication has been used such as the "Ethiopian Economic Update" (Geiger and Goh 2012a), "Chinese FDI in Ethiopia" (Geiger and Goh 2012b), and the "Ethiopia Country Profile" (World Bank 2011), as well as the World Development Indicators (WDI 2013), data provided by the IMF on investment and trade levels, and annual reports from Ethiopia's Ministry of Finance and Economic Development, MOFED.

Together the four areas of data have enabled the analysis of the study and laid the foundation for answering the research questions of the study.

5 Analysis

The analysis chapter is divided according to the four areas of data, in order to best illuminate each data sections' relevance to the two main research questions. The analysis of each separate section is followed by a discussion concerning the four criteria that EIZ success hinges upon.

5.1 The EIZ policy frame

5.1.1 The EIZ policy frame

In researching the EIZ policy frame, the most important finding is the lack of a policy frame to research. During the first six years of the EIZ it appears to have operated in a policy-vacuum, where no Ethiopian law, policy or organ was specifically designated to govern its existence. There have been some improvements since 2012, as industrial zones have been included into the country's investment proclamation, but the lack of clear policy direction from the Ethiopian government remains troublesome (Regulation no 769/2012).

Prior to 2012 no legal body was governing the implementation of the EIZ, apart from a short note in Ethiopia Industrial Development Strategy of 2002, stating that industrial zones of high-level infrastructure should be created to speed up allocation of land for investment. However, no mention is made on how this is to benefit the Ethiopian economy, or how this creation should be pursued (MOTI 2002). None of the policies governing the Ethiopian investment climate during EIZ's implementation mention industrial zones (Regulation 280/2002, Regulation 289/2002, Regulation 84/2003), nor does the amendment to the investment incentives of 2008, which was implemented during the startup of the EIZ (Regulation 146/2008). The inclusion of section 8 in the no 769/2012 Investment Proclamation was the first mention of a zone strategy, as Article 33.1 specifies the industrial development zones shall be established in order for the industrial sector to have a leading role in the economy (Regulation no 769/2012). This statement of the Ethiopian policy frame presents a good fit with the EIZ as a strategy of unbalanced growth, but Article 33.2 may suggest that the Ethiopian government are not satisfied with the current situation of its industrial zones, which to a large extent means the EIZ (as the EIZ is Ethiopian first and largest zone). The article states that the federal government should run all zones and only "when deemed necessary" should joint investments or the private sector be tolerated. This could suggest that the Ethiopian government is unsatisfied with the current

development of zones in the country, as it expresses a wish to move away from the joint cooperation that the EIZ represents. The 2012 Investment Proclamation is the overarching policy governing the EIZ from the Ethiopian government, and the most important feature of the proclamation in relation to the policy frame for the EIZ is the statement that a specific bill to govern the administration of Ethiopia's industrial zones will be created, as well as a special organ established to oversee that zones' development (Regulation 769/2012, article 34-35). New clippings report that a draft of the bill has been drawn, but no bill has been passed by the Ethiopian government yet (Mesfin 2012, EIZ 2013:19). Similar to this study's interpretation of the statement in the Investment Proclamation that the Ethiopian government wish to play a larger role in the creation of industrial zones in the country, the media speculate that this bill can indicate an acknowledgement among the government that the Chinese-initiated SEZs, in its present form and function, do not bring significant return to Ethiopia. The following remark on the new bill by Melaku Taye, head of communications at the Ethiopian MOFED, support this notion: "It was decided that the development [of industrial zones] should be solely left to the government, [as] the government is in a better position to provide the amenities required rather than the private sector" (Mesfin 2012). As there is substantial room for the Ethiopian government to expand its current role and stake in the EIZ, this recent progress to do so is promising. However, these initiatives to gain more say in the development process of the EIZ are being taken six years after the Qiyuan Group won the tender to develop the zone. While the initiatives indicate progress, the lack of a policy frame may already have hampered the EIZ's possibilities to be tool for development in Ethiopia.

The problems caused by the EIZ operating in a vacuum among Ethiopia's laws and regulations on investment, trade, infrastructure and labor standards could have been aided if the role of the EIZ was governed by guidelines, goals or agreements developed by one or more of the stakeholders (the Ethiopian government, the Chinese government or the Qiyuan group). However, no such guidelines, goals or agreements can be found, despite extensive sourcing from the EIZ management and the Qiyuan Group, the Ethiopian EIA, MOFED and the Export Promotion Agency, the Chinese MOFCOM, Embassy in Ethiopia and the Economic and Commercial Counsel (to where the author was referred to by MOFCOM to find more information on the policies guiding the EIZ), the bilateral agreements between the countries as well as all FOCAC documentation and Chinese policies on outward FDI. Apart from general statements on the potential of a zone-strategy in the FOCAC documentation and the latest Ethiopian Five Year Plan, the GTP, there is no available documentation on the specific goals, incentives, preferential treatments and division of responsibility. The past

experience of SEZs have shown that unless zones are well-planned and well integrated into an overall development strategy they will not be successful, and therefore the lack of clear guidelines and rules is worrying. Aggarwal (2010) highlights that the weak policy frame, especially concerning land acquisition rights, has impaired the development potential of Indian SEZs - a problem that has already affected the EIZ as well. Due to the lack of policy, the firms in the zone have no rights to land title deeds, which negatively affect loan applications, construction permits and sub-leasing opportunities (The Ethiopian Herald 2012b). Mr. Wu of the EIZ management stresses that issues like these cause uncertainties among investors which block investment opportunities (The Ethiopia Herald 2012a). Issues like these have to be solved, and a clearer policy frame created if the EIZ is to become a dynamic, leading sector that can pull the Ethiopian economy to development through unbalanced growth. Unless the EIZ improves its policy frame and becomes a well-planned zone that is well-integrated into the overall Ethiopian development plan, the development potential for the EIZ will be low.

5.1.2 Ethiopia's Labor Law

Before moving on the analysis of the development potential established by the EIZ's initial operation, a short note on the EIZ's effect of the Ethiopian labor standards is needed. One of the main critiques of SEZ-strategies is that it will induce a 'race to the bottom' through placing downward pressure on labor standards, as Jauch (2002) identifies this case in Zimbabwe and Namibia on the mid-1990. However, analysis of the Ethiopian policy frame shows no support for such a development in Ethiopia. No amendments have been made to the Labor Proclamation of 2003, which continues to govern the labor situation, and no other indication have been discovered that the EIZ enjoys a more lax labor-standard climate of e.g. fewer controls than the overall Ethiopian economy. These findings are in line with Cheesman's (2012) and Milberg and Amengual's (2008) research that downward pressure on labor standards from SEZs should be viewed as an exception rather than the norm.

5.2 The initial phase of the EIZ

5.2.1 Analysis of the enterprises in the EIZ

Having established that the policy frame surrounding the EIZ is too weak to offer substantial development opportunities, the study now turns to analyzing the development potential generated by the initial operation of the EIZ. Despite the vague policies concerning objectives and management of the zone, some progress has taken place since the initiation of the zone in 2007. The analysis of the initial phase of the EIZ has been carried out through analysis of the

12 firms that are reported to operate in the zone. The focus of the analysis is to establish the potential of each firm to create stimulating linkages to the local economy, i.e. to explore the inter-firm linkages. Through exploring the inter-firm linkages for each enterprise and jointly analyzing their development potential, it becomes possible for the study to draw conclusions on the potential the EIZ has to create inter-sectoral linkages between the EIZ (viewed as the leading sector) and the local Ethiopian economy (viewed as the following sector).

Table 1 displays the main characteristics of each firm in the EIZ, which has formed the basis of the analysis. The table includes the firm name, main product, industry sector⁴, year of entry into the EIZ, completed investment, technology level⁵, labor intensity⁶ and extent of linkages created, where the three last entries form the main part of the analysis. The ‘extent of linkages’ has been classified according to Chenery and Watanabe’s (1956 in Hirschman 1958: 105) classification of degree of interdependence of various industries. Based on the ratio of inter-industry purchases to total production and the ratio of inter-industry sales to total demand, Chenery and Watanabe categories various industries into four categories of linkages-types:

- Category 1: “Intermediate Manufacturer” - backward and forward linkages both high.
- Category 2: “Final Manufacturer” - backward linkages high, forward linkages low.
- Category 3: “Intermediate Primary Production” - forward linkages high, backward linkages low.
- Category 4: “Final Primary Production” - backward and forward linkages both low.

Based on the theoretical framework of this study, industries falling under category 2 “final manufacturer” would be the most conducive for development. These industries have high backward linkages that can stimulate the economy, which is in line with Hirschman’s “last stage industries first”. Furthermore, as the category includes the final manufacturing firms, the firms in this category are well suited to help Ethiopia embark on a development process of light manufacturing because the category includes sectors such as leather products, apparel, wood products and other light manufacturing industries. From Hirschman's perspective sectors falling under category 1 “intermediate manufacturer” are also beneficial for development, as this is the category which generates the most linkages (cf. Hirschman’s 1958: 109 example of the steel industry generating the most linkages). However, if the EIZ is to

⁴ The industry sector is identified according to the Standard Industrial Classification, SIC, based on the firms' main product.

⁵ The technology level has been classified according to Eurostat’s definition of low, medium, medium-high and high technology (Eurostat 2013).

⁶ The distinction on labor-intensity was based on Das and Kalita’s (2009) classification..

succeed based on a strategy of unbalanced growth, the quality of the linkages and the fit of the sectors with the Ethiopian context also needs to be considered. In light of this the sectors of category 1 are not as conducive for Ethiopia as the light manufacturing industries of category 2. While Chenery and Watanabe's categorization of sectoral interdependence is a useful foundation for this study, it should be noted that the input-output table cannot capture the nuanced picture that linkages represent. The categorization does not distinguish between the important, causal linkages and sector-interdependence where two sectors grown in tandem without any causal relationship. Even so, the categorization has been useful as a crude indication of the sectors that create linkages, which in combination with the focus on technology-level and labor-intensity, has enabled the study to analyze the development potential of the firms in the EIZ, based on theories drawn from unbalanced growth and global value chains.

Table 1: The firms operating in the Eastern Industrial Zone

Firm	Firm operating in the EIZ ⁷	Main products	Sector and SIC code	EIZ entry year	Completed investment	Linkages	Tech-level	Labor intensive
1	L&J Engineering Co. Ltd.	Construction cement products	Manufacturing/Concrete products/ Cement, hydraulics SIC: 3241	2010	\$126 000	Cat 1	Medium	No
2	The headquarter of East Cement Share Company	Administrative services, personnel management, sales, billing, logistics etc.	Services/Business services SIC: 7389	2006	(\$60 million) ⁸	Cat 4	(service)	(service)
3	East Cement Leasing Company	Construction equipment rental service	Services/Heavy Construction Equipment Rental and Leasing SIC: 7353	2008	\$5.14 million	Cat 4	(service)	(service)
4	Chang Cheng Packaging Co Ltd.	Woven bags and packaging material	Paper and Allied products/ Packaging material SIC: 2671	2010	\$510 000	Cat 2	Low	Yes
5	Eastern Hotel Co.	Hotel services	Services/Hotels SIC 7011	2008	\$500 000	Cat 4	(service)	(service)
6	LQ4 Pipe Manufacturing Co. Ltd.	Steel pipes	Manufacturing/Primary Metal SIC: 3317	2010	\$9 million	Cat 1	Medium	No
7	Eastern Steel Co.	Steel bars and steel wire	Manufacturing/ Steel works SIC 3312	n.a.	\$54 million	Cat 1	Medium	No
8	Yulong Technology Building Materials Co. Ltd	Gypsum board, gypsum powder, gypsum blocks	Manufacturing/ Concrete Products/ Gypsum Products SIC 3273	2010	\$420 000	Cat 1	Medium	No

⁷ Based on data from the Qiyuan Group, the EIZ management and media report. Firm 1-8 were reported by both the EIZ management and the Qiyuan Group to operate in the zone, the double occurrence assuring the existence of these firms in the EIZ. Five additional firms were reported only by the Qiyuan Group. Two of these were assumed to parallel firm 3 and 4, based on similarity in name and investment size, and the existence of firm 10 in the EIZ is confirmed by Goh and Geiger (2012b). However, as the author as unable to confirm the operation of Mustang Cars and East Caiyang in the EIZ, these two firms are not included in the analysis. Firm 11 and 12 were included based on news entries reported both from the Qiyuan Group webpage and the EIZ webpage. As most information about the zone report that there are around about 10 firms, the resulting list of 12 companies appears plausible.

⁸ This concerns the whole company, in which the CAD-Fund own 40%, and not only the headquarter located in EIZ.

9	Zhong Shun Cement Manufacturing Co.,Ltd.	Cement production	Manufacturing/ Concrete products/ Cement, hydraulics SIC: 3241	2008	\$11 million	Cat 1	Medium	No
10	Hua Jian Shoe Co Ltd	Leather shoes	Wholesale trade/ Footwear SIC 3711	2011	n.a.	Cat 2	Low	Yes
11	Changfa Agricultural Equipment Manufacturing	Agricultural equipment e.g. tractors, harvesters and engines	Manufacturing/ Farm machinery and equipment SIC 3523	2011	n.a.	Cat 2	Medium-high	No
12	Higer Pickup KD	Pickups	Manufacturing/ Motor Vehicles Passenger cars SIC 3711	2011	n.a.	Cat 2	Medium-high	No

Source: Authors compilation based on information provided by the Qiyuan Group, the EIZ web page and news clippings.

As can be seen from table 1, the firms in the zone appear to offer little development potential for Ethiopia, based on the few backward linkages created and the lack of low-tech, labor-intensive sectors that can ease Ethiopia's insertion into the global value chain. Only 4 out of the 12 firms are within category 1 of strong backward linkages (firm 4, 10, 11 and 12), and only firm 2 and 10 represent sectors that are low-tech, labor-intensive and can offer an opportunity for Ethiopia to join the global value chain. Low-tech, labor intensive firms offer the most developmental potential, in particular if they are connected to the country's comparative advantage. As is further discussed in section 5.4, this would imply firms within the leather, apparel and furniture sectors in Ethiopia, as these three areas fit both the criteria for entering the global value chain and the Ethiopian context. As is evident in table 1, only one firm, Hua Jian Shoe, fall within this span of suitable 'last stage industries'.

While the current study argues that it would be more beneficial for Ethiopia to target low-tech, labor-intensive sectors first in order to create a dynamic economic growth of these sectors within the EIZ, it recognizes that such an argument limits the potential for the EIZ to be a tool for technology transfers. However, Kokko et al (1994) find that the potential for technology transfer to occur is greatest when there is moderate - not large - technology gap between the incoming investment and host economy. Given the limited development of Ethiopia's technology level to date, it would be better for Ethiopia to attract lower-level technologies as it is better to have transfer of those types of technology, but to attract high-tech investments that cannot be absorbed due to technology incompatibility.

As further displayed by the table, one of the main products of the EIZ is cement. While increased domestic production of cement is part of the GTP-goals, cement is not a conducive 'last stage industry' (GTP 2010). In addition to creating strong backward linkages, last stage industries have additional developmental effects of creating "new demand" in the way the output of these industries can be used as input in a new industry (Hirschman 1958:

68). Increased demand of cement from the construction sector will increase the production of cement, but it will do so in a static way, without creating new complementarities or linkages like a last stage industry has the potential to do.

The main result of table 1 is that most of the firms in the EIZ are not “last stage industries” nor light manufacturing industries, and therefore the EIZ will not create enough backward linkages for the EIZ to be a leading sector in a strategy of unbalanced growth nor facilitate Ethiopia’s insertion into the global value chain.

5.2.2 The EIZ-enterprises and the global value chain

Out of the enterprises in the zone, Hua Jian Shoe offer the largest development potential for facilitating Ethiopia’s insertion into the global value chain, being a low-tech, labor-intensive firm within the leather sector. Therefore, it will be illuminating to further investigate Hua Jian’s EIZ experience as example of how firms from the sector of high development potential experience the EIZ. Hua Jian Shoe currently has two production lines in the EIZ. It produces 2000 pairs of shoes per day for the U.S. and European markets and employs about 600 workers, most of which are Ethiopians (Geiger and Goh 2012b). As part of a larger study of Chinese firms in Ethiopia, Geiger and Goh (2012b) carried out a small case study of Hua Jian Shoe. Among other findings, the case study identified the current obstacles Hua Jian are experiencing, and noted the following challenges: 1) difficulties in keeping the production chain as lean and short as in China, 2) unpredictable customs clearance time, 3) total logistics cost, labor cost, and rental cost are not as competitive as planned, and are often higher than in China, and 4) Ethiopia’s underdeveloped infrastructure creates a challenging business environment. If the EIZ was successful in attracting more firms within the ‘last stage’-sector, it is likely that these companies would experience similar problems. Therefore, it is crucial that the EIZ management address the obstacles mentioned here so that a more favorable investment climate can be created. That would increase the EIZ’s chances of creating a dynamic growth process within the zone, which is crucial for the EIZ potential as a development tool.

5.2.3 Short note on employment generation

In most SEZ-strategies employment generation is viewed as an important aim. The EIZ is no exception, and is aimed at creating 20 000 jobs for Ethiopians (Geda and Meskel 2009). Employment generation has not been a specific aim of this study - as this study focuses on exploring the EIZ’s development potential through its interaction with the local economy (it’s catalytic effects) rather than its direct effect in the zone - it is worth mentioning that the

employment generation so far in the zone has been far below the target. The employment generation in the EIZ has been small as the EIZ has attracted far fewer enterprises than was planned. As Brautigam (2011) states, the EIZ was planned for 80 firms, but as seen from the above analysis only 12 firms are operating in the zone, making the aim of 20 000 jobs appear quite unrealistic. However, if the EIZ grows in size, the opportunities for greater employment generation are widespread. In their survey of Chinese firms in Ethiopia, Geiger and Goh (2012b) found that many of the companies generate ample employment opportunities, offering hope that Chinese invested firms in Ethiopia can generate employment. However, in order for the EIZ to be a development tool for Ethiopia, the EIZ needs to spur employment generation both directly in the zone, but also indirectly in the local Ethiopian economy. A shift in focus to sectors of strong backwards linkages, in line with the argument of this study, would facilitate the EIZ's opportunities to do that and generate employment both in the EIZ and in the Ethiopian economy.

5.3 The China-Ethiopia cooperation

5.3.1 FOCAC

The EIZ was first initiated as part of the Eight-Point Plan of the 3rd FOCAC meeting in 2006, when it was announced that China intended to set up 3-5 of its 50 planned overseas SEZs in Africa. The mention of the zone was brief, as in the 7th point China pledges to: "7. Set up three to five overseas economic and trade co-operation zones in African countries in the next three years" (FOCAC 2006). As evident by this extract, the FOCAC is a blunt tool of few specifics to govern the development of the EIZ. Following the analysis of the documentation from the five FOCAC meetings, Taylor's (2012) critique of the forum, as discussed above, finds support. Taylor (2012) argues that the forum is a spectacle rather than a serious development platform, and as most of the documentation consists of positive statements of past achievements and future hopes but with few concrete examples of either, the critique may be correct. Each meeting specifies an action plan and follows up of the previous action plan, but the FOCAC even so fails to display a sense of actual cooperation but remains on a highly abstract, politically comfortable level. However, accepting the FOCAC as a grand, overarching initiative removed from the actual implementation of its specific initiatives, some development on the approach the Chinese-initiated SEZs in Africa can be found. The first statement concerning the subject was made at the first FOCAC in 2000 (FOCAC 2000: 5.3), when "the Chinese side agrees to share with African countries its experience in the field of investment promotion relating to the establishment and management of free and special

economic zones”. During the 12 years of FOCAC, this objective has been further developed. It now includes elements aiming to integrate the zone into the development strategies of the host countries so that the zones will “contribute towards rapid industrialization and economic restructuring in Africa”, and elements of linkage encouragement as “China will encourage enterprises joining the zones to increase links with local enterprises and communities, strengthen technology and experience sharing on the shop floor and enhance technology transfer and job creation.” (FOCAC 2012: 4.2.5). The main importance of the last FOCAC is the indication that the African countries are attempting to gain a greater say in the development initiative, evident by the increased focus on African benefits of the Chinese-initiated zone. This parallels the process in Ethiopia, where it appears that the Ethiopian government is taking measures to increase its control over zone initiatives (in relation to the creation of the Bill to govern Ethiopia’s industrial zones). However, while it is promising that the FOCAC now includes a focus specifically relating to links with the local economy, technology transfer and employment generation, and that Ethiopia is attempting to gain more say in the zone-development, further work is still needed. The pace of improvements in the policy surrounding the Chinese-initiated SEZs needs to be quickened, so that the African development becomes a center focus. Only then can these zones be successful and avoid failing in the same manner as the domestic African SEZs of the 1990’s.

5.3.2 The EIZ and the Chinese policy frame

In addition the zone-related statements of the FOCAC, the Chinese overseas SEZs have been developed in relation to China’s “going global” policy first stated in the 11th Five Year Plan, 2006-2010 and further developed by MOFCOM policy (Bernasconi-Osterwalder 2012). Beyond these overarching policies, the actual development of the zone is largely left to the Chinese firms developing the zones. Instead of being guided by specific targets and goals, the Chinese zone developers are guided through the various incentives they are able to apply for. These incentives are handled by various levels of government, and the Qiyuan Group is able to seek support from the provincial (Jiangsu), municipal (Suzhou) and city-level (Zhangjiagang) government (Zhangjiagang Daily 2008). As such, the EIZ is not well-anchored in the Chinese policy frame so far, but it can more be viewed as more of an experimental development strategy where the Chinese government has placed the lion share of the responsibility with the Chinese firm developing the zone.

5.3.3 Ethiopia's role in the cooperation

While the Chinese government appears to have placed the lion-share of responsibility with the Chinese zone developers, the Ethiopian government appears to have placed the lion share of the responsibility of the EIZ with the Chinese stakeholders. This is evident by that Ethiopian government did not claim any share of the ownership of the EIZ, leaving the EIZ to be 100 % Chinese owned, compared to e.g. the Nigerian government that claimed 40% of the shares in their Chinese-initiated SEZ (Farole 2011:197). This lack of engagement from the Ethiopian side is in stark contrast to how China handled their own SEZ in the 1980's, where the Chinese state was strongly present in all zone-activities. In the Ethiopian case however, the Ethiopian government has done little so far but to provide land, permits and off-site infrastructure and acting as a spokesperson for the mutual trust all parties have in the project (The Absentee Landlord 2012, EIZ 2012: 2, 15, 20). Reinstating confidence in the EIZ as a mutual win-win concept will not ensure its success, but instead the Ethiopian government need do more in order to secure the mutual development of the project that was promised at FOCAC 2005. The recent initiatives to regain say in the development of the EIZ, such as the forthcoming bill to govern the county's industrial zone, is one step in the right direction, but more could be done. One measure could be to include more Ethiopian representatives in the EIZ management. No official information has been released regarding the composition of the management team of the EIZ, but the sourcing of this study suggest that it is all, or near-all, Chinese. Another measure that could be taken to increase the Ethiopian say in the direction of the EIZ would be for the Ethiopian government to exercise more pressure on which sectors are in the zone. In the PASDEP and GTP plans, a number of strategic sub-sectors are specified that Ethiopia wants to pursue, but only one of these (cement) are currently represented in the zone. More thorough encouragement of aligning the EIZ with the Ethiopian interests would be one way of avoiding Ethiopian interest being trumped by Chinese interests.

The Ethiopian government could and should increase its effort to play a decisive part in the development of the EIZ. As evident by the Investment Proclamation (769/2012), the government recognizes the importance of both governing incoming investment and the importance of industrial zones to facilitate development, and this recognition now needs to be translated into a more active role in the government in the EIZ. For the EIZ to be a tool for development the Ethiopian government cannot lean back and trust the Chinese government while the Chinese government is placing its trust in the Chinese zone developer. The Qiyuan Group does not have the capability to govern the EIZ as an Ethiopian development tool, but in

order for that to happen all three stakeholders need to come together and all work towards the success of the EIZ.

5.4 The Ethiopian context

5.4.1 The EIZ within Ethiopia's policy frame

In order for the EIZ to be successful, it needs to match the Ethiopian context. This study will first analyze the EIZ's fit into Ethiopia's policy frame, and secondly the EIZ's fit into Ethiopia's economic climate. Basing the analysis of the policy frame on the investment incentives provided by the Ethiopian government, this study finds that the EIZ is not well-matched to Ethiopia's policy frame. To analyze if there is a match between the EIZ and the Ethiopian context, the study has analyzed if the sectors that are in the EIZ correspond to the sectors that Ethiopia encourages foreign investment into. Sectors to which the Ethiopian government offer tax-exemptions have been classified as "encouraged", while sectors that are not entitled to tax exemptions has been classified as "non-encouraged"⁹. The result of the analysis shows that many of the sectors that are represented in the EIZ fall under the category of "non-encouraged" sectors, such as the cement industry, the leather industry, certain metal-industries, gypsum production, hotels and construction services. As 8/12¹⁰ of the enterprises in the zone belong to these sectors, the EIZ does not appear to be well matched to the Ethiopian context which impairs the EIZ potential for development.

While a match with the Ethiopian context is a crucial aspect for the EIZ to succeed, the Ethiopian policy environment should not be viewed as "key" providing the correct answers as to which sectors should be encouraged. Before the EIZ is encouraged to align itself with the Ethiopian context, certain aspects of that context should be addressed. In the Investment Proclamation, tanning of hides and skins below finished level, sawmilling and timber making are all "non-encouraged" sectors. This obstructs the creation of backward linkages in the leather and timber sectors, two very important "last stage industries" in Ethiopia's development process. The success of the theory of "last stage industries" hinges upon that the development of the final product-sectors stimulate the development of the sectors providing input for these sectors, e.g. that the development of the leather shoe industry will stimulate the development of the tanning industry. However, in order for the tanning industry to reap the benefits of this stimulus, investment is needed into the sector. Without investment, the domestic tanning industry will struggle to respond to the increased demand

⁹ See appendix 1.

¹⁰ Firm 1, 3, 5, 6, 7, 8, 9 and 10.

for its products, due to lack of capital and skills in Ethiopia. The increased demand for tanned skins and hides instead will be fulfilled by increased import, which diminishes the development potential for “last stage industries”. So, in order for the Ethiopian Investment Proclamation (no 769/2012) to fulfill its own goal of encouraging investment into the manufacturing sector and strengthen the domestic production capacity, the “non-encouragements” of the tanning industry, sawmilling and timber making should be lifted.

Beyond the sectors that are “non-encouraged”, certain sectors have been fully restricted from foreign entry¹¹. The intention is to protect domestic initiatives from being “crowded out”, a notion that a number of scholars support (Brautigam 2012, Marysse & Geenen 2009: 392). However, it also restricts these sectors from gaining access to capital, demonstration effect and increased competition that could spur a process of increased quality, hampering the growth potential for firms in these sectors (Dihn et al 2012). In relation to the success of the EIZ, lifting the restriction of foreign investment in packaging, forwarding and shipping is of main importance, as that would improve the EIZ possibilities to be a trade facilitator. If Ethiopia is to successfully join the global value chain, the transport and freight cost need to be substantially lowered. Due to the low road density, poor railway network and high fuel cost, the transport costs are currently very high in Ethiopia (Dihn et al 2012). The capital, knowledge and competition that foreign investment could bring has the potential to improve this situation.

As evident by the above discussion, there is a great need to better integrate the EIZ with the Ethiopian development strategy, as this is crucial for the success of the EIZ. However, if Ethiopia is to develop through a strategy of unbalanced growth and entry to the global value chain, elements of the Ethiopian development strategy needs to be altered to fit this strategy, so that backward linkages can be fostered.

5.4.2 The EIZ and Ethiopia's economic climate

This section is introduced by a short summary of Ethiopia’s current economic state, in order to address the EIZ’s fit with Ethiopia’s economic climate. In recent years Ethiopia’s economic development process has been governed by three large-scale government development plans: the Sustainable Development and Poverty Reduction Program, SDPRP (2002/03-2004/05), the Plan for Accelerated and Sustained Development to End Poverty, PASPED (2005/06-

¹¹ These are: a) banking, insurance and micro-credit and saving services; b) packaging, forwarding and shipping agency services; c) broadcasting service; d) mass media services; e) attorney and legal consultancy services; f) preparation of indigenous traditional medicines; g) advertisement, promotion and translation works; h) air transport services using aircraft with a seating capacity up to 50 passengers (Regulation 679/2012)

2009/10), and the current Growth and Transformation Plan, (2010/11-2014/15). Through these plans, Ethiopia has managed to embark on a rapid growth process where the negative real GDP growth of 2002/03 of -3.3%, has been transformed into an average growth rate of 10.6% annually 2004-2012, including a quick recovery from the 2008 global financial crisis (PASDEP 2005, Goh and Geiger 2012a, WDI 2013). The GDP/capita has increased to \$513 in 2011/12, inflation has been well-managed and has decreased from an average of 17% 2003/04-2009/09 (primarily due to high food prices) to a 12-month moving average of 2.8% in 2009/2010, fiscal management has been prudent as the share of expenditure to GDP declined from 23.5% to 18.6% in 2009/10, the share of trade in GDP has increased from 10% of 50% in the last few years, and Ethiopia enjoys a stable macroeconomic climate (MOFED 2012, WBI 2013, MOFED 2010, GTP 2010). However, despite these positive developments, the Ethiopian economy still faces challenges. The industrial sector only accounts for 12.9% of the real GDP in 2009/10, while the agriculture and service sectors account for over 40% of GDP each - despite the focus on industrial development. The growth rate of the industrial sector did not meet its PASDEP-target of 11-18%, and within the industrial sector manufacturing only accounts for 5.5% of GDP and 5% of total exports (PASDEP 2005, GTP 2010). In order for Ethiopia to transform the recent growth spurt into sustainable development the growth needs to be coupled with a structural transformation, but as these figures reveal that process is not currently happening in the country. Obstacles to a structural transformation led by light manufacturing - in line with the argument of this study - include the underdeveloped infrastructure (Ethiopia's road density is 33.6 km/1000 km² compared to the African average of above 50 km/1000km²), unreliable electric power (Ethiopia has an average of 5 power outages per month causing a 3 % sales value loss), expensive telecommunications, as well as the low domestic savings rate of 5% (World Bank 2011, PASDEP 2005). In light of this, a SEZ strategy of unbalanced growth is a useful tool for Ethiopian development, as it would enable foreign capital to compensate for the low domestic saving, so that efforts could be done to improve the infrastructure within the zone, which in turn can facilitate a dynamic economic growth and structural transformation.

In order for the EIZ to maximize its development potential as a SEZ that can attract foreign capital and target development in a delimited area, in line with unbalanced growth, the EIZ should match Ethiopia's comparative advantages. If the investments into the EIZ match Ethiopia's comparative advantages, it will enable the creation of strong backward linkages to form with relative ease and speed, enlarging the EIZ development potential. According to the Global Development Solutions (2011), Ethiopia has comparative advantages

in leather, agribusiness, apparel, metal and wood - based on Ethiopia's large labor pool, low wage level compared to other African countries and its natural resources. As these five sectors corresponds to UN Comtrade's (2009) list of top exports from Ethiopia (where a high export is interpreted as a sign that the sector is well-functioning in Ethiopia), they have served as the base for analyzing if the EIZ firms match Ethiopia's comparative advantages. However only three firms¹² fall under one of these categories, and the EIZ therefore does not currently fit the Ethiopian context. Shifting the focus of the firms in the zone to be more in line with the argument of this study - that the development potential of the EIZ lies in being a tool for Ethiopia to focus of last stage industries of light manufacturing that fit the Ethiopian context - would significantly increase the prospect of the EIZ to be the high-growth sector it needs to be in order to spur a structural transformation based on unbalanced growth in Ethiopia. For this to happen, the firms in the zone should both fit the aim of being last stage industries that can facilitate Ethiopia's entry into the global value chain (that is, low-tech and labor-intensive), and fit the Ethiopian context and its comparative advantage. As Ethiopia has access to cattle, wood and cotton, the EIZ should aim to attract firms in the leather, apparel and furniture sector. If the EIZ can attract these types of firms, the EIZ can offer large development potential.

Due to its high growth, low inflation, ample access to natural resources, low wage level and stable macroeconomic climate, Ethiopia is at a favorable position to reap the benefits that a SEZ-strategy can offer. However, the development potential of the EIZ will be greatest if it focuses on last stage industries such as light manufacturing, so that strong linkages between the zone and the local economy can be ensured and a structural transformation induced. At the current time this is not the case in the EIZ, and the EIZ is not living up to its potential as a development tool.

6 Discussion

As the analysis section of this study has displayed, the development potential for the EIZ is weak. The EIZ does not fit with the Ethiopian development frame, the Ethiopian development frame does not fit with the strategy of unbalanced growth, the cooperation between China and Ethiopia is not strong and the firms in the EIZ do not have the potential to spur strong backward linkages. On the other hand, Ethiopia is economically at a favorable position to reap the benefits of a zone-strategy due to its high growth, stable macroeconomic environment and

¹² Firm 6: metal, Firm 7: metal, Firm 10: leather.

good prospects to engage in conducive industries such as leather products, wood products and apparel due to its comparative advantage in these sectors. In order to tie these elements of data into a conclusion of the EIZ's development potential according to the theoretical framework of this study, the four criteria that EIZ hinge upon will here be addressed, based on the data put forward in the above analysis.

6.1 Criterion 1: The EIZ as an economically dynamic sector

The first criterion in order for the EIZ to be a development tool according to an unbalanced growth strategy is that the EIZ is a dynamic economic sector that can be the leading sector in the economy. At the current state, however, the EIZ cannot be viewed as such a sector. So far the zone has attracted 12 firms - far below that of the planned 80 firms, and generated 2000-3000 employment opportunities¹³ - far below the planned 20 000 (Geda and Meskel 2009). The total completed investment from these firms cannot be expected to be enough to induce a development process in the country of Ethiopia. Beyond the size of the zone, which does have the potential to grow in the coming years, the main problem is that the investment does not have enough potential for profit. Mr Wu of the EIZ management report that the return to investment for the EIZ is so low that the Qiyuan group has calculated that it will get their investment back and start of make profit in 22(!) years (The Ethiopian Herald 2012a). As evident, the EIZ has not attracted enough investment, firms and employment opportunities in order to be a dynamic leading sector.

Despite the current gloomy state of the investment level in the EIZ, the EIZ has not lost its entire development potential. The zone was initiated in 2007, has been in operation since 2010 and is still in the process of completing its construction. Therefore the EIZ must now look to the future and ensure that the investment levels and economic dynamism can be induced in the coming years. If this happens, the EIZ still has the potential to be a tool for development in Ethiopia. One way of increasing the dynamism in the zone is to open the doors for small enterprises to move into the zone and benefit from the preferential treatments there. As table 1 display, all firms currently in the zone are large firm of quite substantial investment size. Dihn et al (2012) highlight that one of the key contributions of the domestic Chinese zones was to enable small firms to grow into dynamic medium-size firms. If this process could be replicated in the EIZ it would increase its potential to be a dynamic leading sector significantly. This notion is further supported by Söderbom (2012) who - using firm level data 1998-2008 - find that there is a direct link between firm size and productivity in

¹³ Authors estimation based on data-extracts from the EIZ web page.

Ethiopia. While this is a quite common correlation due to better technology and management skills in larger firms, Söderbom finds that the correlation is strikingly high in Ethiopia. To draw on this potential and enable the many micro and small enterprises of Ethiopia to grow, would increase the EIZ's development potential significantly. Furthermore, efforts of this type would also fit into the aims of FOCAC 2009, where the aim of the Chinese-initiated SEZs to “provide facilitation of African small-and medium-sized enterprises (SMEs) to develop their business in the zones” is added to the objectives of the zones (FOCAC 2009: 4.2.4).

6.2 Criterion 2: The backwards linkages of the EIZ

Similar to the discussion of criterion 1, the current state of the EIZ's generation of backward linkages needs to be substantially increased if the zone is to be a development tool. Out of the firms in the zone, four firms are in the developmentally beneficial “category 2” of final manufacturing, while only two of those fit into the strategy of low-tech, labor-intensive sectors. As the strongest development potential through linkage-effects lies is generation of backward linkages that can stimulate the domestic production of input-industries, the future direction of the EIZ should be to attract more firms in the ‘last stage industries’. In addition to the mismatch between the firm in the zone and the general strategy of ‘last stage industries’, the firms in the zone should have a better match to Ethiopia's economic context. If the firms in the zone are aligned with the comparative advantage of Ethiopia - such as the cotton, wood and leather sector - the creation of strong backward linkages would be facilitated. Backward linkages can develop even if the country does not have a comparative advantage in the promoted sectors, but they form quicker and stronger if the country does. Currently, only Hua Jian shoes fit the criterion of being a “category 2” industry with a large potential to spur a dynamic backward linkages to the domestic Ethiopian economy, specifically in the skins, hides and leather sector.

One measure that can be taken to improve the backward linkages generated from the EIZ is to encourage e.g. firms within the furniture and wood product sector to invest in the zone. Ethiopia has an abundance of timber, and ample opportunities to expand this sector. However, despite the access, timber and bamboo cost double or triple that of bamboo from China and Vietnam (Dihn et al 2012). If the furniture sector was encouraged in line with Hirschman's theory of promoting certain sectors, by e.g. inviting furniture enterprises into the EIZ, this would induce a higher demand for bamboo, create a domestic market to it and enable the domestic bamboo producers to benefit from economies of scale. As Ethiopia has access to bamboo it is likely that the backward linkages created from the encouraged furniture

sector would result in this type of domestic stimuli, rather than increased import of cheap bamboo from China and Vietnam. One measure to realize this development and encourage firms in the furniture, apparel and leather sectors is to increase the tax exemption for these sectors, and through that encouraged such investment into the zone.

6.3 Criterion 3: The EIZ and the global value chain

The third criterion for the EIZ to be a development tool is that it facilitates Ethiopia's entry into the global value chain, through emphasis on light manufacturing industries as Hirschman's (1958) concept of 'last stage industries'. However, only Hua Jian Shoe and Chang Cheng Packaging are such 'last stage industries', where Hua Jian Shoe is the single one that also fit into the Ethiopian context. If the EIZ is to facilitate Ethiopia's insertion into the global value chain, the emphasis of the firms in the zone needs to switch to last stage industries such as apparel and furniture. If e.g. textiles industries are in the zone, this would generate backward linkages to spinning and ginning industries, and to apparel accessories, in a way e.g. the cement firms that are currently in the zone do not.

Encouraging textile apparel firms into the zone would significantly increase the EIZ's development potential. When China and Vietnam embarked on their development processes through joining the global value chain, using industrial zones located next to ports was an important strategy in order to start their apparel production industries (Dihn et al 2012). In China and Vietnam, the industrial zones became a tool to ease trade logistics and improve the nation's competitiveness in the time-sensitive apparel sector. The EIZ has the potential to be a similar tool for Ethiopia, but the physical location of the EIZ may impair this development. The EIZ is located 800 km from the Djibouti port, the closest port to the landlocked Ethiopia, a location of few benefits: it is far from the port, relatively far from Addis Ababa (30 km), and not near to any other local universities and technology institutes (Brautigam and Tang 2011). Due to the opaque nature of the information on the EIZ, few clues can be discerned as to why the EIZ is located at its current position. Mr. Wu of the EIZ management argues that the location is beneficial as it is close to the highway to Port Djibouti and as labor can be draw from the Debre Zeit and Dukem cities (The Ethiopian Herald 2012a). However, in light of the actual distance to the port and the fact that the Debre Zeit and Dukem cities total population is just over 100 000 (of Ethiopia's 90 million inhabitants), these arguments are not convincing. From the perspective of this study, the location of the EIZ offers few benefits. However, the drawbacks of the poor location can be eased through the supply of well-functioning infrastructure. Currently the infrastructure situation in Ethiopia

is quite poor, due to low road density, poor condition of the railroad network and high fuel prices, making shipping and freight expensive and time-consuming in Ethiopia (Dihn et al 2012). If the EIZ is to work as trade facilitator in style of the Chinese and Vietnamese industrial zones, the cost and efficiency of transport in Ethiopia needs to be improved. One way of encouraging such a development would be to allow foreign investment into the shipping and forwarding, which is currently prohibited in Ethiopia. Opening up for investment and competition in this area could improve the transport services through increased capital flow and competition.

Increasing infrastructure development is one measure to transform the EIZ into a tool for development by enabling it to facilitate Ethiopia's entry into the global value chain. In addressing Ethiopia's potential to embark on a development process led by light manufacturing, Dihn et al (2012) identifies a number of key issues that need to be dealt with in order for development to be successful, including issues in key input industries, poor trade logistics, and poor access to industrial land, finance and skills. The same issues need to be dealt with in order for Ethiopia to join the global value chain, and if certain improvements are made to, and around, the EIZ, the zone has the potential to play a role in this process. However, due the type of firms in the zone, the poor infrastructure and the removed location of the EIZ, significant improvements to the EIZ is needed before such a development can be realized.

6.4 Criterion 4: Cooperation between the EIZ's stakeholders

The EIZ does not only represent a case study of a SEZ-strategy, but a case study of the specific situation where a foreign government has initiated the strategy in another national context. The fourth criterion of success of the EIZ as a development tool for Ethiopia is that the cooperation between the foreign and domestic interest work. As evident from the analysis of topic in section 5.3, the current situation of the stakeholder-cooperation is not conducive for EIZ success. Based on the policies surrounding the EIZ, it appears that the Ethiopian government has placed the lion share of the responsibility of the EIZ with the Chinese stakeholders, while the Chinese government has placed the responsibility with the main Chinese investor of the zone - leaving the Qiyuan Group with a larger share of the EIZ-responsibility than it can be expected to handle. While the Qiyuan Group is a successful Chinese enterprise, it cannot be expected that a Chinese firm can carry the responsibility of the EIZ as a development tool successfully, given the sheer size of such a responsibility and especially since the Qiyuan Group had such a limited experience of the Ethiopian context

before the EIZ-investment. In order for the zone to be successful, the Ethiopian government should play a larger role, to guide and advise the Qiyuan Group. To date, the Ethiopian government has not actively aimed at playing such a role, but has resorted to giving lip-service and praise for the zone in relation to important visits (EIZ 2013: 2, 3, 4, 5, 11, 12, 20). The lack of active cooperation and a strong role of the domestic government stand in stark contrast to how the dynamic economies of East Asia handled their development processes and attempts to induce structural change. Aryeetey and Moyo (2012) argue that a major difference between the African and East Asian development processes lies in the role and capabilities of the state. In East Asia, structural transformation was pursued in a systematic way led by a strong state, while most government in Africa have made no such systematic approach. In order for the EIZ to be successful, the Ethiopian government needs to aspire to increase its capability to play a decisive role for the development of the EIZ, so that the EIZ can be designed as tool for Ethiopian development, and not end up as an outlet for Chinese interests only.

As addressed throughout the study, some improvements have been made recently through the upcoming Bill to govern all Ethiopia's industrial zones and the statement in the Investment Proclamation (769/2012, article 33.2) that industrial zones should primarily be run by the federal government, not joint investments or the private sector. Recent initiatives like these indicate that the Ethiopian government is attempting to play a larger role in the country's industrial zone. The EIZ is Ethiopia's first and largest zone, and it would be highly beneficial for its development if the increased interest of the government to guide the zone development also will include the EIZ.

In order for there to be more fruitful cooperation between the three stakeholders of the EIZ, the channels of communication need to be improved. To date there is no governmental organ in Ethiopia specifically in charge of the EIZ (while such an organ is mentioned in the draft of the upcoming Bill to govern Ethiopia's zone), that could provide a forum for communication between the stakeholders. The EIZ management does not provide such a channel either, as the management is Chinese run with few or no Ethiopian representatives. Without a forum for communication, the dialog between the stakeholders suffers. The lack of good cooperation and communication can be exemplified by the following remark from Mr. Wu of the EIZ management to the Ethiopian Herald: "We kindly request Ethiopian government give us more incentives in order to get investment back in short time" (The Ethiopian Herald 2012a) The EIZ management should not have to resort to the

media in order to express such a wish to the Ethiopian government, and occurrence that they do indicates that the EIZ lacks an open channel of communication between its stakeholders.

7 Conclusion and Policy Implications

The case study of Ethiopia's Chinese-initiated Eastern Industrial Zone has shown that the development potential of the zone in its current state is limited. The analysis of the four data areas has showed that 1) EIZ's policy frame is not strong enough to successfully govern the zone, 2) the initial phase of EIZ operation have not focused on enterprise-types conducive to development, 3) the stakeholder cooperation between the Chinese and Ethiopian actors is largely non-existent and 4) the EIZ do not take advantage of Ethiopia's economic context of high growth and favorable position to embark on a development process led by light manufacturing. As such, the study has shown that the EIZ do not fulfill the four criteria for a successful development process led by a SEZ as a strategy of unbalanced growth. The EIZ is not economically dynamic enough to be the leading sector within such a strategy as the zone-sector not attracted enough capital and investment, as the zone only host 12 enterprises and as the physical location of the zone is non-beneficial. Furthermore, the enterprises in the zone do not create strong backward linkages as they do not match the need for 'last stage industries', nor do they match the Ethiopian context in terms of Ethiopia's comparative advantage. Hua Jian Shoe is the one firm in the zone that matches these criteria, but it cannot create sufficient backward linkages from the EIZ to the Ethiopian economy on its own – more firms of this type is needed. The enterprises currently in the EIZ will not facilitate Ethiopia's entry into the global value chain due to the lack of firms in labor-intensive, low-tech sectors. The entry into the global value chain is further restricted by the poor infrastructure connecting the zone to the domestic economy and the international market, diminishing the potential for the EIZ as a trade facilitator in the way China and Vietnam used SEZs to enable their entry into the global value chain. Finally, the fourth EIZ-specific criterion of a working cooperation between the main stakeholders of the zone is not fulfilled either. Due to the lack of a guiding framework stipulating the policies and objectives of the EIZ, and the lack of communication channels, the EIZ is not reaping the benefits that its multiple stakeholders could bring. The cooperation between the Ethiopian government with its knowledge of the Ethiopian context and the Chinese government with its successful SEZ experience should be able to support the Qiyuan Group in its EIZ development, but poor development of the EIZ so far is an indication that such cooperation is not taking place. If the aspect that the EIZ is Chinese-initiated is to be

beneficial, the zone needs a more clearly specified frame for its Chinese and Ethiopian stakeholders.

While the study has shown that the EIZ in its current state is not conducive for Ethiopian development, the study has also shown how a well-functioning SEZ can be a strong development tool. The theoretical contribution of the current study is large, as it has developed a frame for understanding how SEZs have the potential to lead to development. By viewing SEZs as a tool within an unbalanced growth strategy the study has shown how the SEZ can be a conducive development tool in its own right, beyond being a ‘second-best policy’ in the road to full liberalization. The theoretical framework of the study has clarified how a SEZ, such as the EIZ, can be a tool for development through aiding the process of a structural transformation, by specifying four criteria that zone-success hinges upon (where criterion 1-3 are of main importance in a wider SEZ-context). The approach of applying Hirschman’s (1958) theory on unbalanced growth to SEZs, and incorporating the current global context through the extension of the global value chains-perspective offers an important contribution to the theoretical debate on SEZs, as reviewed in section 2.2. The theoretical framework builds on the interesting idea put forward by the emphasis of ‘catalytic’ zone effects, and shows how these indirect effects can actually stimulate the local economy outside the zone. Through the specified criteria and on the foundation of Hirschman’s unbalanced growth theory, the study clarifies the vague emphasis of ‘links’ and ‘zone integration’, popular in the current debate, and translates it into a researchable focus. Viewing SEZs as a strategy within an unbalanced growth strategy in an innovative approach to the debate on SEZs, and further research on the development potential of SEZ could benefit from applying a similar approach.

7.1 Policy implications

The study argues that SEZs have the potential to be tools for development as part of an unbalanced growth strategy, but in order for the Ethiopian EIZ to realize that potential, certain improvements are need. The study has specified a number of policy implications that can aid the EIZ transformation’s into a successful Special Economic Zone and development tool.

In order to attract firms conducive for development – that is, last stage industries with the potential for entry in to the global value chain, which also fit Ethiopia’s comparative advantages – the EIZ should aim at attracting firms within the leather, apparel and furniture sector. This could be done through measures of encouraging small firms within these sectors to move into the zone, by e.g. offering targeted incentives to such firms, in line with

Söderbom (2012). Furthermore, the Ethiopian policy frame needs to be accommodating to the input industries of these sectors, which implies reforms in certain part of the investment incentives. The non-encouragement of the tanning, sawmilling and timber making sector should be lifted, to enable the growth of the leather and furniture sector through incoming capital. As for the apparel sector, the export ban of cotton (as reported by Dihn et al 2012), should be lifted, as it discourages investment into the cotton sector, so that conducive linkages can be created between a growing apparel sector and a growing cotton industry.

The EIZ's removed location of 800 km from the Djibouti port should be compensated for by a well-functioning infrastructure if the EIZ is to be a trade facilitator that can ease Ethiopia's entry into the global value chain. In the EIZ-case, the Chinese engagement in Ethiopia can be a tool for this, as the incoming Chinese capital into the country can compensate for the low domestic saving, and generate funds for infrastructure-improvements. In addition to improvements of the hard infrastructure of roads and railroads, the EIZ's role as a trade facilitator would be increased by efficiency gains in the transport, shipping and freight sector. To ensure such improvement, the restriction of foreign entry in to the sector should be softened, so that increased capital access and competition can spur improvements in the sector.

Furthermore, the cooperation between the stakeholders needs to be improved if the EIZ is to work, which calls for the creation of communication channels and of a well-specified framework for the cooperation. The upcoming Bill to govern Ethiopia's industrial zones is not enough, but the three stakeholders of the zone need to jointly specify the objectives and the actions that should be taken to fulfill those objectives. As past SEZ-experience has shown, a well-planned SEZ-strategy is crucial to success, and in the EIZ-case this plan should be specified by its three main actors.

The first criterion of SEZ success is that it attracts enough investments and capital to ensure that the zone-economy can be the leading sector in the economy. For many countries applying a SEZ-strategy this is the most difficulty criterion to fulfill, as the SEZ in itself is a tool to spur dynamic growth when such growth is scarce. As such, prescribing clear policy implications for how Ethiopia can ensure dynamic growth in the EIZ is beyond the capability of this research. However, one way of creating an enabling investment climate in the EIZ that can spur economic dynamism is to draw on the experience of the most promising firm (according to the framework of this study), in the zone currently, the Hua Jian Shoe. Hua Jian Shoe has identified four major obstacles to a successful economic development in the EIZ, and by addressing these challenges, it is likely that more companies of this conducive

type will be attracted to the zone. Hua Jian's main challenges in the EIZ include the high logistics and rental costs, the low labor productivity and low labor skill level, the underdeveloped Ethiopian infrastructure, the unpredictable customs clearance time and the challenging business environment in Ethiopia. If these challenges are addressed in tandem with the above prescribed policies implication of certain changes in the investment incentives, infrastructure development and improved cooperation between the stakeholders, the Eastern Industrial Zone has the potential to become a development tool as a Special Economic Zone within a strategy of unbalanced growth.

Appendix 1

List of encouraged/non-encouraged sectors in Regulation 270/2012: “Regulations on investment incentives and investment areas reserved for domestic investors”. While the previous regulation on investment incentives (Regulation no 84/2003), governed Ethiopia during the EIZ’s first years, the two regulations overlap to a large extent, and analysis of the current context was prioritized.

Encouraged industries:

- Food
- Beverages
- Textile and textile products
- Wood products
- Paper and paper products
- Chemical and Chemical products
- Basic pharmaceutical products
- Rubber and plastics products
- Basic metal industry
- Fabricated metal products
- Computers, electronics and optical products
- Electrical products
- Machinery and Equipments
- Vehicles, trailers and semi-trailers
- Animal production

Non-encouraged industries:

- Leather and leather products, particularly tanning of hides and skins below finished level
- The printing industry
- Manufacture of cement
- Manufacture of clay and cement products
- Manufacture of lime, gypsum and similar coatings
- Certain crop products (e.g. cereal, leguminous crops, oil seeds, fiber crops, , fruits and beverage crops)
- The forest industry
- Hotels and tourism
- Construction contracting
- Real-estate development
- Education and training
- Health services
- Architectural and Engineering works

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