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Chinese OFDI and Private Companies in Ethiopia

- Industrialization and Employment
Opportunities

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Abstract

Over the past few years, there has been considerable academic interest in studying the relationship between China and Africa. This study aims to describe what effect Chinese outbound foreign direct (OFDI) investments and private companies have had on employment opportunities and industrialization in Ethiopia. The research question reads: *What effect has Chinese outbound foreign direct investments and Chinese private companies had on employment opportunities and industrialization in Ethiopia?*

Ethiopia's development and industrialization will be examined through HDI and GDP per capita from 2005 to 2012, and computed with the Chinese OFDI. The East Asian Trade-led Economic Development Model and the framework of New Structural Economic is used as theoretical tools to analyze the case of Ethiopia and its industrialization development. This research examines the Chinese-Ethiopian economic and political relationship, through a mixed method with qualitative case study on Ethiopia, and statistical evidence on the Chinese OFDI, private companies and created job-opportunities. The results show that there is no significant net effect in the Ethiopian employment-rates. The Labor Force Participation does not correlate with the fairly low Chinese OFDI. The HDI and GDP per capita have had an overall increase, which shows industrialization and development in Ethiopia, along with a decrease in poverty. The increase in HDI and GDP per capita correlates with the increase in Chinese FDI. However, as argued in the analysis, there can be several other factors that affect the HDI and GDP besides the Chinese OFDI.

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

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List of Abbreviations

FDI- Foreign Direct Investment

FOCAC- Forum for China-Africa Cooperation

GDP- Gross Domestic Product

GTP- Growth and Transformation Plan

HDI- Human Development Index

JECC- Joint Ethiopian-China Commission

OFDI- Outbound Foreign Direct Investment

UNDP- United Nations Development Programme

UNESCO- United Nations Educational, Scientific and Cultural Organization

UIS- UNESCO Institute for Statistics

1. Introduction

Over the past few years, there has been considerable academic interest in studying the relationship between China and Africa. As a single-party state, modern China has placed special emphasis on extensive control over society and the economy. Therefore, China is one of the most controlled and autocratic societies in the world and a rapidly changing nation in regards to the economic development and foreign investment (Endeshaw 2004). China's National Development and Reform Commission, with twelve other ministries, announced a new policy in 2012 regarding guidelines for promoting private companies to develop investments outside of China. The guidelines are made to support and encourage private companies to invest overseas and framing management of private foreign investment (Chan 2012). This policy will be further elaborated in chapter 4.2.1. One of the businesses that moved some of its light manufacturing to Ethiopia is Huaijin Group's shoe company, which opened a factory in Addis Ababa in 2012 (Jobson 2013). China has also founded development programs such as the Chinese-African Development Fund, to show the world that it is a responsible power and raises peacefully.

The Peoples Republic of China and the Federal Democratic Republic of Ethiopia have historical ties. However, their diplomatic relationship was only established in 1970. According to Ethiopia's Ministry of Foreign Affairs, China plays a role in helping Ethiopia in its fight against poverty. Factors that show the bonds between them are the frequent exchange of visits by high-level officials and legislators between China and Ethiopia, but also the numbers of significant bilateral agreements. Chinese investments in Ethiopia are showing significant expansion in both quality and quantity. Chinese companies have invested in areas such as manufacturing in textile, leather and glass factories. According to the Ethiopian Ministry of Foreign Affairs, they have generated job opportunities though these manufacturing factories. China's new policy regarding the promotion of private enterprises to develop investments outside of China has played a remarkable role in encouraging Chinese investors to come to Ethiopia (Chan 2012). The economic development in Ethiopia seems to rely heavily on the development of closer

economic links between Ethiopia and China, according to the Ministry of Foreign Affairs. The ministry argues that their relationship with China provides economic development, since China's policies are based on mutual advantage and a commitment to a win-win situation in bilateral relations (Ethiopia's Ministry of Foreign Affairs).

1.1 Research Problem and Aim

This study aims to describe what effect Chinese outbound foreign direct (OFDI) investments and private enterprises have had on employment opportunities and industrialization in Ethiopia. The research was narrowed down to employment-rates and how many job opportunities the Chinese OFDI and private businesses have generated. The theoretical frameworks will be connected to development and industrialization, brought by foreign direct investments and employment-opportunities in Ethiopia; this way the study touches upon a specific angle. This research aims to show that Chinese investors and private companies are not setting down roots in Ethiopia to exploit a development country, but to help develop it with long-term goals. This paper will be examining a specific aspect of development and industrialization: yearly GDP per capita numbers starting in 2005 and how many job opportunities Chinese private companies and OFDI generate. The East Asian Trade-led Economic Development model and framework of New Structural Economic will be analyzed in regards to the case of Ethiopia and its industrialization development. To illustrate this case study of Chinese-Ethiopian relationship, Huaijin Group's private investments in shoe manufacturing in Ethiopia will be used as a specific case to show the process of Chinese outbound foreign investments in Ethiopia.

1.1.1 Research Question

What effect has Chinese outbound foreign direct investments and Chinese private companies had on employment opportunities and industrialization in Ethiopia?

1.2 Operationalization

This study intends to show what effect the Chinese outbound foreign direct investments and Chinese private companies have had on employment-rates and industrialization in Ethiopia. This research will examine the Chinese-Ethiopian economic relationship, through a mixed method with qualitative case study, and statistical evidence on the Chinese businesses and Chinese outbound foreign investments. The statistical overview will show if job opportunities were created in Ethiopia. The development and industrialization will be measured through Human Development Index and Gross Domestic Product per capita, and computed with the Chinese OFDI to show if there is a correlation.

The theoretical frameworks, New Structural Economics and The Asian Trade-led Economic Development Model, will help analyze previous studies and empirical evidence on Chinese outbound foreign direct investments in Ethiopia. One of the aims of the New Structural Economics and The Asian Trade-led Economic Development Model framework is to define the Chinese-Ethiopian economic and development relationship, to show how and why this relationship is fruitful, in the development and industrialization aspect.

The major concepts in this study are the Chinese outbound foreign direct investment policy, industrialization, and employment opportunities. The theoretical approach will be applied on the empirical overview and the case of Huaijin's company's private investments, to provide a deeper explanation of Chinese private outbound investments and its covariance with employment opportunities. There are some limitations when attempting to connect Chinese OFDI with employment-rates, further discussion on this is provided in the limitations section below. Numeric trends will be used to measure the relationship between investments and employment opportunities. The phenomenon of industrialization will be explored using empirical evidence and the theoretical framework. The aspect of industrialization will be examined both quantitatively and qualitatively: using empirical evidence, a theoretical framework and increase/decrease in GDP per capita and Human Development Index.

1.2.1 Material

The empirical sources used in this study are mostly second hand sources from academic articles and newspaper articles. The methodology and method chapter includes scholars such as Jonathon W. Moses, Torbjorn L. Knutsen, Alexander L. George, Andrew Bennett and Robert K. Yin. Since this is a relatively new subject, books on this specific research question or Chinese and Ethiopian relationship are scarce; therefore the academic articles are more recent and relevant for the empirical overview. It is important to check which journals they are published in, for reliability and validity. Most of the material was collected through databases and recognized international journals, written both by Western and Asian scholars to get both standpoints in the empirical evidence. The same criteria are applied on newspaper articles; the sources are The New York Times, Bloomberg, Financial Times and BBC. Reports from the World Bank, United Nations Development Program and Human Development Index on both Ethiopia and China have worked as empirical evidence, as well as the numbers these reports provide on development and employment statistics. Beyond this, the World Bank has provided an article on Chinese outbound investments and private companies in Ethiopia.

1.2.2 Limitations

This study has limitations because China is a non-transparent country, which leads to limited amounts of official documents and statements, and there is therefore a lack of sources, though there is enough empirical evidence to conduct this study. Therefore, this study hopes to help expand within this area even though there is generally a wide variety of research concerning Chinese engagement in Africa. The research will be conducted on second hand sources, which as well is a limitation. However, the limitation regarding the sources can be a strength since it allows this study to fill a gap in the research area. But as argued above, having no first hand sources might make it difficult to reach new results. Therefore, the limitations and strengths intertwine in this study.

As mentioned above, there are some limitations when attempting to connect and show the possible relationship between employment-rates and industrialization, with the Chinese outbound foreign investments. There can be other significant

variables besides the Chinese investments that affect both industrialization and employment-rates in Ethiopia during the time of increase in Chinese investments, which this study will not touch upon but will discuss these possible hypothesis in the analysis. The World Bank has provided the Ethiopian employment-rates but these may not show correct numbers, therefore might not reliable. In a developing country like Ethiopia, citizens can have unofficial jobs that cannot be measured, and this might not be included in the World Bank surveys. These aspects will be the biggest limitation and methodological issue in this study and lead to both plausible and implausible assumptions, since several variables might affect both industrialization and employment-rates in Ethiopia. These limitations should be kept in mind throughout this study.

1.3 Previous Research

Over the past years, there have been many published studies about China's economic and political engagement in Africa and more specifically, in Ethiopia (Adem, 2012, Brautigam, 2009). Some of them have focused on foreign direct investment, such as Desta (2009) who conducted four case studies on Chinese investments in Ethiopia with a focus on their impact on exports, management, human resources, technology transfer and the environment. Desta (2009) concluded that Chinese investors in Ethiopia are unfamiliar with the local situation and the Ethiopian labor laws and because of this, Ethiopian employees seemed to control the human resources management in these companies. However, this study was based on anecdotes and is therefore difficult to generalize its conclusions.

Geda and Meskel (2010) conducted surveys that focused on qualitative questions about the investment features and business operations of firms in Ethiopia, and the biggest constraints for investing. This study also reached out to the local producers regarding the competitive impact and technological transfer that the Chinese brought with them. The authors of this study found it hard to reach general policy conclusions because of the descriptive and qualitative focus, but they also found that management skills and technology transfers are significant in Chinese investment. Tegegen G.Egziabher (2006) has a relevant study regarding this

subject as well, though Tegegen focuses on the footwear industry. Contrary to Desta's (2009) positive outlook on the Chinese impact on the structure of the local production in Ethiopia, but similar to Geda and Meskel (2010), Tegegen is concerned with the unfavorable impact on local producers. He noted that small-scale shoe producers have decreased their production, lost assets and property but also suffered detrimental consequences (Tegegen 2006).

Shiferaw and Bedic (2013) has studied the growing share of manufacturing in GDP and its relation to employment in Ethiopia. Their study observes a panel data covering the period 1996–2007 and uses this to analyze the micro-dynamics of aggregate employment changes. In Shiferaw and Bedic's (2013) analysis, it is shown that the weak employment implementation in manufacturing is not a result of limited job creation, but an effect of concurrent counteracting processes of job creation. Their study touches upon the research question of this study, but their numbers do not cover the years after 2007, which is when the Chinese FDI grew significantly.

The topic of Chinese OFDI in Africa is a current interest, which can be elaborated; therefore there are possibilities to build on this area. There has not been any extensive research regarding Chinese outbound foreign direct investments and private companies in Ethiopia, combined with employment opportunities and industrialization. This study will connect the Chinese investments and private companies with employment-opportunities and industrialization and is through that fills a gap. Since there has not been extensive research on this specific topic during 2005 to 2012, this study will examine that specific time period and hopes to contribute to the research.

1.4 Background

The Ethiopian economy has been growing significantly in the African region over the past decade. Sub-Saharan Africa reached a 5.2 percent growth on average, which is less than half of Ethiopia's average GDP growth rate, during the same period (World Bank Survey 2012). This impressive economic growth in Ethiopia is mainly a result of the development of new export sectors, agricultural

modernization, government-led development investments and strong global commodity demand. According to Guang Zhe Chen, World Bank Country Director for Ethiopia, Ethiopia has brought down the poverty rate from 38.7 percent to 29.6 percent between 2005 and 2011. Ethiopia's government has a goal to reduce poverty to 22.2 percent by 2014/15. The Government of Ethiopia has also made progress in facing the steadfastly high inflation, by tightening its fiscal and monetary stance. This resulted in a decrease in inflation, falling from 33 percent in 2011 to 15.8 percent in late 2012. The Ethiopian government follows a strategy of increasing exports in total as well as diversifying its export base in order to facilitate economic growth. The fiscal performance in Ethiopia seems to be sufficient given the current state of the economy. By financing requirements for development and Ethiopia has a low risk of external debt distress, according to the 2013 World Bank report.

1.4.1 Definitions

The UN system does not have official definitions for developed or developing countries. However, developed countries generally have the highest standard of living and technological research. For developed countries, agriculture and manufacturing shares are low or declining, and these countries are often likely to distribute aid to less developed countries (UN Glossary). Developing countries have a lower standard of living and are more vulnerable to economic downfalls. Many developing countries have deep poverty has to imports most of their goods since they cannot produce them. According to the Oxford dictionary, a developing country is a poor agricultural country, aiming for social and economic advancement. A developed country has high industrial activity and generally generates high incomes. A developing country may have a low-performing economy that is based on agriculture and non-agriculture jobs are limited. The amounts of government debt are usually unmanageable and the infrastructure is also limited (World Bank FAQs).

The World Bank uses gross national income (GNI) per capita to classify economies. Based on its GNI, which is similar to gross domestic product, a country is classified as low income, middle income or high income. Ethiopia had in 2011 a GNI per capita of 356 USD. According to the World Bank, low income countries have a

GNI per capita lower than 745 USD, for middle income countries it is 746 USD to 9,205 USD and for high income countries it is 9,206 USD or more. A developing country has fewer basic public services and the incomes are usually under 2 USD per day. In extreme poverty, the income is below 1.25 USD per day. Middle-income countries have more health and educational services. However, middle-income countries also have development challenges such as reducing poverty and strengthening institutional and governance structures (World Bank FAQs).

1.5 Disposition

After the introductory chapter, the thesis will present the methodology and methods, which is a mixed method case study. A chapter will follow this with the theoretical framework of New Structural Economics and The Asian Trade-led Economic Development Model. Continuing, an overview on the empirical evidence will be stated including relevant statistics, followed with an analysis on both the qualitative and quantitative research conducted without any specific hierarchical order. The theoretical framework will act as a tool and a way of thinking to help analyze the Chinese-Ethiopian relationship and interpret the empirical evidence to show how and if Chinese investments and private companies have led to any indications of industrialization. The statistical evidence and numbers will be used to measure the possible industrialization, and the relationship between Chinese investments, private companies and employment-rates. After the analysis, the results will be presented in a conclusion and suggestions for further research within the subject.

2. Methodology and Method

This chapter will start by explaining the methodological standpoint of the study with a discussion of the constructivist versus the naturalist researcher and how they are applied to the study. This will be followed by an explanation of the method, included which methods are eliminated and which ones that is selected, continuing with the methods strengths and weaknesses. Continuously it will be argued why the chosen method fits this study, how it will help answer the research question and how the method will be applied in the study.

2.1 Methodology

Initially it is imperative to highlight the distinction between methodology and method with a brief clarification. It is relevant for the research to have a clear understanding of what the two really means. The choice of method affects the conclusions drawn in the paper, which means that there is a methodology present in the research (Badersten and Gustavsson 2010). The two main methodologies: naturalism and constructivism use similar methods. However, their approaches are different, which means that they make use of the methods in completely different ways, because they will also produce different results. This means that the results are nuanced depending on the approach that the researcher makes use of (Moses and Knutsen 2007).

For social scientists, the patterns of interest are a product of our own making, because we all see different things depending on our presumptions and influences. Therefore, the methodological standpoint taken in this study has its foundation in constructivism but is also influenced by naturalism, since this approach recognizes the important role of the observer and society in constructing the patterns we study, but helps prove the results through statistics. Both naturalists and constructivists recognize the need to explain the patterns in the world, but they have different views of seeing what the sources of these patterns are. Ontological complexity and diversity is identified by constructivism and they draw on different types of proof, therefor this study will use both empirical and statistical proof (Moses and Knutsen 2007).

2.2 Method

The case of Chinese OFDI in Ethiopia will be examined as a single case study with a mixed method approach. First, the qualitative and quantitative mixed method will briefly be presented followed by the strengths and weaknesses of the case study method. Later on in this chapter, the type of single case study will be explained, as well as how the case was chosen.

2.2.1 Mixed Method

The research question will be answered through both qualitative and quantitative approaches with the help of a theoretical framework, but will also use statistics to show the increase and decrease in employment-rates in regard to Chinese outbound foreign investments and private companies. The qualitative research technique helps to observe and analyze the case in depth and the quantitative research provides the qualitative part with more evidence. The purpose of a mixed method lies in the composition of what is considered necessary to make the research analysis broadened (Moses and Knutsen 2007). The intent is to empirically explain the Chinese-Ethiopian private investment relationship through a qualitative method, and quantitatively show yearly statistical evidence on the employment-rates, with the help of the theoretical frameworks.

The motivation for combining qualitative and quantitative data is to better understand the research problem by converging numeric trends with detail provided by qualitative research. This study will conduct a transformative mixed method; the design includes both qualitative and quantitative data, which means that the researcher will be using theoretical lenses of the New Structural Economics and the Trade-led Economic Development as an overarching perspective. Within this specific mixed method lies a concurrent approach, which means that the qualitative and quantitative data will be collected at the same time and then merged, to reach an overall answer to the research question (Creswell 2009). Previous research and World Bank reports provide a strong empirical basis that will act as a foundation to the qualitative analysis in order to enter into the depths of the subject. The concurrent transformative strategy is the guiding force behind the methodological choices in this study, such as: defining the problem, collecting data, analyzing,

interpreting and reporting the results. This strategy will embed the secondary method, quantitative, in to the primary one, qualitative, and will be given less priority; its task is to provide a broader perspective to the result (Creswell 2009).

The advantages of a quantitative method is the numeric data, which is easily put into a computer and counted, but these numbers are also a poor replacement to the vivid descriptions of the researcher. Qualitative data relay on words and what exists, the main advantage is that it can handle interpretations that numbers cannot convey. However, a quantitative method is easier to replicate and therefore arguably produces more reliable results than qualitative research and it is hard to exactly re-create an observation or conversation from a qualitative research. A disadvantage with mixed method is the aspect of time; to conduct both qualitative and quantitative data collection continuously consumes time. The sources of data are both a conceptual and practical issue since the decision is often influenced and determined by the theoretical concerns of the researcher (Gray et al 2007).

2.2.2 Case Study

Case study methods have their strengths in conceptual validity and exploring causal relationships. This method allows me to reach a high level of conceptual validity; to identify the indicators that best represent the theoretical concepts intended to measure. Case study method helps examine the operation of causal relationships in detail. Within a single case I can identify what condition within the case that activates certain causal mechanisms. The unit of analysis in this case study is a nation state on a macro and micro level, Chinese OFDI and private companies in Ethiopia. The casual link of this case is Ethiopia's employment-opportunities and industrialization in regards to Chinese OFDI and private companies. Other casual relationships will not be examined but mentioned in the analysis.

There are disadvantages when choosing more than one case in this particular study (Creswell 2007). The disadvantages would be the difficulty of finding countries with independent variables, this could be challenging and cause methodological issues. Because of this, this study is conducted as a single case study on the employment-rates in Ethiopia. A challenge when conducting a qualitative single case study, it is imperative to acknowledge one's own subjectivity and the influence

it can have on both the choosing of material and in the analysis (Seawright and Gerring, 2008, George and Bennett, 2005). To reduce subjectivity and bias, this study decided to add reliability through a mixed method approach including statistics as a support. Robert Yin (2003) argues that the evidence resulting from a study of several cases are usually considered more convincing than those from one unique case, since several cases can lead to the same conclusion, which would make the study more reliable (Yin 2003).

Deciding which cases to research was a difficult task and sets out an agenda for the study. Case selection and case analysis are intertwined in a way that might not be noticed but the methods for case selection and case analysis are though completely different. When choosing on cases it is important to first keep in mind pragmatics, theoretical importance of a case in the literature, the available information about the case and the logistical issues (Seawright and Gerring 2008, George and Bennett 2005). The single case study of Ethiopia is a representative or typical case within the South-South cooperation between China and Africa; this means that Ethiopia is a typical “project” within the cooperation and can be applicable on other African countries with the same circumstances (Yin 2003). Ethiopia was chosen as the case because the country has a strong record of attracting Chinese investment, especially the privately owned manufacturing firms. Ethiopia is a country with less gas and oil resources than other African countries and has its focus on agriculture and manufacturing. Therefore the aspect of resource extraction is eliminated in the case of Ethiopia. Besides this factor, Ethiopia has a business relationship with China (Shen 2013). Ethiopia is a country that smaller and medium size Chinese private firms have invested in, especially Huaijin Group’s shoe company, and was therefore chosen as an illustrative example for this study. Ethiopia is a typical case with a general understanding of a topic, either a specific theory or common sense that demonstrates a surprising value (Seawright and Gerring 2008, Moses & Knutsen 2007).

Contextual specificity can be an issue when gathering information for a study like this. There are often contextual differences whether some information is valid in one context but invalid in another. There can also be systematic errors, which also are known, as bias or random (Adcock and Collier 2001, George and Bennett

2005). For the quantitative research it is important to discuss reliability, validity and generalizability issues to reduce measurement errors. Reliability can be understood as the level to which the variable observed measures the “real or true” value. Validity, on the other hand, can be understood as the degree to which the measurement created or used adequately represents reality (Hair et al. 2005).

Case study methods can be used for many different topics on both concrete and abstract topics (Yin 2004). Case studies has been developed to create an understanding of advanced social phenomena and used to create an understanding of a phenomenon in the context of how it looks in reality, this especially when the boundaries between phenomena are not clear (Yin 2003). A common concern regarding case studies is that they provide little evidence for scientific generalization, especially from a single case. But it can be argued that the method generalizes trough theoretical propositions, it then becomes an analytic generalization instead of statistical generalization. To best answer the research question, this study will be using both types of generalization (Yin 2003).

3. Theoretical Framework

The theoretical frameworks will help analyze the empirical overview and statistical evidence of this study, and reach an answer to the research question. When choosing a framework for this study, many obstacles occurred since most of the theories in political science are Western and therefore hard to apply to this specific study. Development theory would have been an alternative but posed a few limitations, since this study has a focus on private Chinese investments in Ethiopia and its effect. Therefore, the New Structural Economics framework is the most suitable to analyze the findings in this paper, and why this framework is the best fit will be argued for below. To complement the New Structural Economics framework, this study will also examine relevant aspects of the East Asian Trade-led Economic Development Model and apply it on the case of Ethiopia.

3.1 New Structural Economics

Economic historians are on one hand amazed by the rapid growth of China, Brazil, Thailand and India, where the industrialization process quickly transformed the countries survival and lifted several hundred million people out of poverty in the time-span of one generation. On the other hand, economic historians are also baffled by the obvious inability of numerous other countries, where so many people remained trapped in poverty. They also notice that there has been little economic combination between high- and low-income countries, even though developing countries and multilateral development agencies have made efforts to help. Long-term sustainable and broad growth is the driving force for poverty reduction in developing countries. The current global economic crisis calls for the rethinking of economic theories, but most importantly, a reexamination of development theories as well. Justin Y. Lin (2012a) in response proposes a theoretical framework called the *New Structural Economics* (Lin 2012a).

3.1.1 Main Arguments of New Structural Economics

New structural economics argue that the factor of endowments changes from one level of development to another. Therefore, the industrial structure of each country's economy differs depending on the level of development. All industrial

structures need a stable infrastructure to help its transactions and operations. Each level of economic development is a point on the scale from low-income agricultural economy to a high-income post-industrialized economy. According to New Structural Economics it is not a separation of two economic development levels, developing versus industrialized or even high-income countries versus low. The industrial advancement and infrastructure upgrading aims in a developing country should not automatically be inspired by the existing infrastructure in high-income countries. At every level of development, the market is the fundamental mechanism for effective resource distribution but economic development involves structural changes, industrial upgrading and equivalent improvements in infrastructure. These improvements require a natural coordination with firms and their transaction costs and returns to capital investment. In addition to effective market machinery, the government in question needs to play an active role to enabling structural changes (Lin 2012a).

The analysis of new structural economics focuses on the dynamics of the capital/labor ratio but as argued, infrastructure is one more component in an economy's endowments. Infrastructure includes hard and soft infrastructure, hard infrastructure are electricity grids, highways, telecommunication systems, and other public utilities. Soft infrastructure consists of regulations, institutions, social capital, and other social, economic arrangements. Infrastructure affects the private firms' transaction costs and rate of return on investment. Endowments for countries in the early stages of development are usually characterized by the scarceness of capital and plenty of labor or resources as their production activities are usually labor or resource intensive. In developing countries, the firms are often small or medium sized and their market transactions are often informal and limited. The hard and soft infrastructure that is required for expediting production and market transactions are limited and relatively simple in most cases. High-income countries have a completely different endowment structure, and they are usually capital and not labor or natural resources (Lin 2012a).

In an increasingly globalized world, the new structural economics finds opportunities for developing countries to go against negative historical tendencies by expanding through building more industries that are consistent with their

advantages, to increase growth. By arguing for this, the new structural economics rejects dependency theories and so does this study. The New Structural Economics acknowledges the idea that the industrial upgrading process in a developing country. This should be coherent with the change in the country's relative advantage that reflects the growth of human and physical capital but also the change in the factor endowment structure, this will then ensures the sustainability of firms in new industries (Lin 2012a).

3.1.2 New Structural Economics and Foreign Investment

The new structural economics argues that a state should not keep their keep natural resource revenues in sovereign funds, but rather use a considerable part of the revenues to finance domestic projects that helps economic development and structural change. For example, financing projects that encourage the development of new manufacturing industries and provide jobs, this will also nurture new industries through incubation and encouragement of foreign direct investment. The new structural economics approach considers foreign direct investment to be a more advantageous source of foreign capital for developing countries, compared to other capital, because it is most commonly directed toward industries coherent with a country's comparative advantage. Foreign direct investment is less likely to suffer sudden setbacks, and in addition, direct investments usually brings management, technology and access to markets, which often are lacking in developing countries but important for industrial upgrading (Lin 2012a).

The New Structural Economics argues that the demand for financial services of economy at a specific development level can in fact be different from the one at other development levels. The industrial structure in the economy needs to fit with the characteristics of financial structure, and vice versa, and only then can the financial system efficiently accomplish its necessary functions and contribute to long-term economic development. Because of this, there is an appropriate financial structure for an economy at every level of development. The appropriate financial structure for a developing country with low labor costs and scarce capital needs to differ from that for a developed economy with relatively rich capital but high labor cost. Therefore, the new structural economics argue that the ideal industrial structure is determined by its endowment structure of production factors. When the

endowment structure advancements, the relative prices of production factors will change and the industrial structure will evolve consistently (Lin 2003, 2009, 2011).

Since development theory is one of few frameworks that touch upon economic development in development countries, the New Structural Economics offer another framework better fitting the aspect of Chinese investments and private companies in Ethiopia. This framework works on one hand on the Chinese end since it argues for encouraging the development of new manufacturing industries and provide jobs through encouraging foreign direct investment. On the other hand, it applies on Ethiopia as well since they are the recipient of the new manufacturing industries and job opportunities. The New Structural Economics will be combined with the Trade-led Economic Development model. The combination of these theories is the most relevant frameworks for answering this study's research question, since trade and export also are important factors in the industrialization process in Ethiopia.

3.2 Trade-led Economic Development

International trade and economic growth has a theoretical and empirical link that has been examined by several scholars. The neoclassical economists argue for the strong connection between economic growth and trade expansions, that export growth is the main driver of economic growth. Economic growth stimulates both supply and demand sides of the economy, export growth also promotes economic growth and in turn, economic growth promotes skill formation as well as technological progress. These factors also add productive efficiency, and thus create a comparative advantage for the country, which is what the New Structural Economics also argue for. The trade-led development strategy argues that exports can help penetrate the global market and thus leads to the expansion of the manufacturing sector (Hye et al 2013). The rapid growth of China is an example of trade-expansion; Shan and Sun (1998) study the export-led growth hypothesis for China and found a two-way causality between export growth and economic growth. Herrerias and Orts (2009) have examined the relationship between imports, investment, output and productivity in China. Their results show that imports and

investment both stimulate output and labor productivity, but did not find causality between investment and imports.

It has been argued that the degree of economic development and the level of the openness of international trade are the important variables in the empirical economic growth literature (Beck 2002). Financial constraints keep developing countries from taking the fullest advantage of technology transfer. This can cause some countries to deviate from the growth rate of the world production frontier (Aghion et al 2005). Developing countries with underdeveloped economic systems cannot get out of their evil circle; insufficient financial development leads to insufficient economic performance (Fung 2009).

It is unclear if African countries can gain from the benefits that are produced from trade liberalization. However, while Africa's low economic growth can be a result of several of factors, the barriers to free international trade and absence of financial development are among the primary factors that could have contributed to Africa's low economic growth (Beck et al. 2011). Some African countries are making policy changes to implement financial liberalization and development, but the results show limited economic progress. However, Africa's financial system is still government directed and oligopolistic, which can pose problems. Despite Africa's past efforts to financial development and international trade, there is still limited support for the hypothesis that financial development can lead to economic growth in Africa (Menyah et al 2014).

3.2.1 East Asian Model of Economic Development

The East Asian economies have had a growth path where the government played a very important role. The remarkable economic development of a non-democratic country in deep poverty was unpredictable. Kuznets (1988) argues that industrial policies have been viewed as an effective, non-neoclassical tool for economic development. Kuznets (1988) identified a theoretical construct for the development experience of East Asia: high investment ratios, export expansion, investments in human capital, government intervention and capacities to absorb new technology. Without these factors, countries with insufficient economic growth will be kept behind. The key of the East Asian development model is coexistence of import

substitutions and export promotion, combined with strategic restructuring of comparative advantage. Besides these factors, labor productivity and capital accumulation are also reasons that explain the economic success of East Asia. It follows that a country with a consistent set of policies managed by a skilled leader with a capable administration, will have a better chance of reducing poverty. The East Asian model provides evidence pointing to the preference for economic development over democracy (Kwon and Kang 2011).

For China, shifting into new areas of comparative advantage required promotion of industrial technology development, along with liberalization of trade and investment regimes, led to their economic growth. Technology transfer and FDI's are effective when combined domestic technological efforts to implement imported technologies efficiently (Wignaraja 2011).

4. Chinese -Ethiopian Political and Economic Relationship

This chapter will firstly provide an empirical overview of the Ethiopian government, followed by Ethiopia's development plan. Secondly, the Chinese and Ethiopian relationship will be explored, continuing on to the Chinese Outbound Foreign Direct Investment in Ethiopia. Lastly, to get a deeper understanding this relationship, the Outbound Foreign Investment Policy in China will be elaborated.

4.1 The Government of the Federal Democratic Republic of Ethiopia

For most of Ethiopia's history, the country has been a kingdom, rather than a state, where regional and local lords had some autonomy as long as they recognized the authority of the emperor, therefore arguably decentralized (Fessha & Ayele 2012). In the early 1990s, the new Ethiopian government vowed to undertake radical governance reform. In 1991, the young generation of former rebels successfully carried out an armed resistance against the dictatorial state regime (Barata 2012). In 1994, a new constitution was drafted to establish a bicameral legislative branch that would assure equal rights and freedom of expression to all citizens of Ethiopia. The constitution led to a new federal structure that shared the power between the central and state governments, each having autonomy in defined areas (Coleman 2013).

The Ethiopian People's Revolutionary Democratic Front (EPRDF) is the current ruling party which has governed Ethiopia since 1991 and has made efforts to introduce a change towards a more democratic governance system and a more decentralize the authority (World Bank Ethiopia Overview 2013). In 2001, after the adoption of the federal constitution, the decision was made to decentralize power to local authorities, and therefore, the regional constitutions had to be revised to transfer the power (Fessha & Ayele 2012). Ethiopia's Bicameral Federal Parliamentary Assembly consists of an upper chamber: Council of the Federation, and a lower chamber: Council of People's Representatives, which has 108 seats that are chosen by regional assemblies to sit through five year terms. The executive level of the government includes a president, which is elected by the House of People's Representatives for a six-year term and can be elected for a second term.

The party in power, followed by a legislative election, selects the prime minister and the ministers are elected by prime minister and approved by the House of People's Representatives. After the death of Ethiopia's Prime Minister Meles Zenawi in 2012, the parliament failed to appoint a successor, which left the country in a vulnerable position. Meles Zenawi had led the Ethiopian government since 1991 and the selection of his successor Hailemariam Dessalegn was a historical moment in Ethiopia's politics. This led Ethiopia to undertake a constitutional transition of power (Coleman 2013).

4.1.1 Ethiopia's Development Plan

The Ethiopian government is devoting a part of its budget to programs against poverty programs and investments. Large donations such as aid will continue to provide an important contribution to the short-term finance of the country. However, for Ethiopia to use donated aid efficiently, their governance needs to be improved to become more responsible to its citizens. For Ethiopia to build the basis of stable governance, the Ethiopian government should improve their management of public service performance and responsiveness. Their citizen participation should be enhanced during the development process, along with accountability, transparency and public financial management. To fulfill these aspects, the government of Ethiopia has a current five-year development plan (2011-2015), which is called the Growth and Transformation Plan (GTP). This plan aims to foster broad and sustainable development; the key goals of the plan are not only economical but also social. The GTP aims towards rapid economic growth at 11 percent per year with a GDP per capita expected to reach 698 USD by year 2015. The plan hopes to increase the contribution in the industrial sector, such as manufacturing and foreign exchange reserves are anticipated to increase. Ethiopia aims to reach a stable macroeconomic environment through fostering employment and competitiveness in manufacturing and services. The country also wants to improve infrastructure such as electricity, roads, water and sanitation (World Bank Ethiopia Overview 2013).

There has been significant progress in essential human development indicators. More children are getting enrolled in primary school, child mortality has decreased radically and access to clean water has improved. Ethiopia has increased their fight

against HIV/AIDS and Malaria, which is a sign towards improved well-being for the Ethiopian people. For Ethiopia to continue these improvements and reach sustainable development, the government needs considerable investment and continually improve their policy (World Bank Ethiopia Overview 2013).

In Ethiopia, the public sector works towards an increase in administrative functions to ensure easy operation of market forces and FDI. Public services such as education, cultural activities and health services are imperative for Ethiopia's industrialization process, which the government seems to be improving. The government also needs to take a leading role in providing economic support that is necessary for the technological progress. Kojo and Wolde-Rufael (2013) argue that Ethiopia has difficulties to reach sustained growth can be recognized by the state control of the economy during the dictator regime. Even though the government has been transformed, the level of lacking economic growth has been increasing. They argue that the defense spending is one of the causes behind Ethiopia's extensive budget shortages (Kojo & Wolde-Rufael 2013). Ethiopia has relied on external borrowing and inflows of grants and aid, which might have had negative impact on the revenue collection (Martins 2007). This type of dependence on external factors can put Ethiopia in a vulnerable financial position (Kojo & Wolde-Rufael 2013).

4.2 Chinese –Ethiopian Relationship

China and Ethiopia created the Joint Ethiopian-China Commission (JECC) in 1988, which included agreements on the protection and promotion of investment, but also cultural and economic agreements. The JECC provides the countries with an economic forum where areas of mutual interest discussed along with requests for additional development. One example is an occupational training college in Addis Ababa, which was built by a Chinese company and given equipment by the Chinese government. China is providing support to Ethiopia in different fields through soft loans, technical operation, human resources development and urban planning (Davies et al 2008).

Over the last decade, China has become a key net importer of supplies from Africa and this means that the global supply markets might be the main factor that can

give Africa the same impacts seen in China, over time. The fact that China is a key net importer is complemented by the Chinese investments in Africa and Ethiopia is not an exception of this impact. The growing relationship between China and Ethiopia has been extraordinary over the last decade and China accounts for 15 percent of Ethiopia's trade, that same number was zero in 2005. The Chinese interaction has both positive and negative repercussions on the Ethiopian economy. Some negative aspects affect the local producers of labor-intensive manufactures; they could be moved out of the local market. This might lead to high competition in the textile and footwear manufacturing sectors. Another challenge is the construction and the energy sector. Chinese interest in road and power plant construction projects has pushed out local and other foreign construction firms. However, the Chinese are cooperating with the Ethiopian government, which is collaborated below. Although, the impact of this aspect is difficult to measure since this type of knowledge is not available (Geda and Meskel 2010).

Chinese investment has been growing in Ethiopia since the millennium, and the increasing Chinese owned investment reached 118 million USD in 2007, averaging 15 million USD every year. The Foreign Direct Investment (FDI) from China is mostly concentrated in the Ethiopian manufacturing sector, over 60 percent, which is different from other African countries where the Chinese FDI generally are resource seeking. In addition the FDI, Chinese firms are also present in activities carried out by the Ethiopian government, more specifically, infrastructure. The Chinese share in total contract amount in road construction, electricity and telecommunication sectors over the last five years has shown a steady increase. The Chinese firms are cooperating with the Ethiopian Road Authority, the Ethiopian Telecommunication Corporation and the Ethiopian Electric Power Corporation; helping them build much needed eclectic power stations and roads. A positive factor in the Chinese investments is the facilitation of affordable and suitable technology in local firms. Chinese engagement in investment could have a minor impact on investment policy since it can ask the Chinese government for political support with the Ethiopian government, if needed. The Ethiopian and Chinese governments have a strong relationship, which makes it easier to make investment policies and rules, which benefit Chinese firms (Geda and Meskel 2009, (Davies et al 2008).

4.3 Chinese Outbound Foreign Direct Investment in Ethiopia

Official data from the Ministry of Commerce on Chinese overseas investment shows that the total Chinese outbound foreign direct investment (OFDI) in 2011 reached about 74.65 billion USD, but only 1.7 billion USD went to Africa. As the world's foreign direct investments decreased radically after 2008, the Chinese overseas investments more than doubled in 2008 and the part going to Africa tripled that year. Western critics argue that China's investment in Africa are made by government-owned enterprises, but also that China is investing in natural resources to meet their growing domestic demands. However, studies have shown that the growing evidence of Chinese firms in Africa's labor-intensive manufacturing sector is creating jobs and contributing to early industrialization process in many of the countries. These businesses are rarely run by government-owned enterprises, but instead Chinese small and medium sized private investors run the businesses. Many of these private investors are producing outside of China for the first time, they hardly speak the language, which might pose some obstacles but even though this, and the private investments are increasing. Prior to 2000, there was no record of private OFDI projects in Africa; the private investments started radically increasing in 2005 (Shen 2013).

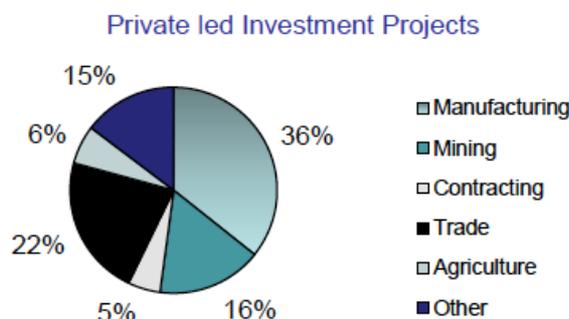
The Chinese-Ethiopian connection reflects the structural change that has been discussed earlier in this paper, and this structural change is happening in both the Chinese and the Ethiopian economy. China has amazed the world with its growth, driven by labor-intensive produced exports for several decades now but economic success also leads to higher labor costs. This leads to eroding competitiveness in low skill, labor-intensive production in China, and estimates show that this could free up to 100 million jobs. That is more than double the number of employed within manufacturing in low-income countries, which means that Ethiopia can tap into this opportunity since it has both low labor costs and a large population (World Bank Survey 2012).

The economic cooperation between China and Ethiopia has been assisted by the political support from both of their governments; the cooperation has both economic and political considerations from China's side. Ethiopia's government

has had an interest in the East Asian development model and anticipates learning much from China's experience, to advance its own economic development. To do this, the Ethiopian government has continuously provided FDI incentives, such as tax-reliefs and tariff-free policies for FDI equipment imports. The Chinese government has also made adjustments on its end; their policy rewards Chinese firms that are investing abroad with tax credits. According to the World Bank Survey (2012), these incentives have acted as a significant motivation for Chinese firms' investment in Ethiopia, particularly for the manufacturing industry. Chinese firms usually hire Chinese lead workers that provide on-sight labor training to the Ethiopian workers and when they are trained, the Chinese workers leave the factory (World Bank Survey 2012).

Respondents of the World Bank Survey (2012) believe that the Ethiopian government provides a stable political environment for the firms to handle their business. The Chinese firms in Ethiopia rely on imported materials and the current regulations do not facilitate fast customs clearance of imported materials. This makes trade and custom regulation the main issue for Chinese FDI in Ethiopia. Despite the apparent obstacles, Ethiopia is still an attractive business destination for Chinese foreign investments and firms. The World Bank Survey (2012) findings show that almost half of Chinese investors are in for the long run, ten years or more, and have plans to increase their investments in Ethiopia in the near future (World Bank Survey 2012).

Figure 1: Sector spread of Chinese private led investment projects in Africa

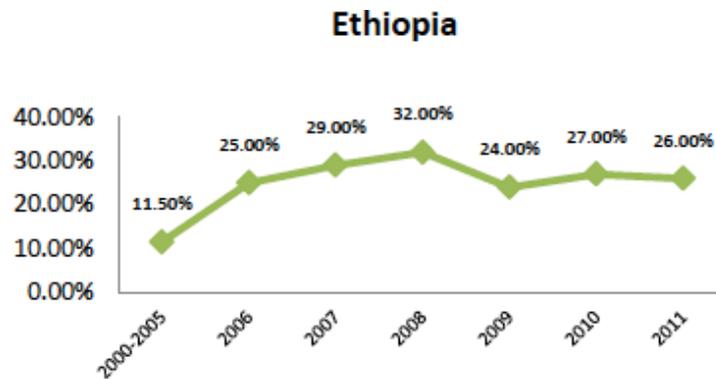


Source: World Bank Policy Research Working Paper 6311 (2013) Figure 2

Figure 1 above shows the sector distribution of private led projects in Africa. As seen, 36% of private projects are in manufacturing and 22% in the service sector

(Shen 2013). In Ethiopia, 60% of all Chinese projects represent manufacturing (Shen 2013).

Figure 2: The Percentage of Chinese Investment of Total FDI in Ethiopia, 2000-2011



Source: World Bank Policy Research Working Paper 6311 (2013) Figure 3

Chinese investments made up 11.5% of Ethiopia’s total FDI inflows in 2000-2005, and in 2006-2011 that number rose to 25% of the total FDI in the country (Figure 2). Chinese firms provided 35,000 regular jobs, and almost 40,000 seasonal jobs in Ethiopia by 2011. The table below shows that the Ethiopian government finds the overall impact of Chinese investments positive. In a World Bank study, several investors argued that they were attracted to Ethiopia because of its closeness to Europe and the countries traditional export market (Shen 2013).

Table 1: African Governments’ Perceptions of the Economic Impact of Chinese Investment

| Contribution \ Country | Liberia | Ethiopia | Rwanda | Nigeria | Zambia |
|--------------------------|---------|----------|--------|---------|--------|
| Local job creation? | √ | √ | √ | √ | √ |
| Local industrialization? | X | √ | √ | √ | X |
| Technology transfer? | X | X | X | X | X |
| Overall | n/a | √ | √ | √ | √ |

Source: World Bank Policy Research Working Paper 6311 (2013) Table 1

4.3.1 Outbound Foreign Investment Policy in China

China's National Development and Reform Commission, together with twelve other ministries including Foreign Affairs, Industrial Intelligence and Information, Ministry of Commerce, and the Central Bank of China, announced in 2011 a significant policy regarding private enterprises to actively develop investment outside China. This policy implements guidelines regarding promoting and guiding

these private enterprises to encourage them to invest overseas and it provides support services to private enterprises for their foreign investment plans. According to the guidelines of this new policy, China is going to significantly increase its directing and guiding effort for Chinese private enterprises wishing to invest overseas at the macro level (Chan 2012).

These guidelines list the requests for coordination and communication between governmental departments, research on topics concerning foreign investment, and resolving major matters that may be faced in developing foreign investment. This policy requires relevant government departments to formalize control of how Chinese private enterprises' business are conducted when developing business overseas or making foreign investments. The policy also has guidelines regarding assisting private enterprises on how to follow foreign laws, respect foreign social habits and to protect local workers' legal rights. The guidelines require government departments to promote active public relation programs with private enterprises to establish that the Chinese are trust-worthy, law-abiding, and socially responsible. However, as mentioned earlier, many of these Chinese private businesses are first-time investors and business developers in foreign markets, so they would lack local market knowledge and local language skills (Chan 2012).

5. Chinese Contribution to Employment in Ethiopia

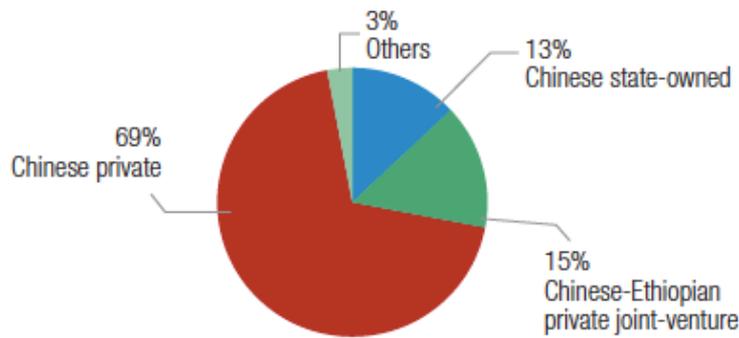
Chapter five will explore the role of Chinese companies in Ethiopia and the types of businesses they run, continuing with a brief overview of the Chinese Industrial Zone in Ethiopia. After this, the Ethiopian employment-rates will be examined in relation to the Chinese contributions to the job market in Ethiopia and the structural changes that it might lead to. Finally, the case of The Huaijin Group's engagement in Ethiopia will be presented in combination with the South-south Cooperation and the China-African Development Fund's role in Ethiopia.

5.1 Chinese Enterprises in Ethiopia

Chinese enterprises started establishing themselves in Ethiopia in the 1980s, with construction companies and later moved on to the manufacturing sector. The Chinese companies are active in the manufacturing of pharmaceuticals, steel, textiles, machinery, paper, and glass. The Ethiopian government has a law preventing foreign companies from engaging in retail, therefore, the Chinese actors do not engage in retailing the products they produce (Davies et al 2008).

Privately owned Chinese companies cover 69 percent of all companies in Ethiopia (figure 3). The figure below shows that 15 percent are private joint ventures with an Ethiopian partner, among these, the Chinese side usually has a larger share of the company ownership. Only 13 percent of the surveyed companies (World Bank Survey 2012) are Chinese state-owned. These companies are usually involved in construction and transportation. These numbers show that the larger part of Chinese enterprises is private in Ethiopia and according to the survey; most of them are manufacturing enterprises. The manufacturing enterprises consist of textile garments and shoe manufacturing.

Figure 3: Ownership types of Chinese firms in Ethiopia



Source: World Bank Survey, Chinese FDI in Ethiopia (January 2012) Figure 9.

5.1.1 Chinese Industrial Zone in Ethiopia

Jiangsu Qiyuan is a private Chinese investment group whom has finalized the preparations to construct a private industrial zone in Ethiopia, the Ethiopian Eastern Industrial Zone. This industrial zone will be built outside of Addis Ababa and eighty investment projects will be contracted there. The cost of this will reach about 500 million USD and over twenty Chinese companies have shown interest in investing in the Ethiopian Eastern Industrial Zone. The projects included in this industrial zone will be manufacturing projects such as the production of shoes, leather products, textile, garment, food and electrical -steel materials. When the industrial zone will be completed in five years, it is estimated to create over 20.000 job opportunities for Ethiopians. This will take the issue of Chinese direct investment in Ethiopia to a new level that deserves further analysis.

5.1.2 Spillover Effects

Foreign Direct Investment leads to spillovers, which is a significant channel for the distribution of modern technology but also indigenous industrial development. Attracting private investment is gaining more importance in the policy agenda for several governments, however; there is still an ongoing discussion on the extent of its positive effects. The discussion assumes a specific importance in the role of FDI in diffusing modern technology to developing countries. According to Geda and Meskel (2009), the observed spillovers of FDI are an outcome of the interactions between both positive and negative effects. So, whether the total impact is positive or negative would largely depend on the extent of the effects overcome in a specific context. Some studies propose that the negative effects might come from the

competition in goods markets where foreign firms draw demand away from local firms. Therefore, the local unproductive competitors cannot compete with the foreign firms, since they are able to monopolize markets as well. These risks can lead to the reasoning that in sectors where foreign capital is large, the positive spillovers might be limited while the negative ones get intensified with the increase of foreign presence. However, Geda and Meskel (2009) argue that large foreign presence is a sign of lacking capabilities in domestic firms to defend their market share against foreign firms (Geda and Meskel 2009).

5.2 Ethiopia and Employment-Rates

Wages in Ethiopia are low even for African standards and this attracted Chinese investors and private companies. A factory worker in a Chinese company makes 30-50 USD monthly, 50-80 USD for a technician to 80 USD and more for a mid-level manager. These wages are significantly higher than what the Ethiopian government pays for civil servants but even though the high wages, the total cost it is only one quarter of what the cost would have been in China. According to the World Bank Policy Research Working Paper, Chinese firms in Ethiopia were happy with the trainability of the local workers, they were apparently eager to learn even though some had never seen a machine before. Some factory managers were especially impressed with female workers, because they are hard working and did not drink alcohol, which was a common problem with male workers (Shen 2013).

One of the factories visited for the World Bank Policy Research Working Paper was a shoe factory. On the factory floor, there were 200 Chinese working with 350 Ethiopians. The manager explained to Xiaofan Shen (2013) that the Chinese workers were brought over to teach the Ethiopians the craft of making high quality shoes and they will leave as soon as the Ethiopians are experienced enough. More and more factories are hiring local managers to improve cultural gaps. Some Chinese firms offer the local workers buses for pick-up and drop-up because of the lack in local transportation, some even provide lunch and argue that showing African's respect is important for a good labor environment (Shen 2013).

Many of the private enterprises started to become profitable within 2-3 years and few of them made profits after the first year of operation. This led to expansion within many companies, some are planning to expand their production and several have recommended investors to invest in Ethiopia. These are all signs of satisfaction with the business performance in Ethiopia. Most investors came to Africa with medium to long-term business commitment, they did not seek a quick payoff and then leave. Relocating a factory to a foreign country is not a simple task and it has high risk, therefore a long-term commitment is more profitable both for the investor and the host country.

Shiferaw and Bedic (2013) argue that a growing share of manufacturing in GDP and employment is commonly observed in developing countries. However, manufacturing has generally not been a large source of employment for the African labor force. While the manufacturing sector displays high rates of job creation, it is likely that there are differences through industries because of differences in industry-specific technologies and market structure (Shiferaw and Bedic 2013).

Table 2: Employment-rates in Ethiopia

| | | |
|---|------|------|
| Employment in industrial sector (% of employed) | 2005 | 6.6 |
| Employment in agricultural sector (% of employed) | 2005 | 79.3 |
| Labor force participation, adult female pop. (%) | 2011 | 78.4 |
| Labor force participation, adult female pop. (%) | 2010 | 78.3 |
| Labor force participation, adult female pop. (%) | 2005 | 78.4 |
| Labor force participation, adult male pop. (%) | 2011 | 89.8 |
| Labor force participation, adult male pop. (%) | 2010 | 89.9 |
| Labor force participation, adult male pop. (%) | 2005 | 91.1 |

Source: UN DATA Economic indicators

5.2.1 Chinese Employment Contributions

Chinese companies had permanently employed 18,368 full-time employees by the end of 2011, from both China and Ethiopia. Among these full-time permanent employees, 15,910 of them are Ethiopians. According to the World Bank Survey (2012), the employment size has increased by 19 percent since 2008. Chinese companies also employed 7,813 temporary or seasonal workers in 2011. 69 percent of the Chinese companies provide formal training programs for Ethiopian workers. The survey (2012) also shows that 11,314 Ethiopian advanced from the Chinese training programs (World Bank Survey 2012).

5.2.2 Structural Change

Developing countries have large gaps in labor productivity between the modern and traditional parts of their economy. The literature on economic development shows that development demands structural change. Countries that manage to pull out of deep poverty and get richer are usually those that diversify away from traditional products such as agriculture. As labor moves away from agriculture into modern economic activities, a developing country's overall productivity increases and incomes grow. Structural transformation can occur at different paces and this is an important factor that distinguishes unsuccessful countries from successful ones. Developing economies often have large gaps in productivity between different parts of the economy. High productivity employment opportunities have increased and the structural change has contributed to an overall growth in for example China and India (McMillan et al 2013).

Since the 1900s, developing countries have become more integrated with the world economy. Foreign direct investment flows have rapidly increased and industrial tariffs are lower than they ever have been. It is clear that globalization has enabled technology transfers and helped make production more efficient, but this depends on which countries that get integrated into the global economy. In the case of Sub-Saharan Africa, globalization has not brought out the desired structural change. Instead, labor has moved in the opposite direction from productive to less productive. According to Margaret McMillan (et al. 2013), African countries are the underdeveloped and will gain the most from structural transformation. In the beginning of the 21st century, African economies started to grow as fast, and even faster, than parts of the world. From 2000 and ahead, the structural change has had a positive effect on African growth. Structural transformation has corresponded to expansion in the manufacturing sector. Minerals and natural resources do not generate a lot of employment opportunities, which manufacturing industries do. Labor flows from low-productivity activities to high-productivity activities are an important driver of development. The rising incomes in China have made Africa a destination for labor-intensive manufacturing (McMillan et al 2013).

Structural change can be described as the reorganization of labor from low-productivity sectors to higher-productivity economic activities. In most developing

countries, this could entail changing labor from agriculture to manufacturing and modern services. In African economies, this change in production from agriculture to manufacturing and industry services has rarely been followed by equal changes in sectorial employment. This leads to an undercut in the sustainability of the growth process, since Pedro Martins' (2014) argues that structural change in the labor market is imperative for sustaining economic and social development. The surveys in Martins (2014) study suggest that working age population increased from 41 million in 2005 to 52 million in 2011, which means 68 percent of the total population in Ethiopia (Martins 2014). As mentioned in the Limitations section, statistics can be debated since they are dependent on specific definition that is used, especially when it comes to unemployment statistics.

Lin (2012b) stresses that Ethiopia has gradually embraced structural transformations. He argues that the countries leaders are aware of this and if they want to uphold this growth rate, they must move away from agriculture even though it is the most dominant sector. Instead, they need to move toward technological innovation and industrial upgrading. Lin (2012b) mentions though that the agriculture sector still is important, but it alone will not bring Ethiopia towards a middle or high-income status.

Ethiopia has an average growth rate of 10 percent per year, which makes it one of the fastest growing economies in the world, according to Martins' (2014) study. One needs to remember that Ethiopia's growth is not driven by natural resources. Agriculture continues to be a large production sector in Ethiopia, but its total output has slowly been declining from 66 percent in 1991 to 45 percent in 2011. The dependency ratio has been declining as well since the younger generation started to become a part of the working age population. In Ethiopia, about two-thirds of the population are below the age of 25, which means that the current employment growth has decreased slowly because of the increase in students (Martins 2014).

5.3 The case of Huaijin Group

Huajian was initially drawn to Ethiopia in 2011, when the late Prime Minister Meles Zenawi was in search of a company that would start a manufacturing factory

in Ethiopia, according to the vice-president of Huajian Group (Wallis 2013). Huajian's investment in the Ethiopian shoe industry shows a distinct change from the traditional Chinese investment, which mainly concerns investment in infrastructure development. Huajian Group is based in Dongguan, Guangdong province and produces about 20 million pairs of shoes per year for shoe brands worldwide such as Tommy Hilfiger, Guess, Naturalizer and Clarkes (Wallis 2013). It is one of the largest Chinese shoe manufacturers and in Ethiopia. Huajian opened production in Eastern Industry Zone at Dukem, south of Addis Ababa. This production line produces 2000 pairs of shoes per day, for the European and U.S. market. Huajian Group in Ethiopia employed about 600 workers before 2012, and the majority is Ethiopian (World Bank Survey 2012).

Huajian are increasing their investment by building a shoe city and this two billion USD manufacturing zone will transfer skills to locals so they can become the future managers. Helen Hai, vice-president of Huajian Group, has large ambitions of making Ethiopia a global hub for the shoe industry, supplying the American, European and African markets. Hai tells The Guardian that Huajian Group aims to build the entire supply chain in Ethiopia within ten years; they want to produce everything there. The factory near Addis Ababa opened in 2012 and has committed to jointly invest two billion USD and create a light manufacturing economic zone, creating around 100,000 jobs for Ethiopians in the far future. By 2022, Huajian Group expects to provide 30,000 jobs in Addis Ababa. Huajian is leasing land in Lebu, outside of Addis Ababa, where they plan to build the shoe city and provide housing for up to 200,000 workers, but also factory space for other producers as well. Huajian makes the welfare of its employees a priority by providing them housing, hot meals, clothing, laundry services and free childcare in China, therefore they provide Ethiopian workers with similar advantages plus ten percent more than the local average pay (Wallis 2013, Jobson 2013).

There were several beneficial factors for Huajian to invest in Ethiopia; the cheap labor cost and rich domestic supplies such as leather are two of the factors. The duty-free and quota-free access to European and U.S. markets are also significant beneficial factors for Huajian, but as always, they are contrasted with problems associated with inefficient customs clearance processes, as mentioned earlier in the

paper. There are other obstacles for the company as well; the time limits of the clients' orders are difficult to meet since the delivery is longer than the standard delivery from a similar order in China.

The total logistic costs for Huajian are not as low as expected and are in fact often higher than in China. The land transportation from Djibouti to Addis Ababa and customs clearance costs account for 8 percent of the total cost. In China, labor cost only accounts for 22 percent of the total cost, whereas in Ethiopia labor costs are 33 percent, according to Huajian's experience. The main reason for the higher costs in Ethiopia lies in the training provided for the staff. When Huajian's factory was set up in Ethiopia, 86 Ethiopian university graduates were sent to China for two months of training. The infrastructure in Ethiopia also poses a few challenges to the business environment in Ethiopia. There are widespread blackouts that are several hours long and the road from Djibouti's harbor to Huajian's factory near Addis is in bad condition, which results in longer transportation time. The telecommunication fees are significantly high, which increases the costs for foreign investors regarding their contact overseas. The Ethiopian government and government led Chinese enterprises are working on these aspects to attract more foreign investors and make it easier on the ones already there (World bank survey 2012). Hai tells *The Financial Times* (2013) that, while logistics and management costs were high in the beginning, this was countered by lower labor costs and preferential tariffs for exports to the U.S. and Europe (Wallis 2013).

5.3.1 South-South Cooperation

The continuing expansion of the Chinese economy and the performance of some developing countries as competitive exporters of manufactures have changed the view of the South as a harmonized collective. The South-South economies are integrating through trade and investment, which has gone from aspirations to an economic reality. Asian corporations have invested a lot when it comes to establishing regional production chains, which in turn aims to serve the global markets. Development cooperation amongst developing countries contain specific initiatives and policies that involve both private and public agents, and they should converge at the national, bilateral and multilateral levels. The South-South

cooperation includes measures to motivate the creation of regional industrial networks and transfer of technology, on equal terms (Ventura-Dias 2010).

5.3.2 China-African Development Fund

Africa and China as diplomatic relations outside of the South-South cooperation, and therefore got their debts and loans written off by China in 2005. The China-African Development Fund is a private equity facility promoting Chinese investment in the African continent and was emerged at the 2006 Forum for China-Africa Cooperation (Wallis 2013, Jobson 2013). When Chinese financial institutions created the China-Africa Development Fund, the Chinese government supported them with an initial investment of 1 billion USD. This support made it possible for the fund to invest more than 500 million USD in almost thirty projects involving electric power, industrial parks and agriculture (Ventura-Dias 2010).

In 2003, the Addis Ababa Action Plan was announced, at the Forum for China-Africa Cooperation (FOCAC) summit. This action plan includes the Special Preferential Tariff Treatment, which removes import tariffs on almost 200 items from 25 different African countries that was implemented in 2005. The FOCAC was established as an effective mechanism to increase the economic relationship between China and Africa. It is important to keep in mind that Chinese FDI to Africa is still small when compared to European and the United States stocks of FDI, but they are still important (Ventura-Dias 2010).

The China-African Development Fund signed an agreement in 2008 with CGC Overseas Construction to finance a factory in Ethiopia. This construction company is involved in civil engineering and water boring in Ethiopia since 1996 and most recently they made an additional investment of over 10 million USD. Even though the fund is not classified as development assistance, it helps Chinese companies to join the African market in several important sectors (Davies et al 2008).

6. Industrialization

This chapter will start with an explanation the major aspects of industrialization in development countries and the possible dependencies on FDI within industrialization. Later in the chapter, Ethiopia's industrialization prospects will be examined in regards to the countries development numbers.

6.1 Industrial policy

Industrial policy is a wide area and can be approached in different ways. A government might try to influence or even control areas of economic activity related to the industrial sector, as in China. Industrial policy can cover a range of subjects, such as international trade in industrial goods, development of technology and the competitive behavior of producers. Industrialization in developing countries has three major policy aspects. First, the treatment of foreign trade is important, especially the use of various import taxes and trade restrictions, to protect the domestic industry. Second, the use of direct controls such as investment licenses to influence the distribution of resources, between and within industry. Lastly, foreign investment by transnational firms, the firms should be provided with foreign exchange and technology for new industrial projects (Weiss 2002).

One might argue that industrial policy origins from foreign trade, such as the choice of trade strategy. Foreign trade can influence other areas of policy as well, for example the extent of the choice of technology for new investments (Weiss 2002). Industrial policy that origins from foreign trade is not essential to suggest free trade in industrial goods because the domestic and world prices can still deviate. Exports are significant for economic growth and but many larger developing countries provide a smaller share of the total demand for manufactures. However, export profits can still largely contribute to growth, by reducing foreign exchange limitations. Although, if the growth process is held back by insufficiencies such as demand reduction used to remove additional demand for foreign exchange, further exports can lead to the expansion of economic activity (Weiss 2002).

6.2 Dependence and Industrialization

Dependence is a concept that is both controversial and ambiguous. The concept has both non-economic and economic dimensions. The economic aspects of dependence in developing countries have a few characteristics such as growing inequalities in income distribution and the use of imported capital-intensive technologies. It also has a heavy input by foreign investment in large sectors of the economy. As far as involvement from foreign firms suggests dependence, the overall dependence can be measured. Several studies consider whether a correlation can be recognized between a measure of dependence and economic performance. Common findings in these studies show high rates of economic growth are associated with high foreign investment inflows generally. There is even a possibility of dual causation both from growth to foreign investment and from growth to more investment inflows, as an answer to profit opportunities in a growing market (Weiss 2002). Blomstrom et al. (1994) tests for a correlation between FDI share in GDP growth per capita. This study shows findings of a significant positive relationship in developed economies. However, the strength of this relationship is connected to every country's circumstance, since the FDI inflow is combined with the level of schooling of the population and several other factors, not all developing countries have benefited significantly from FDI inflows (Weiss 2002).

6.3 Ethiopia and Industrialization

The rising role of Chinese investment and private companies seems to offer the opportunity of industrialization to African host countries, in this case Ethiopia. Industrialization is a process that involves many steps but the labor-intensity that comes with the current wave of Chinese investments and private companies is definitely a first step. The manufacturing factories are the type of industry that is easy for less developed countries to adopt and absorb. Despite low labor costs, it is costly to do business in Africa because of poor roads, scarce electricity and other obstacles but these issues are not extreme in Ethiopia. The government in Ethiopia built new dams, which improved the electricity greatly. There are projects regarding a highway construction and a rail project, the water supply is also improving (Shen 2013).

The emergence of large middle-income countries seems to be the new growth poles in the world, such as China, India, and Brazil. Their self-motivated growth and climbing of the industrial ladder proposes an unprecedented opportunity to all developing economies with lower-income levels, such as countries in Sub-Saharan Africa. China is on the verge of graduating from low skilled manufacturing jobs and this will free up nearly 100 million labor intensive manufacturing jobs, enough to more than multiply manufacturing employment in low income countries. Lin (2012), the creator of New Structural Economics, argues that industrialization and structural change are at the root of economic development. As mentioned earlier, Lin (2012, 2012a) argues that the most efficient way for a developing country to reach sustainable growth is to follow its comparative advantage in its industrial development. He believes that the dynamic growth in China can provide a unique opportunity for the industrialization of Africa and other low-income countries (Lin 2012).

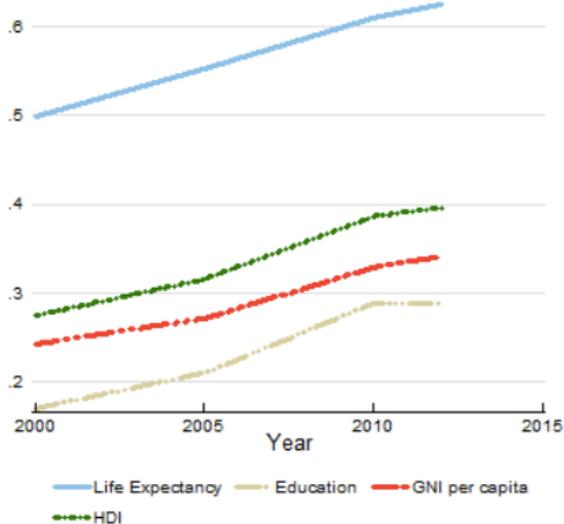
Ethiopia is inspired by the East Asian experience, which means that the development of new export sectors, strong global products and agricultural modernization is a significant part of its growth. Growth cannot be continuous without technological and industrial upgrading, but structural transformation of the country's economic activities is also necessary. For Ethiopia, attracting FDI is a part of the development; to successfully develop an economy that leads to the necessary sustained economic transformation. However, in comparison to the successful East Asian countries, it is clear that there is an opportunity for Ethiopia to improve the promotion of incoming foreign investment even more in the future. FDI is in most circumstances important for technology transfer and knowledge, and this leads to support when it comes to industrialization efforts. On the one hand, to attract FDI, the infrastructure plays a strong role, especially in the manufacturing sector. On the other hand, FDI also helps to improve the infrastructure of the host countries (World Bank Survey 2012). Huajian's vision merges with Ethiopia's industrialization strategy, which is designed to tap into sectors where the raw materials can be sourced locally and value can be added by industrial processing (Wallis 2013, Jobson 2013).

Ethiopia is not primarily an aid recipient but an economic and political ally to China, their relationship goes beyond aid. The engagement consists of official flows, investments, trade and political cooperation. China has offered alternative development models than the Western one have. China has a different approach to discourse regarding political and economic reforms, and has therefore emerged as a partner to the Ethiopian government. Chinese principles and norms for cooperation with Ethiopia, and other African countries, are influenced by China's development experiences, but also economic and foreign policy principles. Another important aspect of the countries cooperation is the fact that the Chinese government is not pushing democratic reforms in Ethiopia (Hackenesch 2013).

6.3.1 Ethiopia's development numbers

Figure 4 and Table 2 present the Ethiopian human development numbers. The Human Development Index is a summarized measurement for evaluating long-term progress in the dimensions of human development, which are: access to knowledge, a decent standard of living and a long healthy life. A long healthy life is measured by life expectancy and the standard of living is measured by Gross National Income (GNI) per capita in constant 2005 international dollars (UNDP Human Development Report 2013).

Figure 4: Trends in Ethiopia's HDI component indicators 2000-2012



Source: UNDP Human Development Report Ethiopia (2013) Figure 1

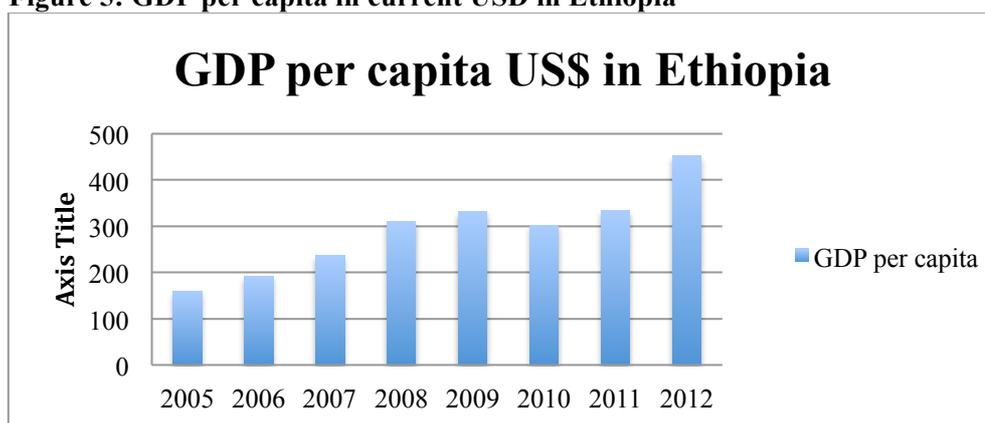
Table 3: HDI Value in Ethiopia

| | HDI Value Ethiopia |
|------|--------------------|
| 2005 | 0.316 |
| 2010 | 0.387 |
| 2011 | 0.392 |
| 2012 | 0.396 |

Source: UNDP Human Development Report (2013) Ethiopia

Access to knowledge is measured by mean years of schooling for the adult population, which is the standard number of years of education received in a lifetime by people that are 25 years and older. It is also measured by expected years of schooling for children of school-entrance age. The HDI is primarily based on international data from the United Nations Educational, United Nations Population Division, the Scientific and Cultural Organization (UNESCO) Institute for Statistics (UIS) and the World Bank (UNDP Human Development Report 2013). In 2012, Ethiopia had a HDI value of 0.396 and in the low human development category, the country ranks at 173 out of 187 countries. From 2000 to 2012, Ethiopia's HDI value had an average annual increase of about 3.1 percent, from 0.275 to 0.396 (UNDP Human Development Report 2013).

Figure 5: GDP per capita in current USD in Ethiopia



Source: World Bank GDP in current USD (accessed on 15/4-2014)

The GDP per capita in Ethiopia have been growing since 2005. As Figure 5 shows below, the numbers increased evenly until 2009 and took a small dip in 2010 and 2011. From 2011 to 2012, the GDP per capita increased from about 330 USD to

450 USD. This shows a steady stream of increase of development in Ethiopia (World Bank).

7. Analysis

In this chapter, the frameworks will help analyze the Chinese-Ethiopian private investment relationship and the effects it has on employment-opportunities and industrializing. The method of this study has both qualitative and quantitative approaches by applying the theoretical framework of New Structural Economics and Asian Trade-led Economic Development Model, and through numeric trends, show the increase and decrease in employment-rates in regard to Chinese OFDI and private companies. According to the mixed method concurrent approach, the data in the empirical overview has been gathered concurrently and merged, to reach an overall answer in the analysis. A concern throughout this study has been the limitation of scientific generalization within a single case study. This analysis makes generalizations through theoretical propositions and a simple statistical generalization. Using both theoretical and statistical generalization, the answer the papers research question becomes deeper.

7.1 Ethiopian-Chinese relationship

In the last five years, the Ethiopian-Chinese relationship has grown stronger both in terms of investment and trade. The Chinese firms have been an important factor in: supply of manufactured goods from China, road construction, telecommunication, installation of larger electric power stations and in the Ethiopian manufacturing sector. The success of Chinese companies might be explained by the political and economic ties their governments have. However, the Chinese firms in Ethiopia seem to be held back by lack of skilled labor and foreign exchange, which are areas that demand immediate attention from the Ethiopian government.

One must keep in mind that China is a relatively new player in the foreign direct investment field, particularly its private sector. Because of China's limited time and scale in this experience, the overall impact of Chinese OFDI in Africa is not yet clear and should not be overestimated at this early stage. Nevertheless, this study shows that Chinese investments in Africa are starting to make some impact and China's overall role in the global economy is likely to grow in the near future.

7.1.1 Positive and Negative Aspects of the Ethiopia-Chinese Relationship

The local producers of labor-intensive manufactures in Ethiopia may be affected negatively by the sudden increase of Chinese manufacturing firms in Ethiopia, the local producers could be moved out of the local market. So far, this has been seen in construction projects that the Chinese has had interests in. In these cases, the local and other foreign construction firms have been pushed out. However, this situation is hard to grasp since the Ethiopian government is cooperating with the Chinese firms in road and power plant construction projects. A possible solution is to hire the local firms within the Ethiopia-Chinese construction projects and in the manufacturing section led by Chinese companies, but this might already have been done. Although, the problem regarding foreign firms being pushed out of the market, still remains. It can be argued that the Ethiopian government feels that they cannot go against Chinese wishes and therefore cooperates, since China has provided debt releases and so on. Therefore, this detail of the Ethiopia-Chinese relationship is difficult to examine. A positive factor in the Chinese investments is the facilitation of affordable and suitable technology in local firms, thereby giving back to the local firms. The Chinese firms are cooperating with Ethiopian Road Authority, the Ethiopian Telecommunication Corporation and the Ethiopian Electric Power Corporation and through this cooperation; Ethiopia can develop their infrastructure more efficiently. But as mentioned above, this also have negative aspects such as the affects on local firms (Chapter 4.2).

7.2 Theoretical Analysis

Based on the thinking of New Structural Economics, Shen brings light to Lin's argument that the future increase of China and other middle-income growth poles from low-skilled manufacturing sectors, will provide an opportunity for countries in Africa, such as Ethiopia, to participate in labor-intensive sectors and create millions of jobs. Long-term sustainable growth is the driving force for poverty reduction in developing countries. The current global economic crisis has demanded a rethinking of traditional economic theories that does not touch upon global aspects. Industrial advancement and upgrading of infrastructure in a developing country should not necessarily be inspired by industrialized countries. New Structural Economics argue that economic development involves structural changes, industrial

upgrading and equivalent improvements in infrastructure. These improvements require a natural coordination and depend on the level of development Ethiopia is at. To reach long-term structural change, the Ethiopian government needs to have an active role in establishing these structural changes to keep the Chinese FDI flows, if Ethiopia has an unstable investment environment, FDI flows might get withdrawn.

According to the New Structural Economics developing countries should expand the industries that are consistent with their advantages, to increase growth. In the case of Ethiopia, that would be the manufacturing industry and industry parks where Chinese, and other foreign enterprises can move their manufacturing. The framework argues that if Ethiopia's industrial upgrading process is coherent with the country's relative advantage that reflects the growth of human and physical capital, this can ensure the sustainability of firms in Ethiopia. Compared to other capital, the New Structural Economics approach considers FDI to be an advantageous source of foreign capital for developing countries. FDI brings management, technology and access to markets, which have been lacking in Ethiopia for a long period of time, so the positive outcomes that result from FDI are important for Ethiopia's industrial upgrading.

The trade-led development model has the same approach as new structural economics in many regards, but adds the importance of exports. In Ethiopia, exports can help the country to penetrate the global market and thus lead to the expansion of their manufacturing sector. This development model argues that financial constraints keep low-income countries from taking the fullest advantage of technology transfer, because they do not have the necessary capacity. In the case of Africa, and more specifically Ethiopia, it is uncertain if they can gain from benefits of trade liberalization. However, the barriers to free international trade and absence of financial development can be the reasons for the low economic growth in Ethiopia. An important part of the East Asian development model is coexistence of import substitutions and export promotion, combined with strategic restructuring of comparative advantage, which conforms with the new structural economics. Labor productivity is another important aspect of this development model. All of these aspects are slowly emerging in Ethiopia, but for them to work well, Ethiopia needs

a consistent set of policies managed by a skilled leader with a capable administration. Without a strong government, none of the other aspects for development can be as efficient as they need to be, in order to reduce poverty.

The East Asian Development Model might work in Ethiopia in the same ways it did in China. The increase in manufacturing and exports are important steps towards development, but the difference between Ethiopia and China is the aspect of governance. Ethiopia's government is making governance improvements, but does not have the same state capacity as China had during its developing years. China has a strong ruler and stable governance. The East Asian model might not work in an African context because of the state capacities in African countries. Another important aspect in the success -story of China is their culture. The cultural factor plays a role in the East Asian model, since it aims the population towards the same goals for their country. However, even if the factors of culture and state capacity are not as present in Ethiopia as in China, the export-led East Asian model can still lead to development and industrialization in Ethiopia. So far, the economic growth and Human Development Index are increasing, which is a step in towards the right direction. The Ethiopian government also seems to have clear goals, and work towards them, to reduce poverty and grow into a stable developed country.

China is not pushing for an increase in democracy within the Ethiopian government; therefore the ideological barriers are not present in their political business relationship. The East Asian model provides evidence to the preference for economic development over democracy. In the case of China, there was a shift into new areas of comparative advantage, which required industrial technology development, along with liberalization of trade and investment regimes. This in turn, led to the economic growth of China, which points to the importance of structural change, comparative advantage, FDI and technology transfer, combined with strong governance and efforts to implement imported technologies efficiently.

There is a possibility of dual causation between growth and foreign investment, since growth can lead to an increase in investment inflows, as an answer to profit opportunities in a growing market. There is a correlation between FDI shares in GDP growth per capita. This study finds a significant positive relationship in

developed economies. The Chinese investments seem to have a positive affect on Ethiopia's development and therefore, the industrialization process.

7.2.1 Chinese Outbound Foreign Direct Investment in Ethiopia

The Chinese enterprises that are getting established in Ethiopia provide the Ethiopian people with training so that they can work without Chinese supervisors. The Joint Ethiopian-China Commission is a commission led by both Ethiopia and China to help companies in Ethiopia. One example of what they have developed is an occupational training college in Addis Ababa, which was built by a Chinese company with support by the Chinese government that provided the equipment. The Chinese government and private companies are supporting Ethiopia in several different ways, through soft loans, technical operation, human resources development and urban planning, which goes beyond only the Chinese OFDI and private companies. Over the past ten years, China has imported supplies from Africa and this is a start to become a larger player in the global supply market. At the moment, China accounts for 15 percent of Ethiopia's trade, which has grown radically since 2005 when the same number was zero percent. Those numbers show the extraordinary growth between Ethiopia and China over the past decade. Since the exports of supplies are increasing from the African region, Ethiopia might slowly be headed towards the same development phase that China went through.

The Chinese investments have been increasing since 2000 and as mentioned in the empirical evidence, the Chinese owned investment reached 118 million USD in 2007, averaging 15 million USD every year. Chinese investments made up 11.5% of Ethiopia's total FDI inflows and increased to 25 percent of the total FDI in five years. This number is low in regards to Western countries, but since China went through a massive development process much later than France and China has just started to get into the investment business. China's FDI is not concentrated in resource seeking; it is instead concentrated in Ethiopia's manufacturing sector, which covers more than half of their businesses. Even though the Chinese OFDI to Africa has increased, only 1.7 billion USD of a total of 74.65 billion USD went to Africa in 2011. This shows that China is investing all over the world and not only in Africa, however; 1.7 billion USD stands for a lot of money in a developing country compared to a developed country.

As the West suffered through a global financial crisis in 2008, the general FDI all over the world decreased, except for China's OFDI, which more than doubled that year. It has been argued that China's investments in Africa are only made by government-owned enterprises and that they are resource seeking but this study shows that Chinese firms in Africa's labor intensive manufacturing sector is creating jobs and contributing to a slowly emerging industrialization process in Ethiopia. The businesses contributing to this development are smaller private businesses, though they might have some kind of incentives from the Chinese government. Before 2000, there was no evidence of private OFDI projects in Africa; they started to increase in 2005 right before the China-African Development Fund was established.

7.2.2 The Economic Cooperation between China and Ethiopia

Ethiopia's Ministry of Foreign Affairs argues that the economic development in Ethiopia relies on the economic links between Ethiopia and China, that their relationship with China provides economic development. On the ministry's homepage, there is a public statement expressing that Ethiopia's relationship with China is based on mutual advantage and a commitment to a win-win situation. In regards to the empirical overview, Ethiopia seems more dependent on China than the other way around. The statements might imply that their relationship is based on mutual advantages but in this case, one can argue that Ethiopia is the development country in their relationship and therefore could be strong-armed, manipulated or taken advantage of by China. However, the empirical evidence does not imply this; it shows a relatively successful relationship, but this is a difficult matter to examine and time will prove the reality of the matter.

Both the Chinese and Ethiopian governments contribute with political support towards their economic cooperation. As mentioned in the empirical evidence, the Ethiopian government has an interest in the East Asian development model and it seems that they hope to learn from China and India's experience to advance their own economy. To make this process run smoother, the Ethiopian government has made political decisions to simplify the FDI processes through tax-reliefs and tariff-free policies for FDI equipment imports. FDI leads to spillovers, which is

significant for the distribution of modern technology and industrial development; therefore, attracting FDI is an important part of Ethiopia's political agenda. The political changes in Ethiopia has been profitable for both China and Ethiopia, but one can argue that China demands tax-reliefs and policy changes that profits Chinese enterprises and FDI. However, one can also argue that the changes already made have been a motivation for Chinese enterprises to invest in Ethiopia's manufacturing industry. The Ethiopian government has a law preventing foreign companies from engaging in the retail of produced products; therefore, the Chinese actors cannot control the retail of the products they produce. The law helps Ethiopia to oversee the retail aspect of the productions, this way Ethiopian government can remain in control of the retail and export, which will help develop the country.

The firms interviewed for the World Bank Survey 2012 argued that the Ethiopian government provides a stable political environment for them and makes Ethiopia an attractive business destination for Chinese foreign investments and firms. According to the World Bank, almost half of the Chinese investors aim towards long-term commitments and have plans to increase their investments in Ethiopia, in the near future. The Chinese government has also made changes to make it easier for OFDI by implementing a policy regarding private enterprises to actively develop investments outside of China. This kind of policy encourages smaller private enterprises to invest abroad but it also means coordination and communication with governmental departments. This policy requires relevant government departments to control how Chinese private enterprises' business are conducted when developing business overseas or making foreign investments. Therefore, since this policy got implemented, the Chinese government has a foothold over the private enterprises, which raises the suspicion if the firms are private or joint ventures with the Chinese government.

Figure 3 in the empirical evidence show that 69 percent of all Chinese enterprises in Ethiopia are privately owned, but they might also get contributions from the China-African Development Fund. According to the same figure (figure 3), only 13 percent of the surveyed companies are completely state owned. Funding from the China-African Development in regards to the Chinese private companies might lead to conclusions that the Chinese government is controlling the private companies

through the fund. Financial institutions established the China-African Development Fund, but the fund receives some financial support from the Chinese government. The fund invests in projects such as industrial parks and agriculture. The fund is not regarded as development assistance, it is supposed to help Chinese companies join the African market. This raises questions regarding the true motivation behind the fund; one can therefore argue that the Chinese government is using the fund, and the new Foreign Investment Policy to gain control and access the private companies investing in Africa.

7.3 Industrialization

Generally, a developed country has high industrial activity and a developing country has an economy based on agriculture with limited non-agricultural jobs. Although, one of the important factors in the case of Ethiopia is the unmaintainable amount of debt they hold. China has cleared large amounts of the Ethiopian debt to help Ethiopia's development process, but this selfless act might also have underlying motives, such as more policy changes that will benefit Chinese enterprises in Ethiopia.

In Ethiopia, there are policy aspects that need to be met for the industrialization process (chapter 6.1). The treatment of foreign trade is important for the protection of domestic industry, such as the use of import taxes and trade restrictions. One of the policy aspects concerns providing foreign exchange and technology for new industrial projects to transnational firms that are establishing industries in Ethiopia. However, export profits are also a necessity for the industrialization process and economic growth. Although, in the case of Ethiopia, the growth process has been held back by insufficiencies regarding foreign exchange, which has been mentioned by incoming firms in the World Bank survey. The government needs to reduce the problems regarding foreign exchange to further exports, that later will lead to the expansion of economic activity. Otherwise, it might be too problematic for the manufacturing firms in Ethiopia to export the goods.

According to Chen, Ethiopia has brought down the poverty rate from 38.7 percent to 29.6 percent in 2011 and has a goal to reduce it even more. The Ethiopian government has also made progress in facing the high inflation, by tightening its

fiscal and monetary stance, which has resulted in decreased inflation. The efforts from the Ethiopian government and the current Chinese wave of private investments and cooperations is increasing labor-intensity in Ethiopia and that is one of the first steps towards industrialization. The manufacturing sector is the type of industry that is easiest for Ethiopia to absorb. As Lin argued, the most efficient way for a developing country to reach sustainable growth is to follow its comparative advantage in its industrial development, and China is providing an opportunity for industrialization in Ethiopia. The Haujian Group has a long-term vision that merges with the industrialization process that is slowly emerging in Ethiopia. Haujian's contributions to Ethiopian development and employment-opportunities will be analyzed later in this chapter.

Table 4: Combined GDP/ capita in USD (figure 5) with Chinese OFDI (figure 2) and HDI Value (table 3), into one table to show correlation.

| | GDP/capita USD in Ethiopia | Chinese OFDI | HDI Value Ethiopia |
|-------------|---------------------------------------|---------------------|-------------------------------|
| 2005 | 160 | 11,5 | 0,316 |
| 2010 | 302 | 27 | 0,387 |
| 2011 | 335 | 26 | 0,392 |

Sources: UNDP Human Development Report (2013) Ethiopia, World Bank Policy Research Working Paper 6311 (2013) Figure 3, World Bank GDP in current USD (accessed on 15/4-2014).

Table 4 shows that there is an increase in both the HDI value and GDP per capita. There is also an increase in the Chinese OFDI as well. Therefore, there is a positive net effect between the HDI, GDP and the Chinese OFDI, which points towards industrialization and development. However, even though there is an increase in HDI and GDP that correlates with the increase in Chinese FDI, there can be several other factors that affect the HDI and GDP besides the Chinese OFDI, such as FDI flows from other countries.

7.3.1 Employment-opportunities in Ethiopia

In Ethiopia, labor wages are low even for African standards, which is what attracted Chinese private businesses. The wages for factory workers are only one quarter of what the costs would have been in China, but as mentioned in the empirical evidence, the Chinese factories have other costs such as importing supplies. Even though there are other costs except for the wages, it is still beneficial for Chinese firms to establish factories in Ethiopia. The Chinese firms train the local workers and are satisfied with the results, the locals are eager to learn according to the World Bank Survey 2012. The private firms investing in Ethiopia show that they have long-term goals by sending home their Chinese managers from the factories, and leaving the locals to work on their own with the skills they have learned. Chinese workers were brought over to the manufacturing factories to teach the Ethiopians the craft of making high quality shoes and they will leave as soon as the Ethiopians are experienced enough. Some firms offer the local workers busses for pick-up and drop-up because of the lack in local transportation, some even provide lunch and argue that showing Africans respect is important for a good labor environment. However, even though these things are provided, their quality might be debated, which again is an aspect that cannot be examined through this type of study.

The manufacturing sector has generally not been a large source of employment in Africa, but the sector has shown high rates of job creation in Ethiopia. As argued in the empirical evidence, the Chinese companies have permanently employed almost 16,000 full-time Ethiopian employees in 2011. The World Bank Survey 2012 shows that most of the Chinese companies provide formal training programs for Ethiopian workers and that they advance from the training programs. Altogether, Chinese firms had provided 35,000 regular jobs and almost 40,000 seasonal jobs in Ethiopia by 2011. However, 16,000 jobs are not a significant amount in regards to the large population of approximately 86 million people in Ethiopia, these jobs only stand for a minimal part of the population, but it is still a step in the right direction.

Some Chinese companies are planning to expand their production and are recommending others to invest in Ethiopia. It has taken 2 to 3 years for most of the firms to become profitable, which again are signs of long-term commitment. If

these companies seek a quick payoff and then leave, Ethiopia would not have been the right country to invest in. Relocating a factory to a foreign country is not a simple task and it has a high risk, therefore a long-term commitment is more profitable both for the investors and Ethiopia.

7.3.2 Structural Change

During the last two decades, developing countries have become more integrated in the world economy and the increase of FDI flows have contributed to low industrial costs. Globalization has contributed with technology transfers that have increased the productivity in manufacturing. In the case of Africa, globalization has not brought the desired structural change, but after 2000, structural change started having a positive effect on African growth. The reason behind the positive effects of structural transformations is the growing manufacturing sector. Extracting natural resources generates fewer job-opportunities than the manufacturing industry. One of the most important factors for development through structural change is moving low-productivity labor activities to high-productivity, this will later lead to industrialization. Structural transformation within the labor market is essential for sustaining economic and social development.

The structural change mentioned earlier in this paper is occurring in both Ethiopia's and China's economy. Ethiopia, with its low labor costs and a large population can tap into the opportunity that China is providing through labor-intensive production that will open up employment opportunities within manufacturing. In developing countries, there are large gaps in labor productivity between the modern and traditional parts of their economy, which demands structural change. Those countries that manage to pull their population out of poverty diversify away from agriculture to manufacturing, which Ethiopia is doing. Ethiopia is slowly developing their overall productivity and this will make the incomes grow. High productivity employment opportunities have increased and the structural change has contributed to an overall growth in China, the same could be done in Ethiopia, if they have the same strong governmental support as in the case of China.

New Structural Economics argue that economic development involves structural changes, industrial upgrading and equivalent improvements in infrastructure. These

improvements require a natural coordination and depend on the level of development Ethiopia is at. To reach long-term structural change, the Ethiopian government needs to have an active role in establishing these structural changes. Ethiopia has slowly started to incorporate structural change and the government is working to uphold its growth rate by gradually moving away from agriculture, even if it is the dominant sector in Ethiopia. The agriculture sector is still an important factor and it should not be eliminated, but it needs to be complemented with industrial upgrading and technological innovation if Ethiopia wants to develop to a middle-income status. Ethiopia's economy is growing fast and its average growth rate is 10 percent per year and the total output of agriculture has slowly been declining since 1991. This economic growth in Ethiopia is mainly a result from the agricultural modernization and the development of new export sectors. Because of Ethiopia's limited domestic market capacity, the government developed a strategy to increase and diversify their export. The fiscal performance in Ethiopia seems to be sufficient for development and has a low risk of external debt distress, according to the World Bank. However, donations such as aid will continue to provide an important contribution to the short-term finance of the country. For Ethiopia to use donated aid efficiently, their governance needs to be improved in regards to aid and debt.

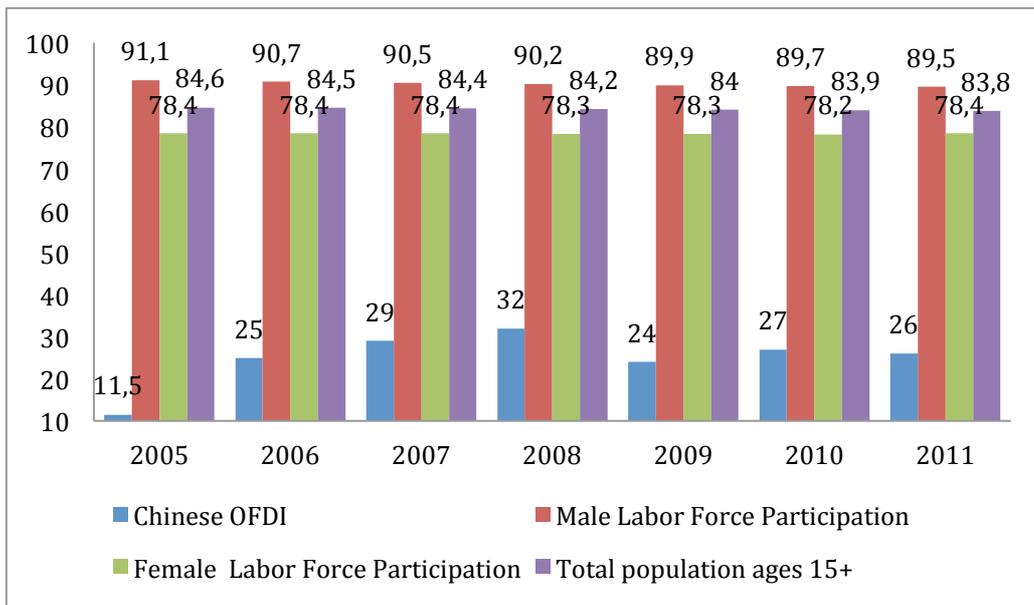
7.3.3 The relation between Chinese ODFI and Employment in Ethiopia

There has been an increase in students and two-thirds of the population is below the age of 25, therefore, the current employment growth (Figure 6) and the dependency ratio as decreased because of the increase in students. Figure six below shows a diagram with both the Chinese OFDI numbers and the Ethiopian Labor Force Participation Rate. These numbers are retrieved from Figure 3 and Table 2, complemented with numbers from the World Bank. As presented in this diagram, there is no net effect in the increase of Labor Force Participation in correlation to the Chinese OFDI. This might depend on the increase of students, unreliable employment numbers and several other aspects.

The employment numbers for 2012 and 2013 are not available yet but according to the World Bank Survey 2012, the employment size has increased by 19 percent over the last five years. This increase must have occurred between 2011-2012 since

these numbers are not presented in figure six, and the numbers in figure six are retrieved from the World Bank. Figure six shows that the Chinese OFDI was at its highest in 2008, as mentioned, the numbers for 2012-2013 are not available. In 2009, there was a decrease in Chinese OFDI and a minimal decrease in the employment rate.

Figure 6: Chinese OFDI and Ethiopian Labor Force Participation Rate, total (% of total population ages 15+)



Source: World Bank Ethiopia Indicators accessed 4/5 2014

As mentioned in the Limitations, the employment numbers from a developing country might not be reliable, or even be connected to the Chinese OFDI. Most of the Chinese companies, such as Huaijin Group, started their establishment in Ethiopia in 2011. Therefore, the numbers of how many employees they have are available, but the statistics are not available yet. As discussed in 5.2.1, there is evidence of employment opportunities provided by the World Bank Survey 2012, which shows the Chinese companies' contribution to employment in Ethiopia. The contribution that the Huaijin Group provided, and will provide, is elaborated in the next sub-section.

7.3.3 Huaijin Group

The Huaijin Group has long-term commitments to their establishment in Ethiopia without contributions from the China-African Development Fund, therefore, the

group is privately owned. One might argue that Chinese private companies such as Huaijin Group want to exploit cheap labor in Ethiopia and take advantage of the locals. However, since there are problems associated with inefficient customs clearance processes and foreign exchange. As mentioned in the empirical evidence (section 5.3) to cost of labor is higher than in China, and the total logistic costs are not as low as expected, but the company still wants to stay in Ethiopia long-term. The vice-president of Huajian Group argues that even though the logistics costs are high in the beginning, there are still preferential tariffs for exports to the U.S. and Europe. Huajian Group is aiming to build their entire supply chain in Ethiopia within the next ten years. So far, Huajian has created 600 jobs and plans to create around 100,000 jobs for Ethiopians in the far future and 30,000 more by 2022. Besides creating jobs, Huajian provides its employees a ten percent higher pay than the local average pay in Ethiopia.

8. Conclusion

As presented in Figure six, there is no significant net effect in the Ethiopian employment-rates. The Labor Force Participation does not correlate with the fairly low Chinese OFDI. One must keep in mind that China is a relatively new player in the foreign direct investment field, particularly the private sector. Because of China's limited experience, the overall impact of Chinese OFDI in Ethiopia is not significant and should not be overestimated at this early stage, as shown in the results of this study. Even though there has not been an increase in employment, the HDI and GDP per capita have had an overall increase (chapter 6.3.1), which shows industrialization and development in Ethiopia, along with a decrease in poverty. The increase in HDI and GDP per capita correlates with the increase in Chinese FDI. However, as argued in the analysis, there can be several other factors that affect the HDI and GDP besides the Chinese OFDI.

In regards to the New Structural Economics approach, FDI is an important source of capital for Ethiopia. Chinese OFDI has brought management, technology and infrastructure improvements to Ethiopia. Even if the Chinese OFDI is low, they do lead to spillovers of modern technology and industrial development as presented in the empirical overview. The positive outcomes that result from FDI are beneficial for Ethiopia's industrial upgrading. The Chinese private and government led companies have been contributing to Ethiopia's industrialization process, not only through FDI but also through infrastructure and manufacturing sector. Some Chinese private companies are supporting Ethiopia's development with for example technical operation and urban planning, and this goes beyond the Chinese OFDI.

The theoretical framework, New Structural Economics, argue that economic development involves industrial upgrading and equivalent improvements in infrastructure. To reach long-term economic development, the Ethiopian government should work actively to keep the Chinese and other Foreign Direct Investment flows. This economic growth in Ethiopia is mainly a result from the agricultural modernization and the development of new export sectors. Because of Ethiopia's limited domestic market capacity, the government developed a strategy to increase and diversify their export. The Ethiopian government has an interest in

the East Asian trade-led development model and through this model advance their economy, which aligns with their recent action in increasing their export. This is one of the reasons that point to the importance of the Ethiopian-Chinese political and economical relationship, Ethiopia wants to develop strong economic growth and bring its people out of poverty.

The efforts from the Ethiopian government and the current Chinese wave of FDI and private companies are increasing the labor-intensity in Ethiopia; this could be a step towards industrialization. The manufacturing sector is the type of industry that is easiest for Ethiopia, as a development country, to absorb. The manufacturing sector also generates more jobs than for example resource extracting. As Lin argued, the most efficient way for a developing country to reach sustainable growth is to follow its comparative advantage in its industrial development. China is one of the countries providing an opportunity for industrialization in Ethiopia through FDI and an increase in the manufacturing sector to generate jobs. An interesting approach would be to compare a western country's OFDI with China's OFDI to measure the differences. Further research within this area could be to examine the Western FDI flows and private companies in Ethiopia, in comparison to the Chinese.

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