ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

POST 1991 ETHIO-CHINA ECONOMIC COOPERATION WITH PARTICULAR REFERENCE TO TRADE AND ROAD CONSTRUCTION

BY

TEFERA AMARE

ADDIS ABABA

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A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ADDIS ABABA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF ARTS IN INTERNATIONAL RELATIONS

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Declaration

I, the undersigned, declare that this thesis is my own original work and has not been presented for a degree in any other University and that all sources of material used for the thesis have been duly acknowledged.

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Tefera Amare Aragie

April 2011

This thesis is submitted for examination with my approval as an advisor of the candidate.

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K. Mathews

April 2011

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Tefera Amare

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List of Abbreviations

AACRA	Addis Ababa City Road Authority
AGOA	African Growth and Opportunity Act
CRBC	China Road and Bridge Corporation
CSA	Central Statistics Agency
ECOSOC	United Nations Economic and Social Council
EHPEA	Ethiopian Horticultural Producers and Exporters Association
EPRDF	Ethiopian People's Revolutionary Democratic Front
ERA	Ethiopian Road Authority
ERCA	Ethiopian Revenue and Customs Authority
EU	European Union
EVI	Economic Vulnerability Index
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
GDP	Growth Domestic Product
GTP	Growth and Transformation Plan
HAI	Human Assets Index
HIPC	Highly Indebted Poor Countries
IDC	International Development Cooperation
IMF	International Monitory Fund
JCQC	Joint Committee on Quality Control
LDCs	Least Developed Countries
MNC	Multinational Corporations
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
OECD	Organization for Economic Cooperation and Development
OPEC	Oil Petroleum Exporting Countries
PRC	People's Republic of China
RSDP	Road Sector Development Program
SSC	South-South Cooperation

TFTA	Tripartite Free Trade Area
TVET	Technical and Vocational Education and Training
UNDESA	United Nations Department of Economic and Social Affairs
USITC	United States International Trade Commission
WB	World Bank
WTO	World Trade Organization

Abstract

Economic cooperation plays a key role in promoting sustainable development and it is also a major element of international cooperation. Based on this fact, the main objective of this study was to examine post 1991 Ethio-China economic cooperation with particular reference to trade and road construction. The study used both quantitative and qualitative methodologies to assess the economic and political ties. Data were also collected both from primary and secondary sources. The economic cooperation between the two countries has shown improvement since the period under discussion. The major contributing factors for this are, the change of economic policies in Ethiopia following the change in leadership, China's growing economic and political interests in Ethiopia and in Africa at large, the strengthened ties between the two governments based on common outlook of the 'developmental state', and the Chinese non-intervention policy. After critical analysis of trade data between Ethiopia and China, this paper empirically proved that Ethiopia incurs huge deficit in its trade with China in the period under decision. The result from cross sectional data sources, i.e. secondary sources, official reports and interviews, reveal that Ethiopia's export to China is much short of its imports from that country. Although trade figures show that there are improvements in the country's export, still the trade balance is largely in favor of China. Dependence on the export of few primary products, weak export performance and geographic factors are among the reasons for the country's trade deficit. This paper has also found that the engagement of Chinese construction firms in Ethiopia is much greater than companies from other countries. Currently about 70 percent of the construction in the country is being carried out by the Chinese enterprises. The low bid price these Chinese firms offer to carryout projects, the favorable environment for investment in Ethiopia, and the relative peace and stability in the country are attributed to the dominance of the Chinese firms.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

In the contemporary world order when globalization is the common phenomena, states need to integrate and cooperate in various fields for mutual benefit. Especially, the cooperation in trade and economy in general has assumed more and more importance in international relations. If development is the objective, then trade is the main tool with which to achieve it (Muhammad, 2007). It is considering this observable fact that Ethiopia has established relations with the rest of the world in different areas of cooperation (Kinfe, 2005). Especially, following the change in political leadership in 1991, the economic policy scene in the country has undergone fundamental changes. The change in the economic policy in turn created favorable ground for nations around the world to see Ethiopia as major developmental partner. The country's recently growing cooperation with the PRC is one major manifestation (Sharma, 2008).

China's first contact with Africa is traced back to ancient times, despite the vast distance between them. Various sources reveal that China and Africa have a long, though unofficial, history of relations dating back as far as 202 BC (Gamora and K.Mathews in ed. Harneit-Sievers, S.Marks and S. Naidu, 2010). But the first contact of China with the horn of Africa particularly with Ethiopia may have been begun around 1000 AD, when the Chinese started to import rhinoceros horn from Ethiopia (Ministry of Foreign Affairs, October 2006). However, there was little diplomatic contact until the mid 1950s and it is after this time the country became engaged in the region's and African issues in general (Chau, 2007). Particularly, 1955 was the year China actively pursued trade relations with number of underdeveloped countries in Africa, Asia and Latin America though the countries were of minor commercial importance to it. They supplied only about five percent of the country's import throughout the 1960's and 1970's and similar trend was observed on the export side (Eckstein, 1975). On the other hand, imports of China from these countries were largely restricted to industrial raw materials such as rubber and textile fibers (Ibid). It was later when the Chinese trade with big economies like the Soviet Union has shrunk; the country became interested in African market (Larkin, 1970). In fact, Chinese recent broad engagements in various fields in Africa also have been motivated by political elements (Eckstein, 1975). People like (Chau, 2007) argue that the central aim of the country when it comes to the continent is to become a global power restructuring the world order including the African continent to achieve its objective. Generally, all these economic and political factors contributed to Chinese growing engagement in Africa.

As stated above, the first contact between Ethiopia and China may have been began around 1000 AD when the later started to import rhinoceros horn from the former. But there was little diplomatic contact until the mid 1950's (Ministry of foreign affairs Oct 2006). Relations were poor during the regime of Emperor Haile Sellassie, when Ethiopia was allied with the western powers in the cold war. Chinese support for the Eritrean People's Liberation Front (EPLF) now the government of Eritrea; contributed to the tension from 1967. However, the two countries established diplomatic relations on 1 December 1970, when China agreed to recognize Eritrea as part of Ethiopia in exchange for Haile Selassie's recognition of Taiwan as part of China (Gamora and K.Mathews in eds. Harneit-Sievers, S.Marks and S.Naidu, 2010). Relations improved for a short period after the Ethiopian revolution of 1974, but became strained as the Ethiopian military junta developed increasingly close ties with the Soviet Union (Ministry of Foreign Affairs, October 2006).

After EPRDE took power in 1991, relations have steadily improved with increasing diplomatic contacts, trade and growing Chinese investment in Ethiopian economy (Ministry of Foreign Affairs, October 2006). Both during and after the transitional government of Ethiopia, relations between the two countries have strengthened, exemplified by Prime Minister Meles Zenawi's visit to China and President Jiang Zemin's vist to Ethiopia in 1995, and in 1997 respectively (Gamora and K.Mathews in eds. Harneit-Sievers, S.Marks and S.Naidu, 2010). Ever after the dawn of the new millennium, bilateral ties have registered new progress with the joint effort of both sides among others in the economic and political fields and it has become a shining spot in the relations between the two states (Kinfe, 2005). Accordingly both sides have been indicative in expanding the concrete formalities of the mutual beneficial economic and trade cooperation and achieved a commendable results (Kinfe, 2005).

The bilateral trade between the two states formally started in 1956. The year 2002 saw the total trade value of the two countries reach 100.12 million US $ and is expected to hit more than 1.7 billion US $ at the end of 2010 (Ministry of Foreign Affairs, October 2006). Like most of the LDCs in Africa, Ethiopia exports few commodities that are mainly primary goods of which include coffee, food and other agricultural products whose prices are volatile and renders the local economy vulnerable (Hamouda, et al, 2006). Compare to the Ethiopian export to China, the later export to the former mainly cover the light industry projects, metal and building materials, mechanic and electronic products and medical and chemical products and so on (Ministry of Foreign Affairs, October 2006). The important agreements signed by both Ethiopia and China since 1970s include, Sino-Ethiopian Agreement for Economic and Technological Cooperation (1971, 1988 and 2002), Sino- Ethiopian Trade Agreement (1971, 1976), Sino-Ethiopian Trade Protocol (1984, 1986, 1988), Sino-Ethiopian Agreement for Trade, Economic and Technological Cooperation (1996) and Sino-Ethiopian Agreement for mutual promotion and protection of investment (1988) (Ibid).

The technological cooperation between Ethiopia and China also started in 1971 and up to now China has already built for Ethiopia highways, Veterinary and power stations and water supply projects and so on. The Chinese Companies started undertaking here in Ethiopia in 1986 (Ministry of Foreign Affairs, October 2006). The major corporations which are widely operating in Ethiopia are Sinohydro the CRBC; large scale state owned foreign trade and economic cooperation enterprises that focus on construction of roads, bridges, tunnels, ports and other transport infrastructure. They took the first step in entering international contracting market undertaking more than 600 engineering and labor projects in Africa, Asia and the Middle East. The CRBC has succeeded in constructing many famous projects like the fourth and fifth Mosul Bridges in Iraq, the Friendship Harbor in Mauritania, Malta Dry Dock, Kenya A109 National highway, Addis Ababa ring road in Ethiopia and etc (The Reporter, October 2010).

Recently, the development of infrastructure has become the major agenda of the government of Ethiopia. The road sector has especially enjoyed a significant amount of money from government coffers making the construction of new roads possible and increasing the road net work of the country (Fortune, October 2010). For example, the undertakings contracted up to the end of 2002 between the government and Chinese companies came to a total value of 710.67 million US $ (Ministry of Foreign Affairs, October 2006). In 2010, enjoying the single largest budget allocation from the national budget, ERA has received 12 billion birr. In addition, construction of roads is outlined as a major goal in the government's draft of the Five-Year GTP with the aim of increasing the network coverage of roads in the country from its current 49,000 km to 64,522 km by 2015. With the GTP aiming to double agricultural production in five years, increasing the road network is no doubt crucial in moving harvests to markets as well as export corridors (Fortune, October 15, 2010).

Generally, economic cooperation between Ethiopia and China has been consolidated with ever-enriching form and content and the cooperation in the above stated areas particularly has been booming. In addition, Ethiopia highly values the Chinese development assistance in poverty alleviation capacity building and Medical health care (Kinfe, 2005). Each of the themes stated above in Ethio-China cooperation will be analyzed in considerable detail in this paper. The study will also examine the political implication of the strengthened economic cooperation among the two countries.

1.2 Statement of the Problem

Cooperation in various fields has assumed more and more importance in international relation now than ever before. It is due to this reason that states are engaging themselves in different areas of cooperation. Among the form of cooperation, the trade and investment ties between states is the prominent one (Knife, 2005). However, alongside encouraging signs of economic cooperation between states, there are also challenges such as trade imbalance and allegedly unfair trade practices by some developed countries businesses. The trade imbalance in the current world trade and the exploitative nature of contracting foreign companies particularly in “third world” countries has become major focus of study (Muhammad, 2007).

Expanding the realm of free trade has in many cases resulted in an actual increase in poverty and environmental degradation. It has an adverse impact on food security across the developing world undermining efforts to achieve sustainable development (Hamouda, 2006). In addition, trade among the non-equals can lead to different adverse outcomes such as the decimation of local industries in developing countries. One sided growth in developed countries export without corresponding imports from the developing countries is bound to make the imbalance of trade tilt in favor of the former. A Sirlankan activist, when asked about free trade and the general trade pattern among the developed and the developing countries, said, “it is like putting a Rabbit and a Tiger in the same cage” (Muhammad, 2007).

As far as Ethio-China economic cooperation is concerned, the above raised issues are true in the economic relations between the two countries. The deficit which Ethiopia incurs in its trade with China is much exaggerated and has had a damaging effect on the country’s economic growth. To note on only the fiscal year 2009, the total trade value of the two countries was US $ 1.98 billion, of which the Chinese export to Ethiopia took US $ 1.83 billion with an import of only US $ 147.17 million from Ethiopia (Ministry of Trade, January 2010). As long as the researches, journal articles and books under related areas to this study are concerned, the issue have not been widely addressed and covered. There has also been little effort in examining the scope and general operations of Chinese construction firms in Ethiopia and their adverse impact despite their role in the development of infrastructures in the country. Those works either flash on the relative increment of the cooperation in various fields or simply asses the implication of the strong economic and political ties among the states. This study is aimed at examining these themes in the cooperation between the two states. The basic purpose of the study was thus filling the gap by reviewing the trade deficit and directing possible ways how such exaggerated negative trade balance can be negotiated in the medium and long term.

It also examined the scope of operation of Chinese firms in the construction of roads in Ethiopia.

1.3 Research Questions

The study attempted to address the following questions:

1. How the share of China and Ethiopia out of their total trade value can be examined?
2. What are the major factors that contributed for the trade deficit to Ethiopia in its trade with China?
3. How the negative trade balance between the two countries can be managed?
4. What are the major factors for the dominance of Chinese construction firms in Ethiopia?
5. How the general operation and performance of these construction enterprises can be evaluated?
6. What would be the implication of this dominance in the medium and long term?

1.4 Hypothesis/Assumptions

- Ethio-China cooperation is increasing after 1991 prominently due to the change in economic policies following the change in political leadership in Ethiopia.

1.5 Objectives of the Study

The general objective of this study was to critically examine Ethio-China economic cooperation with special emphasis on trade and road construction. Under the main objective, specific purpose of the study includes:

I. To analyze the contributing factors responsible for the growing economic cooperation between the two countries

II. To examine the trade balance between Ethiopia and China from 1991-2010

III. Recommend ways that could enable Ethiopia to deal with the negative balance in its trade with China

IV. To evaluate the general performance and scope of operation of Chinese construction enterprises in Ethiopia

1.6 Significance of the Study

The fact that socio-economic and political cooperation is vital for over all development and social transformation need states to establish relations with one another. The cooperation of Ethiopia and China in terms of trade and infrastructural development has no different objective. It is aimed at achieving all-round socio-economic development. But it is observed that, there is an exaggerated trade imbalance between the two states. In the measurement of the total trade value of the two countries, Chinese export to Ethiopia has had taken the vast majority since several years back, while Ethiopia's export to China remains very minimal. The major significance of this study thus lies on making certain contribution on how the trade deficit can be tackled and improved so as to make Ethiopia get better benefit from its economic tie with the PRC. The study in this regard is also relevant to identify those reasons which hinder the country's trade with China and with the other countries at large. In addition, it will have an importance in providing an insight to the overall Ethio-China economic cooperation to researchers interested in similar area here after.

1.7 Methodology and Methods of Data Collection

1.7.1 Methodology

This research is based on both qualitative and quantitative approaches. Qualitative approach is best suited for researches' that are explorative so that it would be possible to identify variables that can be used as a spring board for quantitative studies through objective measurement of variables (Reswell, 2008). In the context of the focus of this study, i.e. Ethio-China economic cooperation thus, the approach is used to deal with the non-economic elements of the economic cooperation. The need to use quantitative approach is derived from the aspects of co-operations dealt under this study, i.e., trade and road construction; as far as the economic ties of Ethiopia and China is concerned. Thus, statistical data is used because the trade, investment and economic measurements in general are essentially quantitative concepts. Much we are aware with and without statistics have obvious differences in the rate of growth and economic position among communities, and thus statistical and graphical representations are indispensable for clear understanding and analysis of economic aspects (Kuznet, 1968).

1.7.2 Methods of Data Collection

The researcher used both primary and secondary sources of data to carryout the study. Accordingly, an in depth analysis of articles, official documents and reports, working papers, selected Internet sources, magazines and newspapers are critically used. As a primary source, the researcher adopted structured and semi-structured interview with concerned bodies working at the Ministry of Trade regarding the trade between the two countries. The interview with officials of ERA and AACRA is also used as first hand information concerning Ethio-China cooperation in the road construction sector.

Secondary sources such as Books, articles, research papers, official documents, newspaper and etc are essentially needed; the researcher to have sufficient background knowledge and for the readers to provide with general overview about the Ethio-China economic cooperation. The interviews with high ranking officials of the Ministry of Trade, ERA and AACRA was much vital to feed the study with recent and updated information about the current performance of trade and investment ties between the two countries.

1.8 Limitations of the Study

Hence the paper assessed the economic cooperation between Ethiopia and China in two specific aspects, it was better if some views were reflected from the Chinese side. However, the researcher's effort to do so failed, because the Chinese do not want to be interviewed. In addition, there are no recently written books on this area. I could not access to any book either on the current economic performance of Ethiopia or the Chinese engagement in the country other than Kinfe Abraham's "China Comes to Africa" which itself is full of opening speeches by the respective bodies during China-Africa forum held in 2003. Thus, the researcher also found it difficult to get recently written Books related to the study. As a result the paper lacked recent related literatures from Books and it depends largely on those sources other than Books. Moreover, people working at AACRA were not willing to give information about road construction projects owned by the Chinese in the capital Addis Ababa with reasons which they do not want to explain it.

1.9 Structure of the Paper

This paper is consisted of five parts. The first part is an introduction under which background of the study, statement of the problem, research question, hypothesis, objective of the study, significance of the study, methodology and methods of data collection are presented. The second part covered the review of related literatures, and theoretical and conceptual frameworks. The third part of the paper is about historical background of Ethio-China relation. Here, the historical ups and downs in the relation and determinant factors in the relation, cooperation agreements between the two countries and the Chinese experience at achieving development in three specific economic sectors is assessed. The focus of the fourth part is Ethio-China economic cooperation in the post 1991 period. Official reports, the interview with concerned bodies and other literatures are critically analyzed in this part of the paper. Needless to say, the paper ends up with recommendations and concluding remarks.

CHAPTER TWO

2. CONCEPTUAL, THEORETICAL FRAMEWORKS AND LITERATURE REVIEW

2.1 Definition of Terms and Concepts

2.1.1 Economic Cooperation

The term "Economic Cooperation" is one of the most contested and complex terms to define. This is mainly because of the multiple contents assigned to the term by different actors involved in international cooperation. The fact that almost every donor country assigns different meanings to the concept in their policy document further complicated the concept. Due to this reason, it is difficult to come up with a single accepted definition to the term. However, it needs to have a working definition apart from the meanings assigned to it by different governments and authors. According to FAO:

> *Economic cooperation is a broad concept which includes cooperative measures in trade, investment, banking, financial assistance, industry, agriculture etc., between and among countries.*

In addition to the above definition, different writers define the term in different ways. But, it does not mean that these definitions by different authors have mutually exclusive meanings. They all have something in common. After comprehensive analysis of other terms adjacent to the concept of economic cooperation (Enrique O'Farrill, 1999), has come up with his own definition. According to him, Economic Cooperation is a component of international cooperation that seeks to generate the conditions needed to facilitate the processes of trade and financial integration in the international arena by implementing actions with the purpose of obtaining indirect economic benefits in the medium and long terms. For (Hwang, 2008), it meant to connote the two ways balanced transactions based on comparative advantages, cooperative economic projects and mutual economic aid and support.

Rajan defines the term in the context of trade and finance. Accordingly, economic cooperation is a policy measure that facilitates cross-border trade and financial flows by removing fractions and obstacles (Rajan, 2004:7). However, objectively speaking, trade and finance are subsets of economic cooperation. It might involve the interchange of the shipment of goods and services with the monetary payments for the purchase and sales of the goods and services. On the other hand, economic cooperation may not necessarily involve the counter flows or exchanges between goods and its corresponding monetary payments. It may be based on either on reciprocity principle or on unbalanced way (Hwang, 2008). In the case of the bilateral ties between Ethiopia and China, the term "Economic cooperation" has been largely used to encompass the investment, trade and economic assistance between the two countries. Hence, it shall be understood that economic cooperation in its definition is much broader than co-operations in terms of trade, investment or any other specific aspect of economy.

2.1.2 South-South Cooperation (SSC)

The expression "South-South Cooperation" has been used, may be, with unprecedented recurrence by scholars, politicians and journalists. The term is employed to refer to a broad set of phenomena involving relations among developing countries from the emergence of temporary coalitions in multilateral negotiations to private investment flows. On their turn, specialists believe that SSC refers to a specific modality of international development cooperation (UNDP, 2008).

Nowadays the principle of "south-south cooperation" has become a major phenomenon in international cooperation. As Chris Melville and Olly Owen stated, the idea of SSC started to influence the field of development studies in the late 1990s. It was fuelled by a growing realization that poor nations might find appropriate, low-cost and sustainable solutions to their problems in other developing countries rather than in the rich north. By early 2000s, some forward-thinking developing nations themselves were incorporating this altruistic principle in to their foreign policies (Capital, January 15, 2010).

If on the one hand, little preoccupation in defining SSC has been stimulating excessive concept stretching and preventing the emergence of theoretical knowledge on its dynamics, on the other hand the study SSC as IDC faces at least two challenges: (1) the inexistence of systematized data on aid given by emerging donors; (2) the parochialism of specialized approaches to SSC, since they don't consider theories on cooperation from neighbor areas and exclude without providing any explanations, many events which would be classified as SSC by ordinary understanding (Herman, 2010:20)

The fist challenge has been identified, for instance by the ECOSOC which has been collecting data on aid given by emerging donors. In a report published in 2008, ECOSOC identified three kinds of constraints to the development of databases on SSC flows: (1) technical and institutional problems of data definition and collection resulting from the inexistence of a clear definition in developing countries on which flows should be qualified as development aid; (2) lack of national coordination for data collection, since programs are usually dispersed among several ministries and agencies; (3) inexistence of an international forum to coordinate data collection (ECOSOC in Herman, 2010).

These difficulties were mirrored in the report produced by ECOSOC, which besides relying on different sources according to the country, tried to be faithful to the respective national views on SSC. Hence, for instance, data referring to aid given by China and India, supposedly the great emerging donors, include credits provided by their respective Exim-Banks, while countries like Brazil understand SSC strictly as technical development cooperation excluding not only financial flows, but also grants which are not directly linked to development promotion (Ayllon and Leite in Herman, 2010).

As for the second challenge to the study of SSC, there are two difficulties. Firstly, the strict definition of SSC adopted by specialists has no resonance since for non-specialists the term has a much broader connotation. That is, when we treat SSC as a modality of development cooperation, we are excluding a series of phenomenon which ordinary understanding would classify as SSC. For instance, cooperation among middle income countries and the emergence of coalitions in multilateral organizations could be the cases in concern. In fact, when specialists refer to SSC they are talking, consciously or not, about one modality of SSC that related to development promotion in low income countries (Herman, 2010).

Secondly, studies produced by specialists ignore theories on cooperation produced by neighbor areas, preventing mature analysis and an eventual knowledge accumulation on the theme. Here, cooperation is broadly understood as an exchange process among individuals or social groups; a process which can lead to the establishment of institutions in the long run if both parties feel they have attained their respective aims. It is precisely this notion of exchange which is not considered by the studies on SSC when they focus on official aid flows. The impression we have is that there is no exchange, but “donations”. In fact, there has been great effort, since the 1970s to substitute the idea of “assistance” for the idea of “cooperation”, which would imply equality among partners, respect for sovereignty and common objectives (Ibid).

Skipping an evaluation of the practical correspondence or not of these normative efforts, it is important to point to the need for theoretical, methodological as well practical reasons that SSC is understood as an exchange process involving southern countries. In the case of south-south development cooperation, it is necessary to analyze if “beneficiaries” feel their development is being promoted and if “donors” feel their interests are being realized. However, this last point is largely ignored by specialized literature on SSC (Ibid).

China has become a more potent example advocating the principle of south-south cooperation, especially in its ties with Africa. After the PRC was founded in 1949, the new state based its relations with the developing world on a defined doctrine, “The Five Principles of Peaceful Coexistence”. In 2000, new China-Africa Cooperation Forum agreed a joint economic and social program (Kinfe, 2005). The country has become one of Africa’s leading trading partners. For example, in 2008 the country’s trade with Africa was about US $ 106.8 billion, which is 45 percent greater than the previous year. The country also provided financing of about US $ 1.5 billion in 2005 and rising to US $ 7 billon in 2006 (Foster in Herman, 2010:20). China also canceled US $ 10 billion of the debt owned by African States. Moreover, at the second Sino-African business conference in 2003, the country offered further debt relief to 31 African countries, as well as to open the prospect of zero-tariff trade so as to strengthen its ties with Africa based on the principle of south-south cooperation (Capital, January 2010).

Currently about 1,000 Chinese firms have concluded agreements that expand their activities in to Africa. Especially, FOCAC has become the main vehicle for Chinese activities in Africa, providing a multilateral platform for dialogue with a view to reaching mutually agreeable goals (Herman, 2010:21). Such premises show the future good prospect of Sino-African cooperation in general, and Sino-Ethiopia relations in particular on the basis of mutual benefits.

2.1.3 Import and Export of Goods and Services

Although it seems easy to conceptualize the term "import and export of goods and services", there are confusions among people on the meaning of the terms. The UN adopted a working definition for the terms. According to (UNESA, 2003:26) imports and exports between the domestic economy and the rest of the world are transactions between people of a certain economic territory and people outside of that territory. Thus, a transaction of goods and services from people of the outside world to people of a certain economic territory is an import and the transaction of goods and services from people of an economic territory to the outside world is export.

Similarly, Dridi and Zieschang defined imports and exports from the two approaches. From the non-residents perspective exports are the non-residents' use of goods and services produced by residents, and imports are the non-residents' supply of goods and services to the residents of an economic territory. Accordingly, exports and imports are treated as "uses" and "resources/supply" respectively. However, from the resident perspective, exports of an economic territory are viewed as outputs of the residents and imports of an economic territory are viewed as an input of residents (Dridi et al, 2004).

Exports and imports also occur when there are changes of ownership between people of a state and people of another state, regardless of whether there are corresponding physical movements of goods across borders. However, there are three exceptions that require imputation of change of ownership. These are; (a) financial leasing, (b) deliveries between affiliated enterprises and (c) goods sent for processing or in order to repair (UNESA, 2003). Exports and imports exclude all transactions in land, buildings and non-movable non-produced assets and financial assets (stocks, bonds, money, monetary gold etc). In addition, goods bought from non-resident and sold to non-resident by commodity dealers are not recorded as exports or imports (Ibid).

2.1.4 Least Developed Countries (LDCs)

The term LDCs is the other complex and ambiguous concept. According to (Kuznet, 1968:2) least developed countries are those which fail to assure adequate subsistence and material comfort to most of its people. However, these days this definition could not be acceptable. Because it is not comprehensive in the sense that it does not include all indicators of underdevelopment. The working definition of LDCs is adopted by the (UNESC, 2004:5). This definition by the UN is more comprehensive and broader than other definitions by different authors. Accordingly, there are three criteria's for the identification of LDCs. These are;

- a low-income criterion, based on three year average estimate of the gross national income (GNI) per capita (under US $ 750 for inclusion, in the list and above US $ 900 for graduation from the list)
- a human resources weakness criterion, involving a composite human assets index (HAI)based on indicators of ; (a) nutrition; (b) health; (c) education; and (d) adult literacy; and
- an economic vulnerability criterion, involving a composite economic vulnerability index (EVI) agricultural production ; (b) the instability of export of goods and services ; (c) the economic importance of non-traditional activities ; (d) merchandise export concentration ; and (e) the handicap of economic smallness; and the percentage of population displaced by natural disasters.

Based on the above criteria set by the United Nations Economic and Social Council, Ethiopia included in the list of LDCs in 1971.

2.1.5 Balance of Trade

Balance of trade figures are the sum of the money gained by a given economy by selling exports, minus the cost of buying imports. These forms part of the balance of payments, which also includes other transactions such as international investment. The figures are usually split to visible and invisible balance figures. The visible balance represents the physical goods and the invisible represents the service economy (Akforex, 2009). However (World Bank, 2002) adopted a more comprehensive definition to the term. Accordingly, balance of trade is the net exports (exports minus imports) of goods and services for a particular country. It includes all transactions between residents of a country and the rest of the world involving a change in ownership of general merchandise, goods sent for processing and repairs, nonmonetary gold, and services.

The term "balance of payment" is often used to refer balance of trade, which is the measure of the payments in financial capital that flow from one nation to another (Ibid). It is also defined as the record of transactions between a country's residents and foreign residents over a specified period. The amount involved is entered on each of the two sides of the balance of payments accounts (Fieleke, 1996:3). If more money flows in than out, one has a positive balance of payment and if more flows out than in one has then a negative balance. Accordingly, a positive balance of trade which is known as "Surplus" consists of exporting more (in financial capital terms) than one imports and a negative balance of trade which is called "Deficit", consists of importing more than one exports (Akforex, 2008).

There are three ways of measuring the balance of trade/payment. The first and simplest of these measures is the balance of goods and services, which is derived by computing the net excess of debits, or credits in those accounts. Such a debt balance, reflecting an excess of imports indicates that the country received more real resources (goods and services) from other countries than it transferred to them during the period, while a credit balance would indicate the reverse (Fieleke, 1996:11).

The second measure; the balance on current amount, is the net excess of debits or credits in the accounts for goods and services income and unilateral transfers, that is, the balance on all accounts other than the financial claims, or "capital," accounts. Because total debits must equal total credits in the balance of payments and the balance on the current accounts must equal the balance on the remaining, or capital accounts (except the statistical discrepancy). The last way of examining the balance of trade measures the difference between the change in the country's official reserves and the change in foreign official claims on the country (Ibid:17).

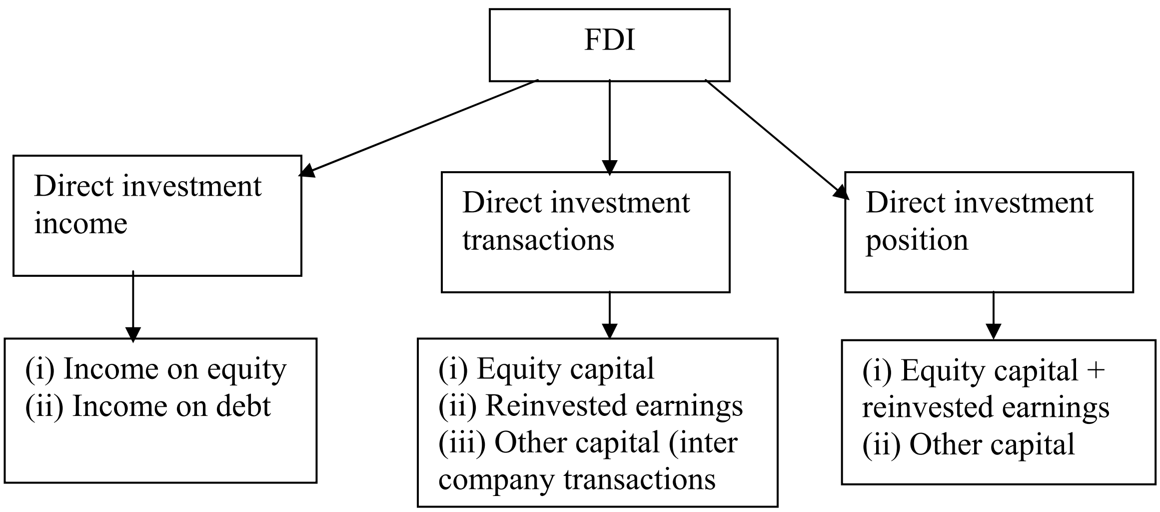
2.1.6 Foreign Direct investment (FDI)

FDI is defined as an incorporated or unincorporated enterprise in which a foreign investor owns 10 percent or more of the ordinary shares of or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise (Art Ridgeway, Statistics Canada, 2004). According to this statistics, the numerical guideline of ownership of 10 percent of the voting share determines the existence of a direct investment relationship. An effective voice in the management, as evidenced by an ownership of at least 10 percent implies that the direct investor is able to influence or participate in the management of an enterprise; it does not require absolute control by the foreign investor.

Foreign direct investment also reflects the objectives of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise) (OECD, 1996:7). The lasting interest implies the existence of along-term relationship between the direct investor and the enterprise and significant degree of influence on the management of the enterprise. Direct investment involves both the subsequent capital transactions between them and among affiliated enterprises; both incorporated and unincorporated (Ibid: 8).

The IMF committee on balance of payment has come up with more acceptable definition. The committee defined FDI as it is an enterprise (institutional unit) in the financial or non-financial corporate sectors of the economy in which a non-resident investor owns 10 percent or more of voting power of an incorporated enterprise or has the equivalent ownership in an enterprise operating under another legal structure (IMF Balance of Payment Manual, 1993). This definition includes as many as twelve different elements of FDI, namely; equity capital, reinvested earnings of foreign companies, inter-company debt transactions including short term and long term loan, overseas commercial borrowings (financial leasing, trade credits, grants and bonds) no-cash acquisition of equity, investment made by foreign venture capital investors, earnings data of indirectly-held FDI enterprises, control premium, non-completion fee and so on.

Figure 1. The Decomposition of FDI Elements



Source: Report on the Survey of Implementation of Methodological Standards for Direct Investment, IMF and OECD Directorate for Financial, Fiscal and Enterprise Affairs, March 2000.

Now we are going to look at the two major components of FDI flows, i.e. the equity capital and reinvested earnings. Equity capital constitutes the value of MNC's investment in share of an enterprise in a foreign country and the non-cash in the form of tangible and intangible components such as technology fee. It also comprises equity in branches, all shares in subsidiaries and associates (except non-participants preferred shares that are treated as debt securities) and other capital contributions. An equity capital stake of 10 percent or more of the ordinary shares or voting power in an incorporated enterprise, or its equivalent in an unincorporated enterprise, is normally considered as a threshold for the control of assets. If a shareholding of 10 percent or more is acquired eventually by a non-resident who entered initially through the portfolio route but holds investment aggregating over 10 percent through the purchase of additional shares in subsequent transactions, those additional shares should be regarded as a part of FDI (Srivastava in Bajpai et al, 2004:9).

The reinvested Earnings refer to direct investor's share of earnings not distributed as dividends and added to the equity capital. According to IMF guidelines, reinvested earnings are a part of FDI inflows and should be recorded as inflow on the capital account of host country's balance of payments (IMF Balance of Payment Manual, 1993).

FDI, contextualized in accordance with IMF guidelines thus, can take the form of green-field investment in a new establishment or merger and acquisition of an existing local enterprise. Undistributed profits of the subsidiary figure in FDI accounts, even though they may not strictly be used for investment. Negative FDI flows indicate the negativity of at least one of three components of FDI (equity capital, reinvested earnings, or inter-company loans) that is not neutralized by positive amount of the other components. These are thus to be considered as the indications of disinvestment (Srivastava in Bajpai et al, 2004:9)

2.1.7 Foreign Aid

Aid can be defined as a charity, in which the donor presumably expects no reward than the satisfaction gained from helping others (Dacy, 1986:192). Many economists would argue that the purpose of aid at the state level is to accelerate and promote economic development up to appoint where a satisfactory rate of growth can be achieved on a self-sustaining basis (Roadn, 1961). However, (Dacy, 1986) argue that foreign aid will have little impact on economic development. Because the type of aid (the manner in which it is given) may be intended to promote non-economic objectives. Therefore, to assess the effectiveness of an aid program, one has to understand its political as well as the economic objectives. Dacy further argue that, aid may have retarded development leading to lower savings, by disturbing the composition of investment and by raising the capital-output ration, by frustrating the emergency of an indigenous entrepreneurial class and by inhibiting institutional reforms (Ibid). It also discourages private saving and foreign commercial loans and direct investment and worst of all, it tends to politicize the development process (Bauer, 1986:35).

According to Dacy's definition thus, aid does not consider the motive of the "donor". However, if this were the definition of aid, one would have to analyze the "Western" as well as Chinese aid to Africa. Resource factor and market access were the motives behind the aid from European and the recently dramatically increasing aid from China. Therefore it is difficult to define Chinese aid to Africa in reasonable way without considering the country's motives. The view of Clifford and Little supports this argument. According to them aid always have its own objective hidden or overt; and it is only when financial assistance is given for the pure purpose of economic development that can be defined as aid. On the other hand, when the donor's main interest is in buying something, such as political support and etc., then the transfer is to be treated as any purchase rather than aid (Clifford et al, 1986).

As to (Biruk, 2006) foreign aid is the help mostly economic which may be provided to communities or countries in the event of a humanitarian crisis or to achieve socio-economic objectives. Accordingly, he outlined two kinds of aid i.e. humanitarian aid and development aid. The humanitarian aid is used primarily for emergency relief, while development aid aims to create long-term sustainable economic growth (The free encyclopedia in Biruk, 2006:8). However, in more general sense, aid can be classified into three as; economic, technical and military support (Wolf, 1960). With regard to the special case of Chinese aid to Africa and to Ethiopia in particular, it is more of economic aid with certain motives described above. Again, if the assumption is that the principal goal of aid is to foster economic development, Chinese aid to Africa has, in most cases, been given at times of humanitarian crisis than to promote overall economic development. Furthermore, it promoted economic dependency in the continent as (Bauer, 1986:192) noted it.

2.2 Theoretical Frameworks

2.2.1 Helpman-Krugman Theory

Trade theories have important implications for international business. Ever since the publication of David Ricardo's "Principle of Political Economy and Taxation" in 1817, cornerstone of international trade has been the theory of comparative advantage: when trade is free, countries will and (from their own perspectives) should specialize in the production of those goods which they produce relatively more efficiently. This view, which received its definitive formalization in the works of Samuleson (1949:1953) and Jones (1965), came to dominate the field from the mid twentieth century onwards (Neary, 2009:219).

Comparative advantage theories predicated that adjusting to trade liberalization would be disruptive, as the process of specialization encouraged factors of production to move out of sectors in which country had a comparative advantage and in to its expanding sectors. However, studies by (Balassa, 1967) and others showed that this process proceeded with surprising few costs of adjustment and specialization appeared to be intra-industry rather than inter-industry. Thus, it become increasingly clear in the 1970s that not all features of international trade were well explained by factor endowments or any other comparative advantage based theory; and given the above empirical findings, the stage was set for a new theoretical direction (Ibid).

The "new trade theory" was initially propagated by Paul Krugman in the late 1970s. Krugman claims that he heard about monopolistic competition from Robert Slow. He wrote that international economics a generation earlier had completely ignored returns to scale and imperfect compaction. He noted "the idea that trade might reflect an overlay of increasing returns specialization on comparative advantage was not there at all: instead the ruling idea was that increasing returns would simply alter the patterns of comparative advantage." In 1976 Paul Krugman with economist Victor Norman had worked out the central element of what came to be known as the Helpman-Krugman theory. The theory attempts to address the shortcomings of standard trade theory by dealing with some of the realities of trade in a more complex and sophisticated manner (Deraninagala, 2001:5).

The "new trade theory" basically builds on monopolistic competition and market imperfection. Monopolistic competition is a market structure in which there are sellers each producing a differentiated products, and in such markets each seller can set its own price and quantity. The model assumes that when monopolistically competitive market expands, it does so through a mixture of more firms (greater product verity), and bigger firms would continue with bigger scale economies. On other hand the increasing returns to scale conventionally used to justify protections has been complemented by arrange of other market imperfections according to Krugman. These include informational asymmetries and imperfections which inform much of recent innovation with in mainstream microeconomics (Deraninagala, 2001:5). In contrast most international trade theory prior to the new trade theory assumed perfect competition in which there are large member of both buyers and sellers, all of them small, so that they act as price takers. Perfect competition assumes homogenous products (Neary, 2009).

The Helpman-Krugman model also draws up on the new industrial economics with models incorporating the strategic behavior of firms as well as governments. It incorporates the concept of "first-mover", also known as prime-mover, which argues that the first company to enter any field is able to shape consumer preferences and to achieve economies of scale. These benefits tend to discourage new entrants or to put them at a cost disadvantage (Ibid). When mirrored through this assumption, the Chinese industries which have been established in Ethiopia will have negative impact on the trade and industrial development of the country in the immediate times and/or in the long run. Because the local industries in the country could not compete with the Chinese firms products both in terms of volume and variety. In addition, managing the costs would be too difficult to them.

The new trade theory further argues that widespread of foreign industries in a certain country will allow those industries to dominate the local market, and in the process less quantitative firms of similar infant industry would be pushed out of the market (Neary, 2009). Particular reference to Chinese investment in Ethiopia, it has been noted that about

90 percent of Chinese enterprises in the country are operating targeting local markets (USITC, 2008). This trend no doubt directly affects local industries.

2.2.2 National Interest

The concept of national interest is very vague and carries meaning according to the context it is used. As a result, it is not possible to give any universally acceptable interpretation of the concept. Hans Morgenthau, who has dealt with the concept in his various writings, also used the term 'national interest' in different ways and assigned variety of meanings. The use of the term like common interest, primary and secondary interest, community interests, identical and complimentary interests, material interests, etc. by Morgenthau further adds to the confusion (Miskel, 2002).

The problem of defining the concept is also complicated by the fact that researchers have tended to give the definitions of national interest according to the particular approach adopted by them. For instance, Frankel divided the various approaches adopted to define the concept in to two broad categories-Objectivist and Subjectivist. In the first category he includes all those approaches which view national interest as a concept which can be defined or examined with the help of some definable criteria. In the second one he includes those definitions which seek to interpret national interest as a "constantly changing pluralistic set of subjective references" (Ibid).

However, apart from such confusions we need to have a working definition to the term. According to (Nathan, 1986), national interest is the fundamental objective and ultimate determinant that guides the decision makers of a state in formulating foreign policy. It is a highly generalized conception of those elements that constitute the state's most vital interests which include political independence, territorial integrity, self-preservation, military security, economic well-being and development at large. National interest is a key concept in foreign policy, and the making of foreign policy begins by identifying the state's key national interest. In the context of foreign policy thus, national interest can be defined as it is the base or guideline to identify foreign policy of a state (Miskel, 2002).

2.2.2.1 Classification of national interest

National interest can be classified into various types according to different standards. The classification of national interests depends on the problems in international relations. In order to clarify the nature and content of various problems therefore, we must classify national interests scientifically and reasonably. According to (Beard, 1966:18), national interests can be classified based on the following criteria;

- **Based on Content**; - national interests can be classified into political interests, security interests, economic interests, and cultural interests. Under each of these general categories interests can be subdivided into even more concrete interests. Political interests can be divided into political independence, state sovereignty, and international status, etc. Security interests can be divided into military superiority, territorial security, maritime interests and so on. Economic interests can also be divided into the export/import trade, the attraction of international financing, overseas investment etc. Cultural interests may include national culture propagation, protection from foreign decadent ideas, etc. A nation's political interests are the concentrated expression of all national interests, with the core being state sovereignty. Security interests are the foundation of the national interest. Only when security interests are met to a certain degree can other national interests be realized. Economic interests are the most constant national interests. When a country's survival is reasonably secured, its foreign policy pursues economic interest as the most important interest. Therefore, economic interests may also be called a fundamental interest or ultimate interest. Cultural interests are the spiritual aspect of the national interest, one that is relatively difficult to realize.
- **Based on the Time Span for Attaining an Interest;** - national interests can be divided into constant interests and variable interests. The former are perpetual; the latter can be further divided into long-term, middle-term and short-term interests. Perpetual interests are the most stable. They will not disappear until the nation state itself disappears. If a nation state wants to exist, it cannot give up this kind of interest. Examples these interests include territorial integrity, national

independence, state sovereignty, and the ability to pursue economic development. Long-term interests are relatively stable national interests. They are pursued by a nation state over a long period of time and include interests like the ecological balance, military nuclear force and industrial modernization. These interests arise when human society develops to a certain level. Among these interests, some may end with the demise of nation-states. But most interests will disappear before the disappearance of the nation state as an entity, depending in part on the progress of science and technology. For example, during WWI and WWII, copper was the only material used in shells and therefore was an important strategic material. With the development of the plastics industry and the invention of new materials, the strategic use of copper was drastically decreased. Since the second half of the 1960s, the price of copper has dropped dramatically. Today, the need for copper is no longer an important national economic interest for most countries. Mid-term interests are national interests over a fixed period of time. They usually last a few years or several decades. Examples include importing certain types of advanced military or scientific technology, striving for a certain kind of economic aid and so on. Short-term interests are the most unstable of all interests. They change with almost any other change in the international environment. They are temporal interests that most countries pursue. Examples include striving for commercial loans, adjusting tariffs and lobbying for a price change in a particular commodity.

- **Based on Importance; -** national interests can be divided into vital interests, extremely important interests, just important interests and less important interests. Vital interests are related to people's life and security as well as to the long-term stability of a country's political system and economic life, territorial integrity, political independence, economic independence and the continuation of the political system. The difference between extremely important and vital interests is that the former are under less of a threat than the latter. Extremely important interests include a favorable international strategic balance, the maintenance of national prestige, the ability to choose one's model for development, and the guarantee of important economic interests, etc. Just important interests are interests pursued when there is not an obvious threat, such as expansion of the export market, maintenance of technological superiority, attracting international investment, maintaining international political stability, improving friendly bilateral relations and so on. Less important interests are interests that do not seriously affect national security or strategic economic interests. Examples would be a company or an individual's security and economic interest overseas.

- **Based on the Scope of an Interest; -** national interests can be divided into universal interests, partial interests and individual interests. Universal interests are those interests pursued by every sovereign state, such as state sovereignty, international status, the security of the population and so on. Partial interests are those pursued only by some countries. They would include the international order and leadership position pursued by superpowers; dominating roles in regional affairs and regional cooperation pursued by countries in a defined area, mutual security and alliances pursued by militarily allied countries and so forth. Individual interests include those of a single country that are different from the interests of other countries. For example, after the Cold War, China accelerated its economic development and pursued modernization to catch up with developed countries; Russia is striving for political stability, seeking to avoid further national splintering; and the US wants to maintain American dominance, establishing a new world order under it's leadership.

National interests can also be classified into Common versus Conflicting interests, according to the nature of the interest; Unified or Supplemental interests, based on the relationship between interests; Physical and Spiritual interests, based on the attributes of the interest; Developed countries' and Developing countries' interests, as determined by the level of development; and, finally, Socialist countries' versus Capitalist countries' interests, based on the political systems involved. It can be further classified as General and Specific interests, as determined by the function of the interest. The general interests are those which are shared interests when states have common wellbeing between and/or among themselves.

In the case of Ethio-China relations, the motive behind Sino-Ethiopian and Sino-African relations at large could be explained as shared interests between and among them such as trade, investment, and diplomacy. In economic areas, China now is one of the major trading partners of Ethiopia and had passed the traditional African economic partners. Investments of Chinese companies in the African continent have also reached high level in recent years. On the political issues as well, China has become an alternative for African governments to the western conditional supports and restrictive loans and aid. The support of African nations is again crucial for China to the question of Taiwan and the criticisms on the country in relation to human rights (Tull, 2006).

2.2.3 Foreign Policy

Many writers and scholars of international relations in general and experts of foreign policy in particular have defined foreign policy in different ways. Olajide Aluko (1977) defined foreign policy as it is the sum of official external relations conducted by independent actors in the international relations. It can be also defined as state's foreign official relations which involves the formulation and implementation of group of principles, which shape the behavior pattern of a state while negotiating with other states to protect or further its vital interests (Biruk, 2006).

There are certain conspicuous factors or frame of references that determine foreign policy making. These factors can be broadly divided in to domestic/internal; and systemic/external. The domestic factors include geography and topographic characteristics ,historical traditions, natural resources and national capacity; and the external factors include world organization, international law, and international norms, the nature and characteristics of world economy, the policies and actions of other states and world public opinion (Aluko,1977). Again there are various techniques of effectuating foreign policy objectives. These are (Ibid);

- **Diplomacy; -** is the process of representation and negotiation by which states usually led with one another in terms of peace. Thus, in this case, states use diplomacy to attain their purpose by agreement rather than by war. The distinct methods of diplomacy applied in an inter-state relationships are; persuasion (a domestic technique through which states seek to achieve their purpose by advancing their arguments and offering to do something in return), compromise (a method that enables two states to modify their positions on an issue in order to reach a stable relationship based on the principle of give-and-take), and threat of force (a method through which one state forces the other to accept certain terms of agreement by appealing to force).

- **Trade Policies and Foreign Aid;**-are also known as economic instruments which may be defined as an economic capacity, institution, or techniques explicitly or implicitly applied to foreign policy goals. These can be divided in to persuasive economic techniques which use the method of offering economic reward in return for satisfactory modification of another state behaviour; and coercive economic techniques which is the other scheme through which a state threatens the other with deprivations unless it submits. Examples in this case are embargo and sanctions.

- **Psychological Techniques;**-are propaganda and organized efforts by governments to convince foreign states to accept policies favourable to them. Effective propaganda may help increase the acceptability of diplomatic, economic or military moves.

- **Military Techniques;**-are used as a last or ultimate alternative means of influence using some sort of military power. States may use or conduct war to protect and promote their national interest.

Particular reference to the case of African countries including Ethiopia, from the very start, one shall focus on the important variables that do have significant impact on their external behavior in trying to identify factors affecting their foreign policies. In the domestic setting the most imperative factor are the nature of their economy. The implications of their economic disabilities on the foreign policies of these states are serious i.e. without any strong economic base at home; none of them could really afford to pursue vigorous or adventurous policies abroad. Due to this reason, China seeks to achieve its foreign policy goals in Africa through such covert economic techniques.

2.3 Literature Review

2.3.1 Historical Background of Sino-Africa Relations

China's first contact with Africa can be traced back to ancient times, despite the fact that they are geographically far apart and share neither language nor culture. They have a long history of relations dating back as far as 202 BC (Gamora and K. Mathews in ed. Harneit-Sievers et al, 2010:92). However, the views about Chinese historical contact with Africa differ. It has been noted that Egypt tried to create diplomatic relations with China in the 5th century A.D and had sent a mission with the "Ambassador Sayyid Hassan (Jinyuan in Venkataraman et al, 2009:2). It is also stated in the African security Review document that China started trading with the Egyptian city of Alexandria in the 10th century BC (African Security Review, 2009:40). Yet, Chinese Scholars like Gao Jinyuan have noted that, Chinese officials were sent to Africa and received African magicians into their country was back around 2000 years and the great African scholar Iban Batuta had supposedly visited China in the 14th century A.D and the Chinese naval fleets have visited African Coasts "several times" during the 15th century A.D (Jinyuan in Venkatarman et al, 2009:3).

There are also other sources which reveal the long relations between China and the Red sea bordering Africa, particularly Egypt and Ethiopia. For instance, a Chinese book has mentioned "Abay" as the great river "of very clear and sweet water" (Ibid). According to the Ethiopia Ministry of Foreign Affairs, the first contact of China with the Horn of Africa and particularly with Ethiopia may have been began around 1000 A.D, when the Chinese started to import rhinoceros horn from Ethiopia (Ministry of Foreign Affairs, October, 2006). This is also stated by Filesi. He noted that the first contact between China and Africa took place near the Red Sea borders of the continent during the first millennium AD for trade purposes (Filesi in Venkataraman et al, 2009:2). Based on such literatures, one can conclude that China and Africa has long historical relations dating back to ancient times.

However, the relations between China and Africa were not inaugurated until modern times (Anshan, 2007:70). Because, it was after this time the country began actively engaged in Africa issues, driven by combined reasons (Chau, 2007). The literatures written so far attached the recent Chinese active engagement in Africa to different reasons. For instance, people like Mohammed Marafa argue that China-Africa all round relations become strengthened in the period after 1950s, because as China's economy has continued to grow, it has become clear that the country increasingly needs to secure reliable sources of resources to support its economic development; and to achieve this, China has found Africa as the best alternative (Marafa, 2009:4). Chau supports the above argument by Marafa. According to him, China's active involvement in Africa and African issues after 1950s is for economic as well as political purposes. When the country comes to the continent, its central aim is grand strategy to become a global power restructuring the world order and to secure its growing economic needs (Chau, 2007:18).

Still some others have different views about the growing Chinese presence in Africa, especially after 1950. For (knife, 2005) China cultivated sincerely friendships with African countries during the liberation struggles and fight for independence by providing moral, financial and political support and it is that friendship which has shown progress for consecutive decades. Tull has come up with another reason. According to him, one of the main factors for China to strengthen its ties with Africa in recent times is the Tiananmen Square massacre, which is followed by persistent criticism from the "West" (Tull, 2006). After Tiananmen, China maintains all round relations with every African country except for the six entertaining diplomatic relation with Taiwan. China's growing involvement in Africa is due to its need to defend its interest at the international stage (through international organizations like the UN) collaborating with Africa; is the point Tull tried to make. The statements made by the Chinese president in 1989 support Tull's argument. The president expressing China's interest to re-asses and strengthen the country's tie with Africa have noted the following:

> *In the past, China's relations with the western countries have been over hearted, giving cold-shoulder to the third world countries and old friends (meaning Africa). Judging from the events in this turmoil, it seems that at critical moment, it was still those...old friends who gave China the necessary sympathy and support. Therefore, from now on, China will put more efforts in developing relations with these old friends.*

Greater or lesser, all these factors have contributed for the growing Sino-African relation throughout the second half of the 20th century.

The Bandung conference on Non-Alignment held from 18 to 24 April 1955 was considered as critical event which shape Sino-African relations in the time onwards. Because, it is after this conference China established formal diplomatic relation with African countries and both of them truly rediscovered each other (African Security Review 2009:40). Egypt has become the first African country to establish formal relations with China (Ibid). Thus, in the strict sense, the diplomatic ties between China and Africa data back to 1956 when the Sino-Egyptian relation was established. The Bandung conference brought together Asian and African states, most of which were newly independent and it also resulted in the creation of the Non-aligned movement. The conference's stated aims were to promote Afro-Asian economic and cultural cooperation and to oppose colonialism or neocolonialism. Since then, both bilateral and multilateral relationship between the two continents have blossomed (Marafa, 2009:6).

According to Alden, though the official rhetoric of continuity speaks otherwise, the fact is that China's engagement with Africa has been episodic, shifting from periods of intense activism in the 1960s and early 1970s to outright neglect for much of the 1980s (Alden, 2007:2). However, since the mid 1990s, China has paid increasing attention to Africa for three main reasons: (i) to seek access to energy and other natural resources; (ii) to expand markets; and (iii) to build and expand its reputation as a major player in the world (Chong, 2009). China's increasing interest in Africa was manifested by Jiang Zemin's visit to Kenya, Ethiopia, Egypt, Mali, Namibia and Zimbabwe in 1996 (Ibid).

Today, more than 47 African countries have formal diplomatic relations with China and the economic transactions provides the most powerful evidence of China's increasing interest in the continent (Tull, 2006).

2.3.2 China's Economic Engagement in Africa

The literatures on China's engagement in Africa have considered different aspects of the engagement and their interrelations. According to Kohli, the principal aspects of Chinese economic engagement in Africa are aid, investment and trade (Kohli, 2009:5). This topic is thus the review of some literatures on Chinese economic engagement in Africa since the establishment of formal diplomatic ties between the two emphasizing on the trade, investment and aid aspects.

First let us look at the two contending views about China's engagement in Africa. Some people argue that China is in Africa only for resources. Through economic cooperation with Africa, the Chinese government secures it energy sources exploiting mineral rich areas in the continent (Asche et al, 2008:14). Tull's argument is also similar with this view. According to him, Chinese recent active engagement in Africa is in search of oil and market for its huge exports (Tull, 2006). Still some seek to recall what the Europeans did in Africa; and strongly argue that China is the 21st century "Europe" in Africa that would rip off the continent (The Nation (Kenya) in Alden, 2006).

On the other hand, there are people who view China's active engagement in Africa positively. These people are hopeful that China will remain loyal to the "Five Principles of Mutual Coexistence" set to guide Sino-African relation at the Bandung Conference (Asche et al, 2008). The principles are equality and mutual benefit, non-interference in the internal affairs, respect for territorial integrity, rejection of aggression, and peaceful coexistence (Kinfe, 2005). Alden also noted the statement made by Chinese officials over the past decade about China's involvement in Africa that sincerity, common development, solidarity and equality, and mutual benefit are the principles guiding China-Africa exchange and co-operation (Alden, 2006:5).

China is now in the best position to cooperate with most Africans portrayed to be a positive force in the continental affairs. Underlying this attitude is an appreciation of China's willingness to invest in Africa when the traditional western sources were withdrawing from the continent (Asche et al, 2008). In addition the Chinese retail stores found in much of the rural Africa today has brought low cost consumer goods to a population which until recently had no access to such items (Alden, 2006:7). Africa also recognized the Chinese growing dominance all over the world. The statement made by the former Nigerian president Olusengun Obasanjo would be an example for this. He noted that;

> *This 21st century is the century for China to lead the world. And when you are leading the world, we want to be close behind you, when you are going to the moon, we do not want to be left behind.*

To make a note on Chinese growing dominance all over the world and Africa's interest to establish strong tie with the country, Robert Mugabe on his part had said "We look again to the East where the sun rises, and no longer to the west where it sets". At the core of the recognition of the dominance of China and representation of the country as development partner are a number of rationales which Africans make specific reference to. The no conditionality policy, anti-colonial solidarity and the success of the Chinese model of development are some of them (Tull, 2006). The principles were clearly elaborated by the speech of Premier Wen Jiabao during the China-Africa forum held in 2003 in Addis Ababa. He explained the feature of China's cooperation and assistance with Africa as follows (Kinfe, 2005);

> *We do offer our assistance to Africa with the deepest sincerity and without any political conditions.*

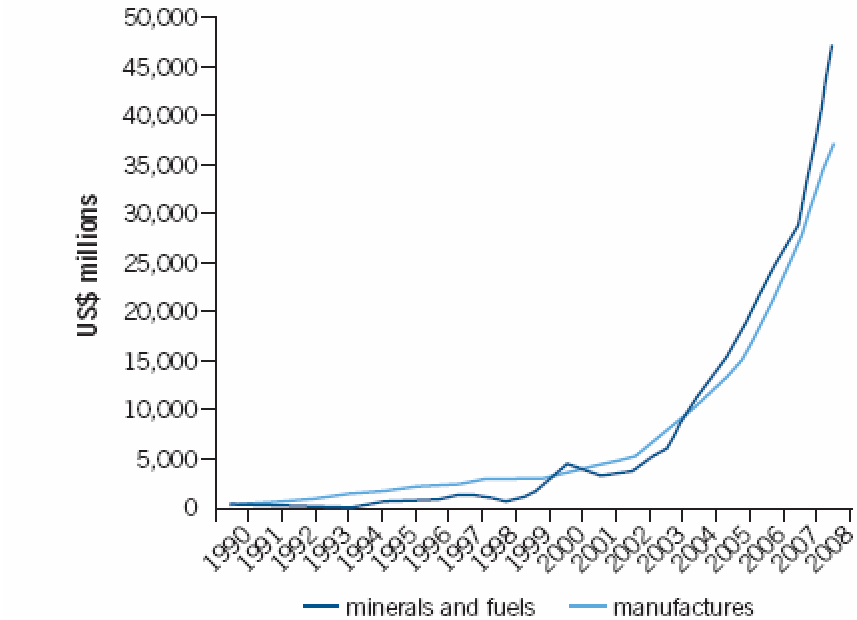
Given these perspectives both from the Chinese and Africa side, the involvement of China in Africa has become a major and meaningful phenomenon for the continent. Of the wide range of Chinese engagement in Africa, economic transactions provide the most powerful evidence of the country's increasing interest in the continent (Tull, 2006:5). The trade, investment and aid aspects are the three major areas of China's economic engagement in Africa. These aspects are presented with considerable details in the following sections.

2.3.2.1 Trade

Of the aspects of Chinese economic engagement in Africa, the skyrocketing trade between the two deserves particular emphasis (Tull, 2006). What lies behind the development in China-Africa trade seems to involve a number of factors. China's size and rapid GDP growth and its search for new avenues to deploy large foreign exchange reserves are clearly central. But it could be also argued that China's concern to achieve more security of supply for resources added its rely on the global markets are the other factors which come into play in the case of the dramatic growth of China-Africa trade. The strong commitment at the upper echelons of government in China to promote development in the least developed countries is also important (Besada, 2008:4). However, the more sound and realistic assumption is that, Chinese growing trade and its recent engagement in Africa is driven by motives to secure energy sources and market. Sum of the above reasons, China-Africa trade has increased sharply since the end of 1980s. Between 1989 and 1997 the bilateral trade volume grew by 430% and since then has more than quintupled (Tull, 2006).

By the year 2005, China had bilateral trade and investment agreements with 75% of Africa's states (Ibid). The trade has been growing with a significant acceleration in the rate of growth starting in 2000 (Adewuyi et al, 2009:489). It grew from US $ 10.6 billion in 2000 to US $ 18 billion in 2004, US $ 40 billion in 2005, US $ 55 billion in 2006, and 73 billion in 2007 (Besad, 2008:6). In the first 11 months of 2010, China's trade with Africa surged by 43 percent reaching US $ 114.8 billion (China Daily, July 24, 2010).

Figure 2. Total Trade between Africa and China, 1990-2008



Source: World Bank Poverty Reduction and Economic Management Network (PREM)

For the last decade, Chinese politicians and businessmen have been taking the Africa continent by storm. The country's growing demand for raw materials has led it to closer involvement in the continent, balancing its growing trade deficit with exports of commodities and labor (Median, 2006:69). This is proven by the fact that mineral resources have been especially important part of the growing trade between the country and Africa. There is only limited China-Africa trade in intermediate goods, apart from those used in textiles and for now seemingly little incorporation of Sub-Saharan African into China coordinated global value chains (Besada, 2008).

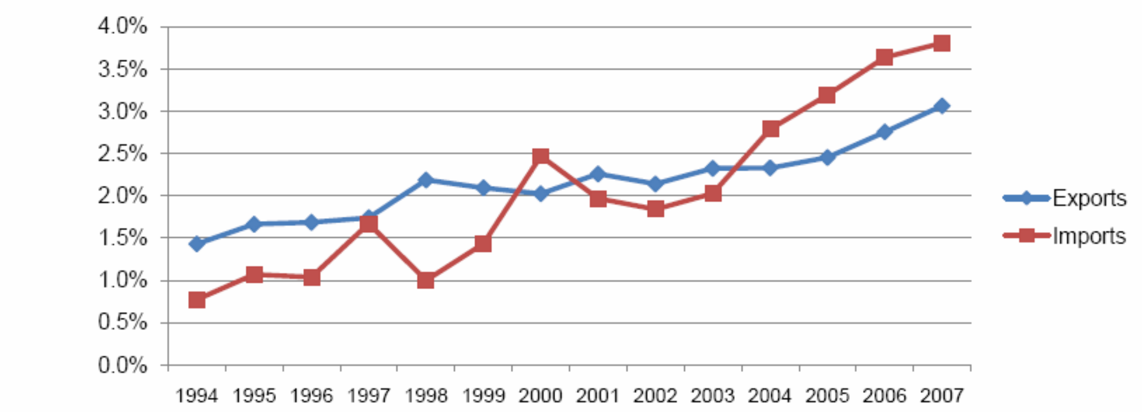
Table 1. China-Africa Trade, 2008 Data, US $ billion & % Shares

Hs sections	**China from Africa**	**China to Africa**
Total $ billion	55,883	50,869%
Mineral fuels	83.9%	1.6%
Precious metal	3.2%	0.1%
Textile	0.8%	17.5%
Transport	0.0%	11.0%
Base metals	4.6%	13.9%
Chemicals	0.7%	4.6%
Prepared food	0.5%	1.2%
Machinery and elect	0.7%	31.8%
Special	2.8%	0.0%
Vegetable fruit	0.3%	1.5%
Plastics and rubber	0.3%	4.3%
Wood	1.8%	0.7%
Animal prod	0.1%	0.3%
Footwear etc	0.0%	3.2%
Stone /glass /creamiest	0.0%	2.3%
Pulp and paper	0.1%	0.7%
Instruments	0.0%	1.2%

Source: World Trade Atlas Data

Chinese imports of petroleum and petroleum products from Africa have grown 43% per year during 1996-2006, and they account in 2006 for 73% and in 2008 for 83.9% of Chinese imports from Africa, compared to 19% in 1996 (Berthelemy, 20009:7). In aggregate terms, Africa's merchandise export to China increased over fourfold from US $ 4.5 billion and US $ 8.3 billion in 2000 and 2003, respectively to US $ 36.4 billion in 2007 which was recorded as the fastest exports to China compared to the rest of the world. As a result, Africa's share in China's total imports rose from 2.5 percent in 2005 to 3.8 percent in 2007 and China now is Africa's third largest export market destination after the United States and European Union (EU). Despite such improvements, China accounted for only about 1.6 percent of Africa's total export in 2007 which is below that of the United States and EU (Adewuyi et al, 2009).

Figure 3. Africa's Share in Total Chinese Exports and Imports



Source: The African Development Bank Group (2010)

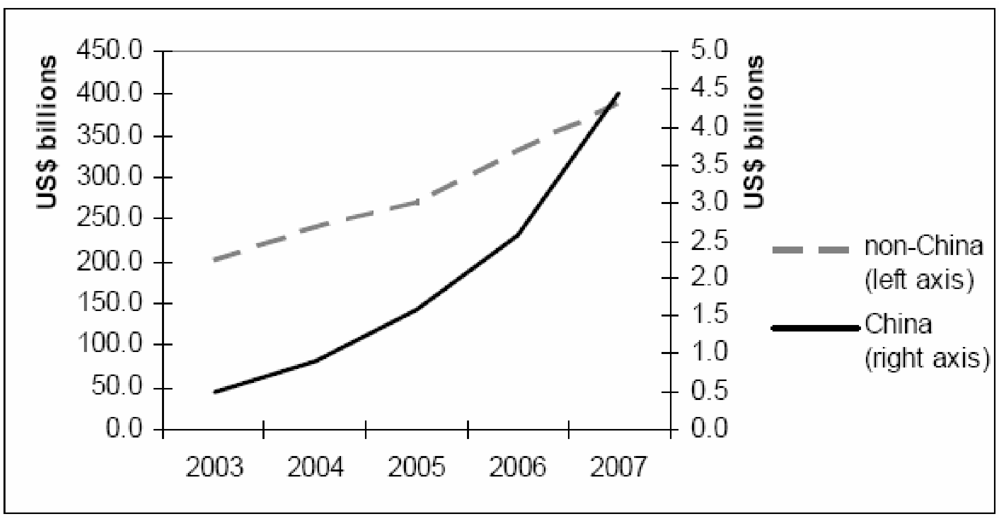
The above figure shows that although there is a high growth rate in Chinese trade with Africa, the region is still insignificant for China relative to its total volume of trade. In 2005, the proportion of foreign trade accounted for by Africa was only 2.8 percent. For the African countries themselves by comparison, foreign trade with China now plays a key role. In terms of total exports and imports, China has become one of Africa's most important trading partners after the USA since the middle of the decade and in 2006 the country had become the largest exporter to Africa (Asche, 2008). Given the premises above, it can be concluded that China-Africa trade will continue to grow.

2.3.2.2 Investment

Investment in Africa by Chinese state-owned energy and commodity corporations as well as private enterprises in the manufacturing, industry, construction and the services sector has risen rapidly over recent years (Asche, 2008:10). Especially since 1996, Chinese investment in Africa had grown fast stimulated by Chinese government incentive policy and by the economic recovery of African countries. Until 2002, China has already established more than 800 enterprises in Africa, covering 49 countries (Berthelemy, 2009).

Of the 40 bilateral investments agreements China entered into between 1995 and 2003, 18 were established with African countries (China Report, 2003). In 2006, China accounted for 1.4 percent of Africa's FDI inflows (Besada, 2008:3). In the years between 1991 and 2006, China's FDI outward stock in Africa increased from US $ 49.2 million to US $ 2.56 billion respectively (Ibid). At a similar rate, FDI flows from China to Africa reached US $ 520 million in 2006 up from US $ 1.5 billion in 1991 (Bethelemy, 2009). By 2009, this figure reached to US $ 9.33 billion raising the country's direct investment in Africa to 81 percent from the previous year (China Daily, July 24, 2010).

Figure 4.China and Non-China FDI Stocks in Africa



Source: African Development Bank Group and Economic Commission for Africa, African Economic Conference (2009)

According to the World Bank managing director Ngozi Okongo-Iweala, Africa which its collective GDP in 2008 was equal to that of Brazil and Russia was desperate for investment. Iweala is hopeful that the now increasing investment by China and other rich countries in Africa could ultimately curb such global economic imbalances and rise worldwide demand (The Daily Monitor, 24 November 2010).

Table 2. China's Investment in Africa (Non-financial sector) (US $ Millions)

	2003	2004	2005	2006	2007	Accumulation
Africa	74.8	317.4	391.7	519.9	1574.3	4461.8
Top 10 African countries						
South Africa	8.9	17.8	47.5	40.7	454.1	702.4
Nigeria	24.4	45.5	53.3	67.8	390.4	630.3
Sudan	-	146.7	91.1	508	65.4	574.9
Zambia	5.5	2.2	10.1	87.4	119.3	429.4
Algeria	2.5	11.2	84.9	98.9	145.9	393.9
Egypt	2.1	5.7	13.3	8.9	25	131.6
Mauritius	10.3	0.4	2	16.6	156	116
Tanzania	-	1.6	1	12.5	-3.8	111
Ethiopia	1	0.4	5	24	13.3	109
Congo	0.06	12	5.1	36.7	57.3	104

Source: The China commerce year book, 2008.Taken from Zhao Hong (2009:7), Sino-African Relations Going beyond Energy Resources.

Chinese FDI activities in Africa are seemingly different from those which are sourced from Europe and North America. Because the FDI from the developed world is delivered by privately-owned enterprises focusing on profits, where as the Chinese FDI on the continent is heavily undertaken by either partially or wholly state-owned enterprises with the objective of not simply making short term profits, but also forming long-lasting relationships. Due to China's increasing demands for resources to fuel high economic growth, much of its investment in Africa are limited to securing strategic reserves of mineral resources (Asche, 2008).

The Chinese investment can be found in a wide variety of sectors including agriculture, manufacturing, oil, service and others (Besada, 2008:4). Of these Chinese investments in Africa, the biggest has been directed to agriculture (Asche, 2008). The Chinese FDI in agriculture has been strongly supported by African governments given their commitment to food security (Besada, 2008:11). Table 3 shows spectral distribution of China's FDI to Africa.

Table 3. Sectoral Distribution of China's FDI Inflows to Africa

Sector/Industry	Number of Projects	Investment Value (Millions of Dollars)
Agriculture	22	48
Resource extraction	44	188
Manufacturing	230	315
Machinery	20	16
Home appliances	36	25
Light industry	82	87
Textiles	58	102
Other manufacturing	34	86
Services	200	125
Others	3	6
Total	499	681

Source: UNCTAD, based on information provided by MEOCOM. Taken form; (Asche, 2008)

However, in relation to China's total foreign investment, Africa's share is still very low. By the end of 2003 the percentage of Chinese FDI stocks in Africa was insignificant (2%) compared to the country's total FDI stocks. This also accounted merely 5% of the total investment in the continent in that year (Broadman in Asche, 2008). Showing some improvements in 2005, China's FDI in Africa accounted 3 percent of the country's total FDI flows recording US $ 1.6 billion (Kohli, 2009:5). China in 2006 accounted for only US $ 520 million of inward FDI to Africa out of the total US $ 36 billion (Besada, 2008). This shows that, although the annual growth rate of China's investment flows to Africa are high (around 30 percent per year since the late 1990s), the levels are still considerably smaller.

2.3.2.3 Financial Assistance (Aid)

China had aid programs in Africa since 1960s (Kohli, 2009). In recent times, the country's aid to Africa has been increasing dramatically. As many literatures reveal, China's aid to Africa before and after 1990s shows a significant difference. In the years before 1990s, Chinese aid to Africa was relatively insignificant. But, since 1990s, including two years of the late 1980s, it has shown a great difference. Scholars such as Ian Taylor seek to link the change in the amount of Chinese aid to Africa with the massacre at the Tiananmen Square, and argue that China used aid as a diplomatic offensive against the criticisms leveled by the "west" on it. The country's aid to Africa increased from US $ 157 million in 1980 to US $ 306 million in 1987 (Taylor, 1988:444). The country's aid to Africa and its overall aid to the LDCs in general increased dramatically in the post Tiananmen era as Beijing scrambled to win over allies. Most of the aid from PRC after 1989 (the year marked the Tiananmen Square crisis) went to African nations. This was exemplified by the fact that in 1990 of the 43 nations received aid from China, 24 were Africa countries (Ibid:450).

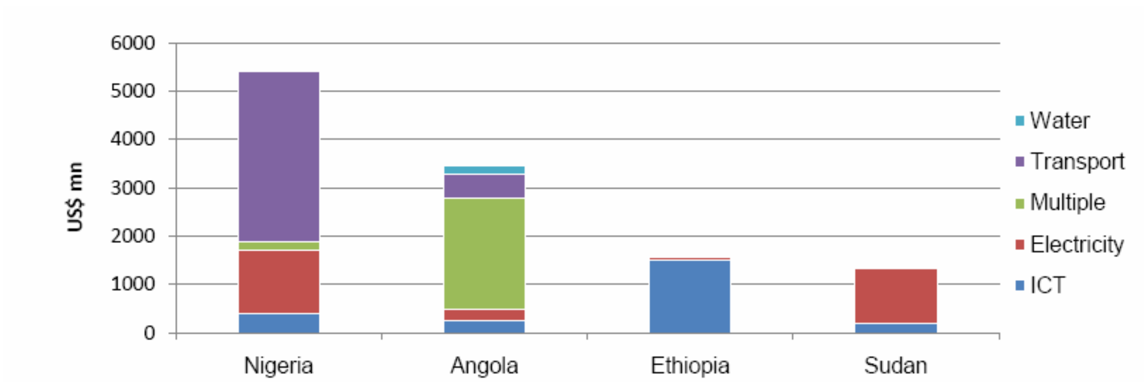
Table 4: China's Aid Commitments, 1988-1992 (US $ Million)

Year	**Amount**	**Number of recipients**
1988	60.4	13
1989	223.5	24
1990	374.6	43
1991	302.9	36
1992	345.0	46

Adopted from figures given by Tec-Change Lin in Ian Taylor, 'China's foreign policy toward Africa in the 1990s,' The Journal of Modern African Statics, 36, 3 (1988), 450.

Even though (Taylor, 2008) noted that the Chinese non-conditional aid to Africa would have negative impact on the politics of the continent (undermining the issue of human rights and democracy) people like Besada argues against. According to Besada, China's principle of non-interference in other countries internal affairs has not restrained the country from pursuing humanitarian concerns in Africa. To make his argument convincing, he noted China's contribution of 1,500 peacekeepers to UN missions across Africa in the year 2004. Furthermore, he also stated the fact that China needs stability and security in order for its investment to flourish and for its future relations with the continent (Besada, 2008:16).

Figure 5: China's Financial Commitments in Infrastructure Projects in Major Recipient Countries (2001-2007)



Source: World Bank.2009

Despite such different views, the above figure signifies that the amount of aid from China to Africa has continued to grow. It amounted US $ 8.1 billion for the year 2005 (China Report, 2006). The value of Chinese aid to Africa overtook World Bank assistance in 2007 with US $ 8.6 billion on offer compared with only US$ 2.3 billion from the World Bank (Kohli, 2009). The country also cancelled all debt stemming from its interest-free government loans that matured at the end of 2005 which estimated to have reached US $ 1.4 billion for 31 indebted and LDCs in the continent (Besada, 2008:16). Recently, China increased its aid to Africa from US $ 2.3 billion (what was in 2006) to US $ 10 billion in 2009. In comparison, US and European Union aid to Africa were US $ 9 billion and US $ 20 billion respectively in the same period (Ibid:14).

CHAPTER THREE

3. SINO-ETHIOPIAN RELATIONS

3.1 Historical Relations between Ethiopia and China

China has had a long history of involvement with Ethiopia, based on certain communalities. Both Countries are ancient states of the world back to around 200 BC and are also known for their ancient civilizations and long histories (Ministry of Trade, 2010). The first contact of China with the horn of Africa particularly with Ethiopia may have been began around 1000 AD, when the Chinese started to import rhinoceros horn from Ethiopia (Gamora & K.Mathews in eds. Harneit-Sievers et al, 2010). However, similar to other parts of Africa, the relation between the two countries was not formal until 1950s. Because it was after 1955 (the year marked the Bandung Conference held in Indonesia) China become active in Africa and African issues (Anshan, 2007).

The bilateral trade between Ethiopia and China started in 1956, a year after the Bandung Conference which was aimed at establishing Afro-Asian all-round cooperation (The Daily Monitor, December 2010). However, before the establishment of diplomatic relation between Ethiopia and China, on December 4, 1970, there was no harmonized relation between the two countries. Because, Haile Selassie's regime was oriented towards the 'west' and closely tied to the United States which was then strongly opposed to China. Thus, the Emperor feared the possible dissemination of communist ideology if diplomats from China were to come to his country (Abir in Gamora & K.Mathews in eds. Harneit-Sievers et al, 2010). On the other hand, China was supporting the subversive activities of Eritrean People's Liberation Front (EPLF) and the Front for the Liberation of Western Somalia which was fighting against Haile Selassie's regime (Venkataraman et al, 2009).

After the two countries forged diplomatic ties on December 4, 1970, (other sources like Thakur, 2009:6 and The Daily Monitor, December 2010, noted that the diplomatic relation between Ethiopia and China have been established on November 24, 1970), there had comparatively good relation between the two countries (Venkataraman et al, 2009:10). The consensus to establish the diplomatic relation was the result of Chinese agreement to recognize Eritrea as part of Ethiopia in exchange for Haile Selassie's recognition of Taiwan as part of China (Thakur, 2009).

However, the relation between the two countries deteriorated again from 1977 to 1982 when Ethiopia turned to USSR for support and obtained from it some US $ 1 billion military assistance. This proved that China's relation with Ethiopia and with Africa at large is guided by its relations with big powers. In addition, China's stand on Ethio-Somalia war of 1977-1978 further hindered the bilateral relations between the two countries. During the time, the then Chinese Deputy Premier Chan Muhua, stated that his country stood firmly on the side of Somali people in their just struggle to safeguard national independence and state sovereignty, and extend its resolute support to Somalia. However, it was Ethiopia which was invaded by Somalia, but not Somalia by Ethiopia. The reason China support Somalia was merely to counter-balance the Soviet presence in Ethiopia and to narrow down the international activities of the Soviet Union (Fraser in Venkataraman et al, 2009).

3.1.1 Relations After 1991

In fact, good relations between Ethiopia and China were renewed in 1988 with the establishment of the Joint Ministerial Commission, which set up a framework for how technical projects would be implemented (Thakur, 2009:7). However, after EPRDF took power in 1991, the relations between the two countries have steadily improved with increasing diplomatic contacts and high-level ministerial visits (Kinfe, 2005). The 1995 Ethiopian Prim Minster's visit to China was reciprocated by the Chinese president Jiang Zemin's visit to Ethiopia later in 1997 (Gamora & K.Mathews in eds. Harneit-Seivers et al, 2010). The diplomatic ties between the two states become more closer when Ethiopia hosted the second and the fifth ministerial meetings of the Forum on China-Africa Cooperation (FOCAC; launched in 2000 as a mechanism for collective dialogue and multilateral co-operation between Africa and China) in 2001 and 2005 (Thakur, 2009). November 24, 2010 marked 40th anniversary of the establishment of diplomatic ties between Ethiopia and the People's Republic of China. It was celebrated in Addis Ababa attended by president Girma Woldgiorghis, Duputy Prime Minister and Minister of

Foreign Affairs Mr. Hailemariam Desalegn and Mr. Gu Xiaojie, the Ambassador of People's Republic of China in the Federal Democratic Republic of Ethiopia, Chinese diplomats and heads of Chinese companies and institutions in Ethiopia as well as senior government officials.

In sum, ever after the dawn of the new Millennium, bilateral ties between Ethiopian and China have registered new progress with the joint effort of both sides among others in the economic and political fields (Kinfe, 2005). Hosting the 2002 and 2005 ministerial meetings and co-hosting the Beijing Summit, China see Ethiopia as a unique Partner. At the event of the Beijing Summit when Hu Jintao announced a number of policy measures including zero tariff for African goods, debt cancellation and joint infrastructure projects, Ethiopia was the only country to benefit from all (Thakur, 2009:7). These clearly show the future prospect of the relations between the two countries to continue and even to consolidate further.

3.2 Determinant Factors in the Relation

There are a number of factors which might promote or hinder the relation between Ethiopia and China. Historically the two countries have cooperated closely and supported each other in international affairs. During the rule of Haile Selassie for instance, both Ethiopia and China suffered from fascist aggression. At that time, China strongly opposed the Italian aggression over Ethiopia and in return Ethiopia supported China's claim to become a member of the United Nations Security Council. When China regained its legitimate seat at the United Nations in 1971, among the 76 favorable votes, 26 were from African countries including Ethiopia. This figure accounted for more than one third of the total. Since the 1990s, with strong support from Ethiopia and many African countries, China defeated western countries anti-China proposal at the UN conference on human rights (Gamora & K. Mathews in eds. Harneit-Sievers et al, 2010:98). In such away, Ethiopia as a voting member of the UN Commission on Hum Rights until 2007 thwarted any attempts to censure China for its human right record (Thakur, 2009:7).

Ethiopian government's firm adherence to the one-China policy as well as its support to China on issues involving China's core interests are among the determinant factors of relations between the two countries (The Daily Monitor, December 18-19, 2010). With strong support from Ethiopia and many other African countries, China foiled for 10 times in succession Taiwan's scheme of returning to the United Nations (Gamore & K.Mathews in eds. Harneit-Seicvers et al, 2010). Thus, Ethiopia supports China's longstanding policy of reinforcing domestic policy in the international arena, especially when the issue of Taiwan and Tibet are raised. More recently in 2006, the Ethiopian parliament approved a resolution in support of China's anti-succession law (Thakur, 2009:7).

The other factor egging China to look towards Ethiopia is Ethiopia's strategic importance in the region (Gamora, 2009). China sees Ethiopia as a strategic ally in the horn of Africa and in the continent at large being the seat of the African Union (AU) and other organs of the UN (Thakur, 2009). Due to this reason, Ethiopia becomes reflection of China's wider ambitions in Africa and the changes it portends for the region. In addition, Ethiopia's market potential is the other determinant factor causing China to tilt towards the country. The Chinese industrial led command economy for decades have resulted in gross over-supply which in turn forced the country to search for markets. Ethiopia, with population of about 81.5 million is potentially a very lucrative market for Chinese products, trading and investment opportunities (Gamora & K.Mathews in eds. Harmeit- Sievers et al, 2010:97).

There are also several factors egging Ethiopia to look towards China, especially in terms of economic assistance and cooperation. Ethiopia sees China as a significant partner in its economic and political transformation (Thakur, 2009). China's help in all economic development efforts in Ethiopia in such areas as aid, debt reduction, loans and technical assistances added its co-operation in the most priorities of Ethiopia such as agriculture and infrastructure, including roads and rural hospitals and schools has led Ethiopia to forge closer ties with China than any other nation (Gamora & K.Mathews in eds. Harneit-Sievers et al, 2010).

China's policy of non-interference in the internal affairs of Ethiopia remains the other determinant factor and major theme in the unique ties between the two countries. Because, it has helped Ethiopian and African leaders at large to act freely in their dealings with China, which becomes an alternative to the 'West' (Thakur, 2009). For example, China has offered to make good any shortfall in assistance following the suspension of European Union aid due to alleged human rights violations during and after the 2005 Ethiopian election. In his briefings to the parliament on the US Congress HR 2003 Bill, Meles Zenawi said he did not think the bill would be adopted as law, but if it were to be then, there would be an alternative source of aid; (to mean China). The strength of this argument is enhanced by Robert Mugabe's Speech at the 25th anniversary of Zimbabwe's independence in may 2005; 'We have turned east where the sun rises, and give our backs to the west, where the sun sets' (Vines in Gamore & K.Mathews in eds. Harneit-Sievers et al, 2010:96).

Ethiopia, to draw a lesson from China's development experience, which is dealt later in this chapter, is also another factor contributed to the strengthening ties between Ethiopia and China. The top government officials of Ethiopia including the Prime Minster have been conspicuous in urging the country to follow China's model (The Daily Monitor, October 2010). China has helped millions of its people out of poverty and transformed itself from backward agricultural country in to a country with the highest growth rate in the world (Gamora & K.Mathews in eds. Harneit-Sievers et al, 2010). Never in modern history has a nation successful made such determined and massive efforts as China has in achieving progress within short span of time. Ethiopian has been following this remarkable achievement with great interest and admiration (Dinesa in Alden, 2006:8).

Despite such mutual cooperation and supports in different levels and aspects, there are also challenges that have been visible in the bilateral rations between the two countries. On the economic front, although the volume of Ethiopia's exports to China has increased relatively, the trade imbalance remains structural problem in Ethiopian relations with China (Thakur, 2009:8). Dumping of low price export, underbidding local companies and ideological differences are also among the challenges in the relations between the two countries (Gamora, 2009). In addition, the quality of roads, dams and other constructions owned by Chinese firms is being questioned by professional experts and the Ethiopian society at large. In the short-or-long run, sum of these factors possibly may hinder the relations between the two countries.

3.3 Major Cooperation Agreements between Ethiopia and China

After the setting up of diplomatic relation between Ethiopia and China on November 24, 1970, it has seen an overall good relationship between the two countries. A number of mutual visits have been commenced by high level officials of the two countries, which has led to a number of cooperation agreements between the two countries that cover a wide area of cooperation such as agriculture, education, technology, culture and military affairs (Alemayehu, 2008).

The economic and technological co-operation between the two countries began in 1970, and to date China has contributed to the numerous infrastructure and power supply projects (Thakur, 2009:9). Chinese companies have become a dominant force building highways and bridges, power stations, mobile phone networks, schools and pharmaceutical plants. More recently, they have begun exploring for oil and building at least one Ethiopian military installation (Leggett, 2005).

From 1974 to 2002, China sent total of 12 batches of medical teams to Ethiopia with each batch consisting of 15 medical personnel. In 2002, the Ministries of Agriculture and Education of the two countries reached agreements for developing vocational education and training. Since June 2001, China has sent batches of teachers for vocational education to be employed by Ethiopia for the short-or-long term training of its teachers and students. Now there are 44 Chinese teachers specialized in urban vocational education and 23 Chinese teachers for urban vocational education teaching in Ethiopia (Alemayehu, 2008:4).

Recently, the co-operation in the agricultural sector has been more accentuated. It has taken the form of multilateral projects in which the Chinese Ministry of Agriculture, the

Ethiopian Ministry of Agriculture and Rural Development, and the United Nations Food and Agriculture Organization conducted tripartite cooperation. Within the tripartite framework, China sent 8 groups of 32 agricultural experts to Ethiopia between 1998 and 2006. China also provided Ethiopia with agricultural technical and vocational education and training (TVET). Between 2001 and 2008, it sent 8 groups of 280 professionals to Ethiopia. These experts and professionals actively promote agricultural techniques and aimed to assist Ethiopia to increase its agricultural productivity. China, with its solid learning experience in agricultural development could make significant contributions to the Ethiopian agricultural sector (Thakur, 2009:12).

Starting from 1988 every year, China provided 10 scholarships for Ethiopian students to study in the country. UP to the year 2002, the Ethiopian students studying in China numbered 69 in all according to the information from the Chinese Foreign Ministry in October 2006. Recently, this has been scaled up and in the year 2007 alone, over 50 teachers have gone on scholarship to China. On top of this, China has built a technical/vocational college in the capital Addis Ababa, and handed it over to the government of Ethiopia in late 2007 (Alemayehu, 2008).

China has also financed a number of development projects in Ethiopia, including the Gotera flyover project in Addis Ababa, and power stations. Especially, the CRBC has been awarded scores of construction projects across Ethiopia including a recently secured 1.1 billion Birr airport expansion project at the Addis Ababa Bole airport (The Reporter, December 2010). According to the Ethiopian Investment Agency, more than 435 Chinese companies invested US $ 960 million in Ethiopia from 1992 to 2007.

Ethiopia and China also signed a number of cooperation agreements in terms of grants and loan agreement of different type long time before to recent times. To note on some of them, on January 1, 1980, the two parties signed an agreement of US $ 2010 million interest free loan to be repaid after ten years period (Ethiopian Hereld in Venkataraman et al, 2009:11). During a ceremony held at the Ministry of Finance and Economic Development (MoFED) on January 11, 2010, the two governments signed US $ 32.5

million grant and concessional loan accords out of which the US $ 7.3 million is to be used for implementing projects to be agreed up on through consultations by the two countries and the US $ 25.2 is to be utilized to finance the supply of customs Cargo and vehicles scanning machine and equipments (MoFED, March 2010). On December 2010, the Ethiopian government approved loan agreement with China that will be used to import Chinese products and services and for financing wind power generation projects which are assumed to have 51 megawatt power production capacity (Capital, December 26, 2010). The recent visit of the Ethiopian Prime Minister to China to take a lead in building a new railway network is further manifestation of the strengthened economic cooperation between the two countries (The Daily Monitor, October 2010).

In Brief, the major and most important cooperation agreements between Ethiopia and China include; Sino-Ethiopian trade agreement (1971, 1976), Sino-Ethiopian mutual promotion and protection of investment (1988), Sino-Ethiopian agreement for trade, economic and technological cooperation (1996), and Sino-Ethiopian agreements for economic and technological cooperation (1971, 1988 and 2002) (Alemayehu, 2008). Hu Jintao's announcement that Ethiopia is the only country to benefit from all China's policy measures for further cooperation with African countries has promised the bilateral cooperation to continue and even to consolidate more (Thakur, 2009).

3.4 China's Development Experience: Lessons for Ethiopia

At the start of its economic reform, China like Ethiopia was primarily rural agricultural country with a large state role in management of its economy. Given its population size, China faces poor endowments of land and water (Park, 2008). However after it began its economic rehabilitation, there has been an even progress on the overall socio-economic development of China. Since the foundation of the PRC in 1949, the country has built an independent and fairly comprehensive industrial and economic system on the foundations of the poverty and backwardness of old China. On the eve of the founding of the PRC, industrial fixed assets only amounted to 12,800 million Yuan, which is the result of almost a century of accumulation in old China. However, in 1980 it exceeded 410,000 million Yuan, which was 32 times greater than there had been before 1949 (Lin, 1983).

Over 32 years since the foundation of the PRC, agricultural outputs has increased by 300 percent (an average growth rate of 4.4 percent) while industrial outputs has risen by 47 times (an average annual growth of 12.9 percent). Within five years after China introduced the Household Contract Responsibility System in 1978 in rural areas mobilizing the productive enthusiasm of farmers, the long standing shortage of agricultural products like grain, meat and cotton were relieved. This basically solved the problem of food and clothing that had baffled the populous country for decades. Later, with the implementation of industrial reforms, establishment of the market economy, and entry into WTO, China attained unprecedented economic development and achieved a miracle (China Today, January 2009).

From 1978 to 2007, China's GDP maintained an annual growth of 9.8 (which is triple the world average during this period) exceeding countries like the United States, Japan and Singapore during their economic takeoff stages. Currently, China's GDP represents approximately six percent of global GDP, placing it fourth in the world. Never in modern history has a nation successfully made such determined and massive effort as China has in achieving progress with in such a short span of time. The country has become the main engine driving World economic growth (Dinesa in Alden, 2006).

Many literatures (Park, 2008; Gang, 2008; Rumbaugh, 2004; Hou, 1995; Eckstein 1977; Lin, 1983; Wang, 1982) about Chinese development path shows that developing countries like Ethiopia would learn much from China's experience at achieving economic growth. Especially, Ethiopia could draw important lessons from China's experience in its effort at achieving overall economic progress due to similarities before China start the reform. The salient features of the Chinese economy before the start of the economic reform were its massive land, overgrown population, weak industrial foundation, low productivity and backward technology, imbalance among economic sectors, underdeveloped commodity production and poor transportation and communication facilities (Wang, 1982:81).

The top government officials of Ethiopia including the Prime Minister have been conspicuous in urging the country to follow China's model (The Daily Monitor, October 2010). However, it would be an embellishment to claim that Chinese development path could simply be adapted to any developing country, and so does Ethiopia. Because, it is essential to bear in mind some degrees of similarities and difference between the countries from the very start. China is a much larger, diversified economy than Ethiopia. One could also argue that the legacy of socialism and earlier history provided important preconditions for successful growth, such a literate, disciplined labor force, a heavy industrial base, and ethic links to entrepreneurs in Greater China (Hong Kong and Taiwan) which provided capital and know-how in developing labor-intensive industry (Park, 2008). Despite these differences as noted above, the Chinese experience may provide important lessons to Ethiopia. Thus, the following pages are devoted to assess the most important Chinese experiences which helped it to achieve economic progress.

The first three years of post war effort were devoted to short term emergency measures aimed at the reconstruction of the economy that had been devastated by the twelve years of war. China's planners were then in a position to turn their attention to medium and long term planning. They draw their inspiration from two sources: there experience of the war economy based on co-operatives; and the historical precedent of the Soviet Union's success of the five-year plan of industrialization (Damachi, 1976:209). In the process, the state sector played dominant role while co-existing with the other sectors, which include the enterprises and the toiling mass.

To run such a system, one should integrate economic planning with the market, and the enterprises should be free from rigid and strict control and be treated as an independent economic entity which assumes the responsibility for profits and losses; the national, regional and interregional economic organizations should be set up according to the principles of division of labor and industrial interdependence; the factory managers should be responsible to the workers congress than a factory party committees; and the state control should be relaxed and the regions should be assigned with a significant task to be responsible for planning, implementing and supervising economic activities (Wang, 1982:82).

This China's decentralizations of resources and responsibilities were fostered by the recognition that highly centralized system of resource allocation could cause enormous delays in the delivery of goods and in general produce far reaching inefficiencies. Decentralization is further encouraged by the spirit of self-reliance, which exhorts local organs to take the initiatives in their own hands. However, decentralization of responsibilities, resources and assets does not preclude central or national planning and control over this allocation process (Eckstein, 1977:293). (For grand knowledge about China's development model and experiences, see the book by Ukandi Damachi entitled 'Development paths in Africa and China').

In general, the key elements of Chinese development paths are summarized in ten points bellow (Damachi, 1976);

- Agriculture as the base, and industry as the leading factor in development
- Mass mobilization of resources and sense of moral purpose for development
- Grass root participation in economic decision making
- Pragmatism in polices for education and health
- Egalitarianism in opportunities, income distribution and social emancipation
- The encouragement of intermediate technology
- A balanced economic partnership of town and village
- Population policy; control and redistribution
- Flexible, decentralized planning and self-reliance
- Controlled urbanization

Apart from these general strategies, China's development experience and economic policies in three pacific economic sectors is outlined as follows;

3.4.1 Agriculture;-Despite the major differences stated between the two countries, the Chinese agricultural organization and its experience on the sector in general may provide valuable lessons for agricultural development in Ethiopia. The launching platforms of the Great Leap (a plan to develop the agricultural sector) in China created Peoples Communes, a bold and lasting experiment in an original approach to agrarian socialism which also represents industrial decentralization. Following this, the process of consolidating the peasant's mutual-aid teams (of up to ten families each), of which there were ten million, had extended to 96 percent of all peasant families, who were grouped in 750,000 agricultural producers' co-operatives. The majority of these co-operatives, which had become the basic economic unit in the country side, grouped together between 100 and 300 families and therefore contained whole villages. They had brought the agricultural organization, the well-known advantages of collective work in water-control and other infrastructural improvements, which mad it easier to concentrate on surplus production (Damachi et al, 1976).

The Communes becomes economic units on which governmental control and the prism of welfare and social security services were centered. They meant not only the absorption of the co-operatives principles of production and distribution, but also the intensification of the collective dimension of rural life. With in the Commune again, families were divided in to Production Brigades and Production Teams which has the responsibility for accounts, planning and distributing incomes. This ability of the Communes to mobilize labor on large scale for land cultivation against non-wage payment has made a major contribution to the construction of China's rural economy and they have survived as the basic economic administrative units of China representing the rural based path of development (Ibid:196). Generally, the most important lessons Ethiopia could draw from Chinese experience in its agricultural development are summarized as follows (Park, 2008:5);

1. China followed a gradual approach, which reduced risk, allowed for learning from experience, and gave sufficient time for markets and other institutions, as well as individual actors such as farmers and traders to develop or adjust to changing environments and polices.
2. China over time minimized distortions in pricing and decentralized production decisions, enabling producers to make production decisions consistent which

changing comparative advantage. This enabled the economy to increase allocation efficiency substantially as the rural economy become more diversified and commercialized with significant benefits for growth.

3. The decision to significantly increase agricultural pieces at the outset of reforms provided an important stimulus to growth in both the agricultural and non-agricultural sectors, setting in motion many of the positive effects of balanced growth.
4. Although China taxed the rural sector in the process of economic growth, it made sufficient investments in infrastructure (irrigation, roads, and research) and gave sufficient price incentives to farmers to enable steady increases in rural incomes and agricultural productivity.

3.4.2 Trade:-Three decades before, China's trade performance was weak like most of the developing nations. Its share out of the total global market was insignificant. For example, in 1978 China accounted for merely 0.6 percent of global trade. However, this figure had increased to 7.7 percent by 2007, translating into an average annual growth of 18.7 percent (double the world average during this period). Since 2006, China's contribution to world trade growth has out placed that of the US and Germany, placing it first in the world (China Today, January 2009:32).

There are a number of factors responsible for the boom of Chinese trade with in such short period of time. Of these factors, trade reforms have been the most crucial. Because, it promoted the country's integration to the world global trading system. These reforms, which took place over a 15 year period, have included substantial tariff reductions and dismantling of most non-tariff barriers (Rumbaugh et al, 2004). The other major factor for the rapid growth in Chinese trade is the opening of the country. China has progressively opened its market and introduced large amounts of international capital. Today almost all multinational corporations are engaged in some kind of activities in the country (Gang, 2008:4).

China's international trade has expanded steadily since the opening of the economy in 1979. Exports and imports have grown faster than world trade for more than 20 years and its share in global trade has increased dramatically since the same period (Ibid). The country has been a major importer in the global primary products market, especially of oil and iron ore. On the one hand, this has allowed resource exporters to make vast amount of money and; on the other, the raw materials have granted the rapid growth of China's manufacturing both in depth and scope. Since 1960 China has nearly doubled its consumption of natural resources (China Today, January 2009:33). Improved market access following the country's accession to WTO has also been very important. The most immediate benefit from WTO accession for China is increased market access overseas. The country permanently granted Most Favored Nation (MFN) treatment by other WTO members, which this has increased its penetration in to advanced countries (Japan, US, the European Union) markets. Such easier access to foreign markets is likely to boost China's labor-intensive exports in a number of sectors (Gang, 2008:5).

China's diversification of exports had also played a key role in the successive growth of its trade. The country's export base has diversified from an initial heavy reliance on textile and other light manufacturing to more sophisticated industrial supplies and machineries. In the early 1990s, light manufacturing accounted for more than 40 percent of China's exports. However in recent years, the country has made substantial gains in other export categories including more sophisticated machinery and electronics, furniture, industrial supplies and travel goods. Due to this reason, the country's exports represented by machinery and transport increased from 17 percent in 1993 to 62 percent in 2008. This substantially stimulated China's foreign trade. Today the degree of dependence up on foreign trade has already reached 80 percent (Ibid). The pragmatic lessons Ethiopia could draw from China's trade experience is that, the country ought to strike on the export of manufactured goods rather than those primary products whose prices is volatile.

3.4.3 Industry:-Similar to those of agriculture and trade, China's industries have contributed much for the rapid economic growth in the country. Of course, the country has had a history of local industry dating back 2000 years, long before western technologies and ideas. However after 1949, one of the first goals of the communists was to develop the growth of heavy industry in the country. They carried out following the Soviet Union model and challenged to attract industrial development in the interior sections of China (Hou, 1995:21).

During what the Chinese called “the great leap forward”, there were large investments in heavy industry. The ten years plan was established in which economic conditions improved through a greater use of privately owned enterprises, as opposed to the old state-owned businesses. The idea for private enterprises proved to be a good one. The industrial outputs through manufacturing, mining, electricity generation, and building and construction grew over the years to over 544.6 billion dollars by the early 1990s. The development of industries not only enable them to provide goods and fibers needed for the Chinese people, but also about 75 percent of its people depend on this work for their livelihood (Mirhom, 2005).

Through the aging leadership of Deng Xiaoping, who become a dominant figure in China throughout 1980s and 1990s, trade and industry expanded considerably. With much of China booming with industry, they manufacture much of the basic steelworks that make machines for other factories rights down to the finest in precision instruments used by surgeons. Every factory provided education for its workers including training about the industry as well as reading and writing for those who require them. Workers are encouraged to take an active role in improving the machines and investing new techniques for industry. Industries also keep costs down by making things simple, therefore replacement parts of machines remain cheaper. This again makes it easier for workers to be their own mechanics (Ibid).

China nowadays is a large and sophisticated machines and electronics manufacturing nation, and the traditional methods are still in use in the country. The Chinese carpets find in the world market today are all handmade in factories near Tientsin. The country spends much time concentrating on industrial planning and the government continues to reassess its goals to further steady growth in its products. The textile industry in the country is the largest in its products in the world with cotton yarn production of about 4.6 million metric tones (Rumbaugh et al, 2004).

Generally, China's experience in the agriculture, trade, industry and other economic sectors offer practical lessons that can be used by other developing nations like Ethiopia. The country's economic growth over the past three decades has enabled over 400 million of its people to climb out of extreme poverty (Hou, 1995:39). China now is regarded as an economic and political driver of the international economy, particularly in trade and industry. The first key lesson from China's experience is the adoption of a pragmatic approach to economic reforms (which was the turning point in China's economic development) and the adaptive capacity of country's economic agents to this process is found to be crucial in this regard.

It should also be acknowledged that, agriculture and industrial policies of China has been at the heart of the country's development policies and strategies, which potentially contributed to the success. Third, trade and liberalization of commercial polices have played an important role in the 'Southern Engine' economic achievement. In relation to this, the interface of domestic reforms, decentralization and privatization of state-owned enterprises are other areas of policy accomplishment (Zhao et al, 2009:184). All these can provide a number of potential lessons for Ethiopia. However, it should not be missed that these polices and processes need to be adjusted to the particular circumstance of the country and the continually changing global economy at large.

CHAPTER FOUR

4. ETHIO-CHINA ECONOMIC COOPERATION IN THE POST 1991 PERIOD

Sino-Ethiopian economic cooperation officially began in the early 1970s and remained low until recent time. During the Derge regime, Ethio-China relations had fluctuated, affected in fact by combined reasons. The economic relations between the two countries were restored and consolidated with the change of government in 1991. Especially since 1995, bilateral economic cooperation has progressed and developed rapidly. Since then, the two countries signed different agreements on trade, investment and joint commercial ventures, and science and technology (Marks, 2009:2).

The bilateral economic ties of Ethiopia and China have developed further in the context of the China-Africa Cooperation Forum. Because, the economy has been the strongest part of the forum since it's founding (Ibid). This Chapter thus deals with post 1991 economic cooperation between the two countries with special emphasis on trade and road construction. It starts with describing the road network in Ethiopia and proceeds to an assessment of engagement of Chinese construction firms in Ethiopia. The country's trade policies, its general trade performance and critical analysis on Sino-Ethiopian trade in the period under discussion, are also included in the chapter. It ends up with notes on those factors holding back the country's trade performance.

4.1 Roads and Infrastructure in Ethiopia

The development of infrastructure has been a major agenda of the government of Ethiopia for some time now. It is clear that adequate infrastructure has a key role to play in achieving overall socio-economic development. This is also what the Chinese Ambassador to Ethiopia thought it when presenting how China achieves such progress. Recognizing the key role of infrastructure to achieve economic development, he noted that "if a country wants to grow, first it needs to deal with its infrastructure development”.[1] The road sector, which carries about 95% of passenger and freight traffic, especially got due emphasis by the government. Because the country’s inadequate and unreliable transport infrastructure continues to be a major barrier to economic growth, and access to ports, markets and services is limited although there has been some improvement. In 2006 there were only 23,812 roads, i.e. 21 km of roads per 1,000 km^2 out of which 3,478km are asphalt (Lightbourne, 2006).

The network of poorly maintained roads radiating out from Addis Ababa to the provinces is largely legacy of the Italian occupation during the 1930s. However, since 1997 the Ethiopian government has been implementing road programs in cooperation with donors to improve the country’s road network. The rehabilitation of road infrastructure is a core element of the economic reform program. The first RSDP, which lasted from 1997 to 2002, attracted funding commitments of US $ 1.45 billion and focused on the rehabilitation of the core network, although not all targets were met. Under the program, road density rose from 21 km per 1,000 sq to 31 km per 1,000 sq km (compared with an African average of 50 km per 1,000 sq km during the same period), while the share federal roads (roughly half 34,000km of total network) classed as in “good” condition increased from 14% to 35% (ERA, 2008).

The second RSDP runs from 2003 to 2013 and includes four separate phases. Phase one started in the mid 2003 and phase two in mid 2004, with funding from the WB of US $ 127 million and US $ 175 million respectively (Ibid). The programs main components, as stated in the 2006 ‘Country Profile Ethiopia’ document, are rehabilitations and upgrading of key federal roads, building regional link roads, and create an environment that is conductive to private investment in the form of public-private partnership or long-term contracts (Country Profile Ethiopia, 2006).

[1] A public lecture arranged by Addis Ababa University Department of Political Science and International Relations was held on November 8, 2010. At the event, the Chinese Ambassador to Ethiopia Mr. Gu-Xiaojio had presented about ‘Chinese rise and its implication for Africa’ to the University community.

Road construction is also a major goal in the government's draft of five-year GTP with the aim of increasing the network coverage of roads in the country from the current 49,000km to 64,522km by 2015. Accordingly, enjoying the single largest budget allocation from the national budget, the ERA has received 12 billion birr out of the 15 billion birr it had requested for the fiscal year 2010/11 (Fortune, October 17, 2010). The road sector has enjoyed such significant amount of money from the government to increase the road network of the country by making the rehabilitation, upgrading and construction of new roads possible. With the GTP aiming to double agricultural production in the five years, increasing the road network is no doubt crucial in moving harvests to markets as well as export corridors, and achieving the development goals.

4.2 China's Engagement in Constructing Roads in Ethiopia

The Chinese investment in Ethiopia, particularly in the construction sector, has been growing since 1990s, and takes two modalities of investment; these are joint venture and wholly Chinese owned investment. Chinese enterprises are participating in the major investment areas that are being carried out by the Ethiopian government such as road construction, telecommunication, hydroelectric power generation projects, manufacturing and most recently in the agricultural sector. These enterprises are especially widely operating in the construction sector in the country. They involved almost in all power generation project except few owned by firms from other countries as the (EIA, 2009) data shows.

About five of the Chinese firms have been prominent in wining contracts to carry out big road construction projects in a joint venture with local construction firms. In 2004, one of the major Chinese firms operating in Ethiopia, Sinohydro, formed US $ 100 million joint venture with the Ministry of Defense-owned Lalibela engineering, to carry out construction activities throughout the country (Country Profile Ethiopia, 2006). It was Sinohydro which also started work on the estimated US $ 224 million Tekez hydroelectric project in 2002, although it was not finished within the scheduled time. After delay in part due to problems with massive landslides and shortage of construction materials, the project was completed for a final cost of US $ 365 million in July 2009

(China Daily, October 26, 2010). The same month in 2009, Ethiopia signed another agreement with China to build 2,150 megawatt of hydro-electric capacity with the Gibe IV and Halele Werabesa dams, in deal with US $ 2.67 billion. China will cover 85% of the project coast through preferential buyer's credit and concessionary loans (Ibid).
According to data from the ERA, the Chinese investment in road construction in Ethiopia had reached US $ 900 million by 2009. Currently ERA is being carried out many projects throughout the country, in which these projects include rehabilitation, upgrading and construction of new roads. The total length of the roads being constructed is 29,518 km, and of this the 3,583 km is owned by 16 Chinese firms (Mr.Yared, 2011, Int.).[2]

However this figure does not include Chinese road construction projects in the capital Addis Ababa. According to informant I, the performance of projects in the capital have been weak, and this is largely due to financial constraints. Unlike the ERA, AACRA has seen only half of its request for funds to carry out its plan the past couple of years. In the previous budget year it had requested 2.5 billion birr from the City Administration, and received only 1.2 billion birr while this year it received 1.1 billion birr out of the 2.3 billion birr it had requested (Informant I, 2011, Int.).[3]

[2] Mr. Yared, staff member of Engineering Technical Support office, Ethiopian Road Authority, 3 February 2011.
[3] Informant I, Directorate Director of Road Asset Management and Implementation office, Addis Ababa City Road Authority, 7 February 2011.

Table 5: Road Construction Projects carried out by Chinese Firms

No	Name of the Project	Length in km	Contractor	Commencement time of the project	Completion time of the project/Expected time of completion	Remarks
1	**Rehabilitation of Main Roads**					
1.1	Addis Ababa-Debrebrehan	95	CRBC	June 09/2007	Jan. 2/2011	Ongoing
1.2	Debrebrehan-Tarmaber	70	Sinohydro	June 21/2007	Apr. 20/2011	Ongoing
1.3	Gedio-Bako	66	China Hyway Group	Oct 12/2009	Apr. 13/2012	Ongoing
1.4	Bako-Nekemte	65	>>	Oct. 10/2009	Apr. 09/2012	Ongoing
2	**Upgrading Main Roads**					
2.1	Gondar-Debarke	100	Sinohydro	Apr. 01/2009	July 31/2012	Ongoing
2.2	Wukro-Adigrat-Zalabessa	96	China Railway No.3	Jun 22/2009	Dec. 22/2011	Ongoing
2.3	Asela-Dodola	117	Sinohydro	Aug. 16/2007	May 29/2011	Ongoing
2.4	Dodola-Goba	132	CGC Overseas	July 08/2006	May 20/2010	Ongoing
2.5	Butajera-Hosana	95	CRBC	July 4/2004	Nov. 14/2008	Completed
2.6	Harrar-Jijiga	104	Hunan Hunda	Jan 11/2006	May 17/2011	Ongoing
2.7	Mekenajo-Nejo	61	SIETCO	May 11/2004	Mar. 26/2008	Completed
2.8	Metu-Gore	26	CJCIETC	Aug. 31/2007	Dec. 31/2008	Completed
2.9	Gore-Gambella	143	CCC	Mar. 01/2007	Feb. 11/2011	Ongoing
3	**Upgrading Connecting Roads**					
3.1	Dansha-Humera	115	Hunan Hunda	Jan 14/2006	May 30/2010	Completed
3.2	Gobgobe-Gashana	86	CWE	Aug 1/2006	Dec. 20/2010	Completed
3.3	Gashana-Woldiya	108	CRBC	Aug 31/2006	Feb. 28/2010	Completed

3.4	Adigrat-Adiabun	109	CREC	Feb. 19/2005	Aug. 21/2008	Completed
3.5	Adiabun-Shere	92	CGGC	Aug. 21/2007	Jan. 19/2011	Ongoing
3.6	Shere-Adigoshu	156	>>	Nov. 2/2007	Nov. 2/2010	Ongoing
3.7	Adigoshu-Lugedie	157	Hunan Hunda	July 10/2007	Jan. 9/2011	Ongoing
3.8	Mela	85	CRBC	Aug 22/2007	Oct. 2/2010	Completed
3.9	Wadera-Negela	65	China Metallurgical	May 29/2009	Nov.25/2011	Ongoing
3.10	Afrar Hayike	96	CRBC	July 12/2007	July 15/2010	Completed
4	**Building Connecting Roads**					
4.1	Magna-Mechara	120	CGC Overseas	July 17/2007	Jan 14/2010	Ongoing
4.2	Kombolcha-Mekaneselam	180	>>	Feb. 20/2006	Mar. 25/2011	Ongoing
4.3	Mekanselam-Gendewoyne	139	>>	Feb 20/2006	Feb. 28/2011	Ongoing
4.4	Adiremet-Dejena-Dansha	98	Hunan Hunda	Feb 10/2009	Feb. 9/2012	Ongoing
4.5	Hawsewa-Abeqla-Arbetie	94	JZEC	Aug 21/2008	Feb. 20/2012	Ongoing
4.6	Arbetie-Afdara	117	CRSG	Aug 22/2008	Feb. 2/2012	Ongoing
4.7	Wacha-Maje	175	CWE	Sep. 25/2007	May 21/2011	Ongoing
4.8	Assosa-Bluenile	70	Sinohydro	Sep. 1/2007	Sep. 5/2010	Completed
4.9	Bluenile-Guba	57	>>	Sep. 5/2007	Sep. 4/2010	Completed
4.10	Assosa-Kurmuk	100	>>	Apr. 9/2009	Apr. 7/2012	Ongoing
5	Design Building Projects					
5.1	Addis Ababa-Adama	80	CCCC	Apr. 21/2010	Apr 20/2014	18.8 Ongoing
5.2	Alamata-Hewana	114	>>	Jan. 29/2008	July 26/2011	19.9 Ongoing

Source:- ERA (January 2011)

The Chinese construction firms, which are being carrying out 35 projects takes significant share in the rehabilitation and construction of new roads in the country. The dominance of Chinese construction firms in Ethiopia is prominently due to the low bid price they offer. However, the long stayed diplomatic ties between Ethiopian and Chinese governments, conducive environment for investment, the peace and stability, investment policies in the country, the position Ethiopia has in African politics (which China considers it indirectly), and China's grants of concessional loans are the other contributing factors for the dominance of Chinese firms in Ethiopia (Mr. Yared, 2011, Int.)

However, the Chinese wide investments in Ethiopia are not going without complaints. The complaints are about the quality of the constructions undertaken, the wage these firms pay for local workers, shortage of construction materials, and certain restrictions in the grant of loans from China (in some cases, loans from China are tied to construction projects to be undertaken only by the Chinese state-owned enterprise), lack of skilled manpower and etc (Capital, December 29, 2010:2).

As it can be observed from table 5, of the 35 projects being constructed by the Chinese firms at the federal level, it is only 11 of them which met their target and completed within the scheduled time. The other 24 projects have problems in their general performance (15 projects have serious problems including shortage of construction materials, lack of skilled manpower and shortage of finance, and the performance of the other 9 projects is weak due in part to mismanagements and natural disasters like landslide and flooding). Sometimes some of the machines and construction materials being used to carryout the projects are technically outdated which does not give proper service. Sum of these problems, even parts of the works the firms have completed are not up to standard (ERA, January 2011).

In this regard, a study that analyzed the impact of Chinese investment in Ethiopia has also found that the equipments and machineries imported duty free owing to the incentive scheme the government set out to develop infrastructure are technically outdated which after the projects are completed invariably does not give appropriate service (Capital, December 29, 2010). Due to this reason, the paper claims that the Ethiopian government seems becoming shortsighted in its relationship with Chinese Companies. Taking the telecommunication and construction sectors as a focal point, the study conducted by Alemayehu argue that Ethiopian government officials are concerned only about the expansion of projects without considering their quality. These problems in part are attributed to the level of skill and expert differences between Ethiopians and Chinese in negotiations and investment engagements (Ibid).

During an interview held with the Ethiopian News Agency on 16 November 2010, the Chinese Ambassador to Ethiopia, Mr. Gu Xiaojie, have reported that there are some challenges investing in Ethiopia such as slow decision, low efficiency, and random change of policies (The Daily Monitor, November 27, 2010). However, as stated above Ethiopia is facing much greater challenges than the problems mentioned. Thus, Ethiopia to benefit from its ties with China in the construction sector has to deal with these problems. Among the solutions to tackle the problems is ensuring weather a certain construction firm have the necessary equipments to accomplish a project before signing an agreement with it.

In addition, the ERA needs to have a system to monitor projects with certain frameworks from their beginnings to the end. This would enable it to take actions on the spot on those firms whose works are not up to standard before further wastage of resources and labor (Informant II, 2011, Int.).[4] However, this needs the country to have skilled manpower and professional experts with adequate knowledge of how to monitor construction firms. This is also what Alemayehu recommends. Ethiopia needs to use qualified consultants (from its diasporas or the private sector) with plentiful knowledge to deal with Chinese negotiators in areas of investment and new projects.

However, inline with the efforts at developing the country's skilled manpower and professional experts, there should be short-term solutions to the problems. One solution

[4] Informant II, Monitoring and Evaluation Team Leader, Ethiopian Road Authority, 5 February 2011.

in the short term is supervising the projects owned by the Chinese construction firms by the non-Chinese qualified experts from other countries (Interview with informant II, February 5, 2011).

In this regard, Alemayehu also stated Angola's experience where a Chinese company built a highway, which during a heavy rainy got damaged in that country. What the Angolans did on the second stage was that they gave the road project to other Chinese company, because their bidding price was much lower compared to the other international bidders. However, they made sure that the project was being supervised by a German company with a reputable experience in highway projects. In doing so, the Angolans have managed to make the road project up-to standard (The Reporter, December 29, 2010). This is one direction that the Ethiopian government could take in ensuring the quality of constructions by the Chinese firms.

4.3 Trade policies of Ethiopia

Different trade policies have been formulated in Ethiopia in the past, including import replacement/protection for infant industries during the imperial period, state managed trade during the Derg regime, and market oriented liberalized approach supported by trade related technical assistance in the most recent period. The first Ethiopian development plan in the 1960s advocated an import substituting strategy based on private ownership. Industrial development gained momentum after the imperial government introduced measures such as generous tax incentives, high level of tariff protection and easy access to domestic credit for domestic production of manufactured goods (Dan, 2010).

The military regime that came to power in 1974 nationalized all private large and medium scale manufacturing firms. The regime pursued an import substituting strategy combined with a command economic system. The industrial development strategy sought to promote industrialization behind high tariff walls and with government ownership. The manufacturing sector was weakened and the private sector was intentionally stifled. Due to these reasons, the contribution of the private sector to production and employment in medium and large scale manufacturing in 1988/88 was a mere 4 and 8 percent respectively (CSA, 1990).

The end of 1980s was the time when most countries in sub-Saharan Africa have moved away from in-ward looking development strategies as a reaction to the failure of previous import substitution polices. The reforms were generally undertaken with in the framework of structural adjustment programs under the auspices of the international financial institutions. Reforming trade policy, an important component of these programs included import liberalization through tariff reduction and the removal of non-tariff barriers (Ibid).

Since the regime change in 1991, Ethiopia like other sub-Saharan countries has undertaken extensive policy reforms to transform the economy into market oriented one. The new government adopted a structural adjustment program in 1992/93 and formulated the reform package which intended to compliment between trade liberalization and macroeconomic management in shaping the reform outcome. The trade reforms program aimed at first dismantling quantitative restrictions and then gradually reducing the level and dispersion of tariff rates. Six successive customs tariff reforms were implemented between 1993 and 2003. In the first round (August 1993) the maximum tariff was reduced from 230 percent to 80 percent. It was then gradually reduced and reached 35 percent in the six reforms round in 2003. The average weighted tariff rate has been reduced from 41.6 percent to 17.5 percent and the number of tariff bands has fallen from 23 to 6 including the zero rate bands (Bigsten et al, 2009).

Other reform measures introduced alongside the trade reforms include market liberalization and foreign exchange devaluation. Particular reference to coffee export, as of 1999, the number of coffee exporters reached more than 100 as compared to 17 during the Derg period. Prior to the liberalization of the coffee market in 1991, the Ethiopian Coffee Marketing Corporation, a state-owned company exported 95% of all coffee. However after the reform, the trade of raw coffee, chat, oilseeds and pulses is exclusively reserved for domestic investors pursuant to Art.1 of Federal Regulations no.84/2003 on

'Investment Incentives and Investment Areas Reserved for Domestic Investors'. However exports are supervised by the federal Ministry of Trade. Regarding foreign currencies, since 1992 the exchange rate has been determined by a weekly auction system (Lightboume, 2006:18).

Currently, the Ethiopian government is taking measures to reform the country's trade practice. It set to start re-registering all businesses in the country within a year by applying the new trade related laws passed by the parliament recently. According to these laws, every business to continue is required to fulfill the minimum requirements set by the specific industry/sector regulatory institution in order to renew its businesses license (Mr. Tariku, 2011, Int.).[5] These laws would enable the country to have accentual database of all business activities in the country and would make all businesses traceable and allow the Ministry of Trade to monitor the businesses. In addition, the Ministry will not issues general business licenses any more, i.e. a pharmacy trade license holder will not be allowed to sell cosmetics or other products than medicines. Mean while, if one wanted to do both, he/she has to get two different trade licenses (Ibid).

Although the perennial goal of Ethiopia's trade policy regarding its foreign trade has been to diversify its exports by reducing its dependency on few agricultural products as the interviewee underlined it. However, Ethiopia's export continues to have limited diversification. The country has a low share of trade in GDP, (not more than 7 percent of the total GDP), and its trade deficit has widened, leaving it dependent on financial assistance to pay its import bill (Dan, 2010:5).

[5] Mr. Tariku, Directorate Director of Trade Relations and Negotiations office, Ministry of Trade, 21 January 2011.

4.4 Ethiopia's Trade Performance

Ethiopia, which is the second most populous African country next to Nigeria is classified as low income. It is also one of the poorest economies in the world with per capital GDP of only US $ 300 in 2008. Periodic famine remains a severe constraint on the growth of per capital GDP. The agricultural sector, which accounts 45% of the GDP and more than 80% of export earning employs an estimated of 80% of the total labor force. The average GDP Growth rate is 2.9% from 1991 to 2000 but 7.8% in 2001-2008 (and 11.4 in 2004-2008) (Atkinson, 2009:25). Relatively rapid growth in the latter period reflected a buoyant world economy, inflows of donor aid, and investment (Particularly from the Gulf states and Asia prominently China), and Ethiopia's focus on Agriculture-led Industrialization and development of the service sector (Ibid).

Ethiopia's trade performance has shown good improvements in the past two decades though its share in the country's GDP is very minimal. A raw data complied by the Ministry of Trade shows that, Ethiopia's export earning rose by 64 percent to US $ 563.39 million in the first quarter of 2010/11 fiscal year, lifted by higher coffee and non-coffee products sales. In comparison, the country earned only US $ 343 million in the first quarter of 2009/10 (Ministry of Trade, November 2010). Such promising improvements in Ethiopia's export performance in part would enable the country to achieve its development goals. Since, foreign trade has a major role to play in ensuring sustainable socio-economic development.

Ethiopia's foreign trade, like most of the LDCs in Africa is largely dominated by primary products from the agricultural sector. Especially, coffee takes the lion share being the country's major export item for long period of time. Ethiopia competes actively in the world coffee market by taking some steps to improve the quality of its coffee (Hamouda, et al 2006:7). However, the share of coffee out of the country's total export nowadays is at a historic low. Prior to 2000, coffee export generated more than half (53%) of Ethiopia's export returns though the country's coffee production was only 2.2% of the worlds coffee production. However, coffee accounted only 35% of the country's total export in 2006 and 26.4% in 2009, and its share in the overall export of Ethiopia is likely continue to decline (USITC, 2008:5).

Table 6: Top 15 Export Commodities of Ethiopia, (2009/10)

Rank	Commodity	Value in US$	Percentage Share
1	Coffee	528,306,953	26.4%
2	Oil seeds (sesame seeds, flaxseed, etc)	358,515,300	17.9%
3	Gold	281,388,856	14.1%
4	Chat	209,525,313	10.5%
5	Flowers	170,195,147	8.5%
6	Pulses (beans, peas, lentils etc)	130,100,321	6.5%
7	Live Animals	90,739,762	4.5%
8	Hide skins	39,739,170	2.0%
9	Meat and meat products	33,999,375	1.7%
10	Vegetables	27,242,256	1.4%
11	Textile and Garments	22,860,780	1.1%
12	Spices	18,567,793	0.9%
13	Leather and leather products	15,760,381	0.8%
14	Mineral products	13,363,246	0.7%
15	Natural Gum	12,681,896	0.6%

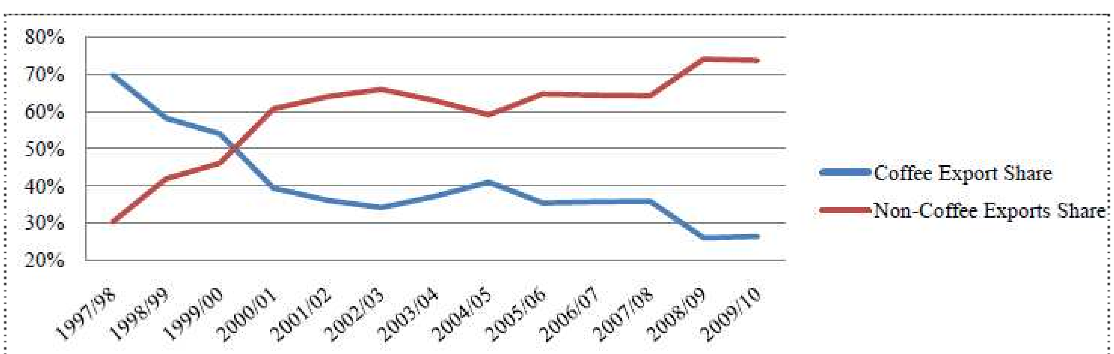
Source: Ethiopian Revenue and Customs Authority (2010)

In fact, trade figures show that coffee earnings African's biggest exporter hit US $ 184.7 million in the first quarter of 2010/11, compared with US $ 104.7 million in the year ago period. Ethiopia also earned US $ 528 million from coffee export in the 2009/10 fiscal year (The Daily Monitor, December 15, 2010). However, according to (Villanger, 2006), the prospect for coffee production in Ethiopia is not very promising in the long run, for at least four reasons. The demand for coffee in Germany, Sweden, Japan, Saudi Arabia, USA, Belgium, Italy and French (which these countries are the major importers of Ethiopian coffee), is not similar with what was prior to 2005. The first reason thus is, as the incomes of these countries that import coffee grow, the demand for coffee grows less. Hence, it is not expected that there will be any large increase in coffee demand and increase production would bring the price down.

Second, the price of coffee would increase little even if the demand should increase, and hence the revenue for farmers will not increase very much even in the best growth scenarios. Thirdly, the price of coffee has gone down relative to the price of the goods that Ethiopia imports. Coffee, which provided 65 percent of Ethiopia's export earnings a decade ago, is now down to less than 30 percent due to the low prices. Fourth, international commodity agreements have not fared well. Coffee-producing countries have tried to organize themselves in Cartels, (similar to what OPEC did for oil), in order to stabilize price at a higher level. However, the initiative has largely been ignored by the coffee producers. Because it is more costy for them to reduce production as compared to oil production (Ibid).

Ethiopia now has five major non-coffee exports (oil seeds, chat, flower, gold and pulses) which each bring in more than US $ 100 million per year compared to none in 2000. Currently, 15 products other than coffee shows annual exports of at least US $ 10 million compared to just five in 2000 (Access Capital Research, 2010). In the first quarter of 2010/11, oilseeds and flowers brought US $ 63.3 million and US $ 35.3 million respectively. The export of flower is estimated to earn up to US $ 100 million a year in the next few years (Ibid).

Figure 6: Relative Shares of Coffee Vs. Non-Coffee Exports



Source: Ethiopian Revenue and Customs Authority

Ethiopia also wants to boost leather sales by focusing on finished goods instead of raw exports. Leather and leather goods earned US $ 18.7 million in the first quarter of 2010/11 from US $ 11 million in the same period last year. The country's exports in the first three months of 2010 were also boosted by rising sales of Gold, and Chat (a narcotic leaf), which earned US $ 71.1 million and US $ 64.1 million respectively (The Daily Monitor, December 15, 2010).

According to more recent data, gold becomes Ethiopia's second source of export revenue. It overtook oilseeds in terms of generating the largest amount of foreign currency of the nation next to coffee constituting for US $ 179.2 million of over US $ 1.14 billion total export revenue the country got in the first half of 2010. Oilseeds lost its place generating only 102.8 million. Although its relative share has dwarfed, coffee fetched US $ 320 million during the same period (The Daily Monitor, March 7, 2011:10).

In comparison with Ethiopia's export of primary commodities, whose prices are volatile and render the local economy vulnerable, its imports are composed of capital and consumer goods. These products are mainly processed goods such as machinery and equipments, chemicals mainly fertilizers, and petroleum and its by-products as well as tyre (WTO Trade Profile, 2009).

Overall, the recent improvement in Ethiopia's trade performance should not be exaggerated and it should be seen in the broader context. Exports of goods in Ethiopia are only 7 percent of GDP, compared to an average of nearly 30 percent of GDP in sub-Saharan Africa. Export levels still fall short of what is registered by other African countries, (for example, Uganda and Tanzania, each export more than US $ 3 billion per year) and exports per person remains very low: only US $ 24 million in Ethiopia compared to US $ 200 million in sub-Saharan Africa and US $ 580 in developing Asia (Access Capital Research, 2010). Growth rates are also very modest if one makes comparison with Asian countries over a decade long time frame. For example, Ethiopia's total exports were higher than that of Vietnam in the 1980's but are now just a tiny fraction: US $ 2 billion in Ethiopia versus US $ 65 billion in Vietnam (Ibid:15).

In addition, according to (WTO Trade Profiles, 2009), Ethiopia's share in world total exports in 2008 was only 0.1 percent. Out of its total export, agricultural products accounted for 85.5 percent followed by the manufactures, and flues and mining products with 9.0 and 0.5 percent respectively. The main destinations of the country's exports during the same year were European Union, Saudi Arabia, United States, Switzerland and China. However in 2010, Germany, China, Somalia and Netherlands have become the major destinations of Ethiopian exports.

Table 7: Top 10 Export Destinations (2010)

Rank	Destination	Fob-Value-ETB
1	Germany	3,391,563,306.55
2	China	3,151,376,255.80
3	Somalia	2,850,441,790.79
4	Netherlands	1,990,202,203.22
5	Sudan	1,838,134,498.55
6	Saudi Arabia	1,835,298,182.30
7	Switzerland	1,772,792,123.09
8	United States	1,318,791,333.63
9	United Arab Emirates	1,044,106,767.67
10	South Africa	1,025,435,204.99

Source: Ministry of Trade (November 2010)

In contrast with Ethiopia's exports share in world total trade, its imports share was 0.5 percent, which shows significant trade deficit. Of its total imports the manufactures took 73.2 percent. Agricultural products, flues and mining products ranked second and third with 13.9 and 12.8 percent respectively. The main origin of the country's imports are China, Saudi Arabia, India and United Arab Emirates based on 2010 Ministry of Trade report.

Table 8: Top 10 Import Origins (2010)

Rank	Origin	CIF-Value–ETB
1	China	25,967,147,077.40
2	Saudi Arabia	12,944,648,365.2
3	India	7,977,455,561.25
4	United Arab Emirates	6,302,466,030.11
5	United States	6,066,701,290.94
6	Japan	6,668,799,701.31
7	Italy	4,811,741,517.59
8	Turkey	3,157,791,254.81
9	Malaysia	2,948,815,020.34
10	Germany	2,582,989,952.74

Source: Ministry of Trade (November 2010)

In sum, as the data compiled by WTO and the Ethiopian Ministry of Trade reveal that Ethiopia's trade deficit has continued on its widening trajectory. In 2009/10 fiscal year, the country imported a total of US $ 8.26 billion, overwhelming the US $ 2 billion export earning of the same period (The Reporter, October 16, 2010:3). This trade deficit of US $ 6.26 billion is more than threefold of the total export revenue. These figures show that still the deficit in the export sector has not improved from its level in the pervious period.

4.5 Ethio-China Trade

The bilateral trade between Ethiopia and China started in 1956. However, the trade exchange between the two countries was not significant until recent time. The total exchange of trade between them was US $ 100 million in 2002 (Alemayehu 2008:9); however, by 2009 the trade volume rose to US $ 1.98 billion showing an increase of 11.8 percent from the preceding year. Until the mid 2010, the trade exchange has reached more than US $ 1.1 billion, which is 27.6 percent increase when compared with last year's same period (Ministry of Trade, November 2010). During the same period, Chinese import from Ethiopia was US $ 215 million (being the 2nd destination of Ethiopia's exports next to Germany) which hit an increase of 163 percent compared to same time in the pervious year (Ibid). Overall, the trade volume between the two countries has continued to increase although trade figures remained largely in favor of China (Ibid).

Ethiopia's export commodities to China mainly include oils seeds (especially sesame seeds), skin, mineral ores and leather goods. As table 9 shows, the share of sesame seeds is found to be the highest out of the total exports of Ethiopia to China, followed by Niobium, Tantalum and Vanadium ores, and Tanned hides of Goats. In 2003, China's share in Ethiopia's overall export was a mere 0.7% (which ranked it 14 out of the 21 African countries) but this figure has grown to 4.88% in 2009 (Ibid).

Table 9: Top 10 Ethiopia's Export Items to China, (2010)

Rank	Items	Value in US $
1	Sesame seeds	180,460,471.40
2	Niobium, tantalum and vanadium ores and concentrates	10,438,010.26
3	Tanned /crust Hides/skins of Goats or kids in the dry state (Curst)	8,135,064.63
4	Natural Gums Resins Gum Resigns Natural Oleor'ins/Balsams /EXCL. Gum Arabic)	2,791,205.53
5	Leather prepared After Tanning /Crusting includes parchment Dressed leather	2,676,243.73
6	Chat	2,501,303.76
7	Oil-cake and other solid residuals of rape or colza seeds of low Erucic	2,280,755.06
8	Tanned /crust skins of sheep/ lamps in the dry state (crust)	2,157,986.39
9	Fresh chat	1,909,134.11
10	Rape or colza seeds, (EXCL, low crucic Acid Rape or Colza/; Nes	1,678,272.53

Source: Ministry of Trade (November 2010)

In terms of imports from China, the main commodities Ethiopia imports from that country include parts, structures and steel, machines, and woven fabrics. As it can be observed from table 10, Ethiopia's expenditure to import parts from China took worth of US $ 295.17 million followed by structures and parts of structure, and machines with US $ 92.36 million and US $ 85.16 million respectively. China ranked first out of those countries Ethiopia imports goods and Saudi Arabia and India are second and third origins of the country's imports.

Table 10: Top 10 Ethiopia's Import Items from China (2010)

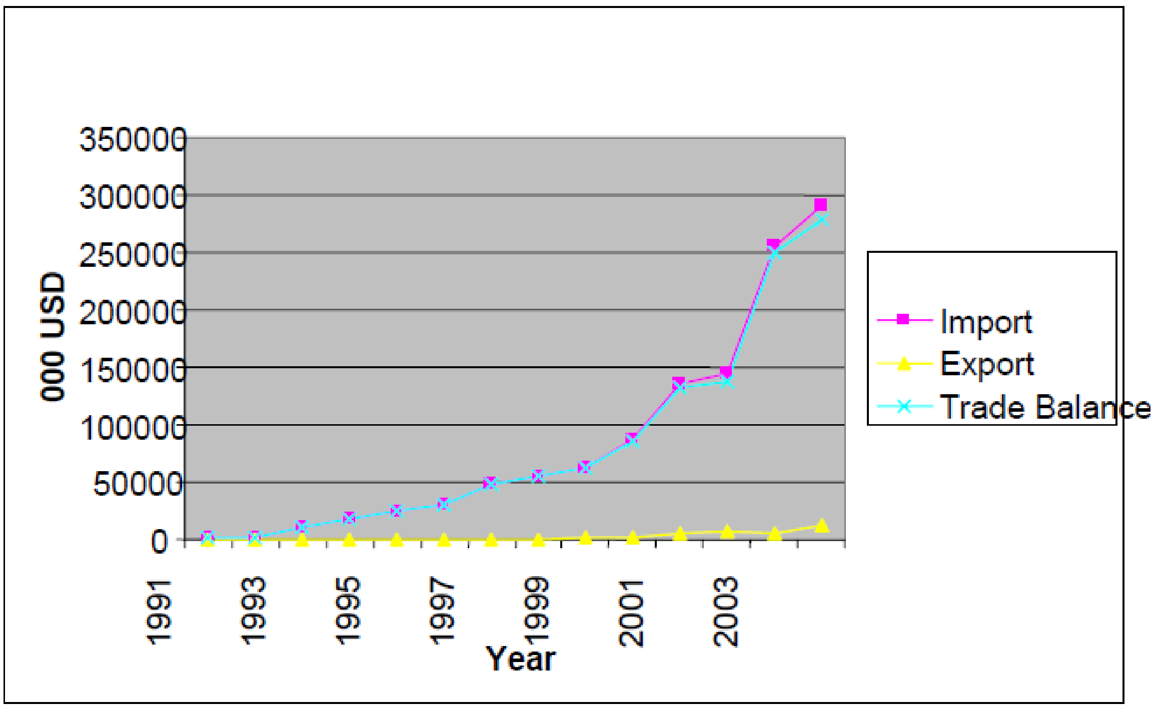
Rank	Items	Value in US$
1	Parts	295,170,420.29
2	Structures and parts of structures, Nes of iron or steel	92,361,080.31
3	Machines for the reception, conversion and transmission or regeneration of voice, image	85,162,183.02
4	Other woven fabrics or synthic yarn >=80% Textrd/Non-Textrd polystr Filmnt	55,652,090.54
5	Other machines for the reception conversion and transmission or regeneration	40,995,443.15
6	New pneumatic tyres, of Rubber a kind used on Buses or Lorries	36,134,627.54
7	Dumpers for off-Highway use	24,789,135.66
8	Other primary cues and primary Batteries, Nes	21,976,817.52
9	Fottwear, Nes, Not covering the Ankle of Rubber or plastics	18,224,795.50
10	Co-axial cable and other Co-axial electric conductors	17,060,839.74

Source: Ministry of Trade (November 2010)

Although trade figures show that the volume of Ethiopian exports to China has increased over time, the trade imbalance remains a structural problem in the trade relations between the two countries. The year 2002 saw the total trade value, (imports and exports), of the two countries reached US $ 100 million, of which China's export to Ethiopia accounted about US $ 96.43 million, however its import from Ethiopia was only US $ 3.69 million (Alemayehu, 2008). As it can be observed from table 11, the total trade value of the two countries in 2007 was US $ 1.14 billion, of which China's export to Ethiopia was about US $ 1.07 billion and import from Ethiopia about US $ 68.22 million. In the year 2009, Chinese export to Ethiopia was about US $ 1.83 billion where as Ethiopia's export to

China was US $ 147.17 million. Up to November 2010, the total trade value of the two countries hit to US $ 2.04 billion, of which China's export to Ethiopia was US $ 1.82 billion with imports China from Ethiopia being merely US $ 221.61 million (Ministry of Trade, November 2010). As these figures show, imports from China are expanding more rapidly than exports to China. Ethiopia's export to China was very minimal throughout the 1990s. Although it started to pick up in 2001, its relative share has been very minimal showing very huge gap between imports and exports resulting in a trade balance that favors China.

Figure 7: Balance of Trade between Ethiopia and China, 1991-2004



Source: Ministry of Trade (2005)

Table 11: Ethio-China Trade Balance, (2005-2010, Nov.)

year	Ethiopia's Export to China (Value in US$)	Growth (%)	Ethiopia's Import from China (Value in US$)	Growth (%)	Trade Balance	Growth (%)
2005	79,684,378.23	435.82	556,564,693.50	40.63	-476,880,315.27	25.20
2006	72,385,623.68	-9.16	686,083,607.90	23.27	-613,697,984.22	28.69
2007	68,225,452.41	-5.75	1,075,485,715.06	56.76	-1,007,260,262.65	64.13
2008	81,351,785.21	19.24	1,698,686,454.65	57.95	-1,617,334,669.45	60.57
2009	147,173,339.61	80.91	1,834,918,906.87	8.02	-1,687,745,567.26	4.35
2010	221,615,770.45	50.58	1,826,100,357.06	-0.48	-1,604,484,586.61	-4.93
Aver.	**97,901,130.13**	**95.27**	**1,153,370,391.30**	**31.02**	**-1,167,900,564.24**	**29.67**

Source: Ministry of Trade (2010)

There is hope that Ethiopia's massive trade deficit will narrow as the country's new factories export goods under preferential trade terms. In response to the imbalance, the country also needs to focus on diversifying the composition of exports and increase the number of value added products that it is producing. Inline with this, the Ethiopian government shall work on increasing the volume of its exports (Mr. Tariku, 2011, Int.). In 2010, there has been a significant decline in the export volume of some goods. For example, the country's leather export has shown decline for three successive years (The Reporter, October 16, 2010:3). In addition, the country need to focus on developing the manufacturing sector to gradually shift from the export of primary products to produced goods. In this regard, there has been good beginnings that the manufacturing sector has claimed the biggest projected capital investment of the projects granted investment license in the first quarter of 2010/11 with total amount of 19.5 billon birr followed by the agricultural sector and real estate development projects taking 6.7 billon and 2.7 billon birr respectively (Fortune, November 7, 2010). Moreover, what Ethiopia needs to continue to manage is China's comparative advantage in other investment areas like construction, ICT, infrastructure etc. Because it could be an indirect mechanism of dealing with the country's trade deficit.

In relation to this, a study conducted on the effects of FDI on trade balance has also found that, FDI and per-capital income growth affects trade share positively, while trade tax affect trade share negatively. Concerning exports as the study by Mengistu revealed, firms trade in the foreign market, after learning more about the socio-economic and political conditions for their trading partners, may establish subsidiary in the host country or they may embark on joint ventures with the local enterprises. Likewise, if imports are evidences that a market exists for a commodity, FDI might be attracted to the host country to produce the product locally (Mengistu, 2006:82).

Particular reference to Chinese investment to Ethiopia, it was estimated that the cumulative Chinese owned investment in the country in the year 2007 reached US $ 118 million averaging US $15 million per year, and this figure has reached to 2.5 billion in 2010. In terms of the number of Chinese FDI projects in Ethiopia, they constitute more than 15 percent of the total foreign owned projects under implementation in 2010 (Fortune, October 24, 2010:10). These Chinese investments could have a significant impact in dealing with the trade imbalance if they are managed properly.

The government of China is also taking various measures to strike the balance on trade volume exchange between the two countries. In 2003, China announced 190 tariff lines for special preferential treatment to be implemented starting January 2005. The number of tariff lines for Chinese preferential treatment increased from 190 to 442 in 2006. As a result, the bilateral trade increased from US $ 549.4 million in 2005 to US $ 1.8 billion in 2009 (Teigist, 2006). At a public lecture held on November 8, 2010, Chinese Ambassador to Ethiopia Mr. Gu-Xiaojio also explained that China has arranged zero tariff treatments, exhibitions and trade fair that benefit developing nations in response to the trade balance which is in favor of his country.

The suspension of tariffs mainly on agricultural products has been beneficial in boosting Ethiopian exports. For example, in 2005 sesame exports increased by 500 percent in direct response to China's zero-tariff policy. In addition, the Chinese government has followed the example of the US-sponsored AGOA; under which 6500 products are on the duty-free/quota-free list. The government provided special/differential treatment to 442 commodities, and Ethiopia currently is beneficiary of the Chinese preferential market access treatment which covers more than 95 percent of the country's export to China (Access Capital Research, 2010). Apart from such measures however, the allegedly unfair trade balance which is in favor of China remains as serious challenge in the trade relations between the two countries.

Imports from China also present its own opportunities and challenges. One and the major among the opportunities is the low prices of imports and hence affordability by the poor. When explained in percentage, some Chinese imports can be more than 75 percent cheaper than 'equivalent' imports from traditional sources, and up to 50 percent cheaper than the locally produced substitutes (Mr. Tariku, 2011, Int.). In a county with weak purchasing power and high level of deprivations and poverty, this could be an opportunity to improve the livelihoods of the poor. Due to this reason, cheap imports from China, especially in weak economy like Ethiopia, can create a more enabling macro-economic environment and can help in reducing inflationary pressure.

However, the challenges of cheap imports from China have been more pronounced than its opportunities. One among the underlined is the assurance that the Chinese imports meet the various quality and safety standards. China exports shoes, blankets, plastic products and toys with poor quality. In response to this, according to Mr. Tariku, the Ethiopian and Chinese governments has established the JCQC in which the Chinese inspection agency will inspect products before they are exported and these products must receive a certificate before they are allowed to be imported in Ethiopia. However, it has been reported that the improper implementation of the pre-shipment agreement remained as a problem waiting for further actions.

Second is the risk of emergence of Chinese monopolies in the medium or long term. This is especially the case since the majorities (nearly 70%) of Chinese enterprises in Africa are state-owned or closely tied to the central government or provincial governments. In line with this, there are also critics that China is impeding the quest for regional economic integration in Africa. Because, almost all Chinese investments are bilateral as the country favor this approach in its African engagements. This could be part of the global strategy of the Chinese state (Access Capital Research, 2010).

Another and more daunting challenge posed by the Chinese cheap imports is that, they eroded industries of many African countries. The Chinese goods are flooding local markets in Ethiopia crowding out locally produced goods. It has been noted that more than 90 percent of Chinese enterprises in Ethiopia are operating targeting the local market (USITC, 2008), in which this situation directly affects local industries. It again may intensify de-industrialization in Ethiopia too as it is already the case in South Africa and Nigeria, where imports from China are resulting in factory closures, and domestic job and income losses (Access Capital Research, 2010).

Moreover, cheap imports from China discourage diversification of the productive base of Ethiopian economy. The Chinese companies have also been criticized in various African countries for their environmental degradation, exploitative labor practices; and the use of Chinese, rather than local labor (USITC, 2008). At a public lecture held on November 8, 2010, the Chinese Ambassador to Ethiopia Mr. Gu-Xiaojio reported that Chinese enterprises bring laborers from China because some activities are time bounded. Otherwise, he said, Chinese companies are trying to engage in knowledge transfer and experience sharing.

4.6 Factors Holding Back Ethiopia's Trade Performance

There are a number of factors responsible for weak trade performance of Ethiopia. Primarily the country is dependent on the export of few primary commodities. What is immediately clear from observing Ethiopia's export profile is the country's dependence on the export of primary commodities, and this has its own drawbacks from the point of view of trade share (Reinert, 2009:6).

The challenges include the growing protection on primary commodity markets in developed countries. Primary exports from developing countries like Ethiopia could face numerous barriers in developed countries markets. The other is the monophonic pricing along commodity chains practiced by major primary commodity multinationals. This dependency problem was apparent, for example, as coffee export revenues fell by over US $ 100 million between 1999 and 2001, which was registered as coffee price fell to 30 year low. The decline in export revenue was more than offset the debt relief Ethiopia obtain from HIPC initiative (Ibid:7). In comparison, manufactures, machinery, petroleum and petroleum products represent the leading items of Ethiopia's imports.

The second factor that hinders Ethiopia's trade performance is its weak export capacity in terms of volume. When the Chinese Ambassador to Ethiopia Mr. Gu-xiaojio explained why the trade balance is in favor of China in its trade relation with African countries, he thought that the root cause of the trade imbalance is incapability of African countries to export commodities. For instance, Ethiopia's leather export figures dives for third year since the fiscal year 2007/08. The export of leather and leather products has been a lucrative venture that has been successful in fetching a significant amount of export revenue next to coffee. However, it has plummeted for the third year, (2007/08, 2008/09, 2009/10), in a raw data complied ERCA and NBE (The Reporter, October 16, 2010:3).

During fiscal year 2009/10, some US $ 56.4 million was collected from the export of leather and leather products, which is US $ 19 million short of the figures registered for past year. Much worse is the difference with fiscal year 2007/08, which is about US $ 37 million. The drop in the earning is mainly attributed to the fall in the volume that is sold on the international market. A mere 2,900 tones of leather was exported in 2009/10, a disappointing 4,4000 tones less than the volume offered for export in the preceding year (Ibid), and same trend has been observed on the export of other products. In addition, Ethiopia's limited export destinations and market access has its own adverse effect on the country's trade.

Following (Ciuriak, 2010), the other factors that hinder Ethiopia's export may be enumerated as follows:

- **High Trade Costs:** Ethiopia is one of the most difficult places in the world from which to engage in the global economy, ranking 123rd out of 155 countries in the World Bank's 2010 Trade Logistics Survey, and 159th out of 183 courtiers in terms of trading across borders in the World Bank's 2010 Doing Business Survey. Contributing factors include; the complexity of the process for exporting and importing, the long time it takes to export and import, slow and expensive transportation (road rather than rail transport), cumbersome customs procedures, and several indirect effects of the large trade imbalance and high direct trade costs work to further raise trade costs.
- **Thick Borders:** Ethiopia's trade with its immediate neighbors is comparatively low in good measures. This is because of the poor transport connection and inadequate border infrastructure. Ignoring the special cases of Djibouti and Somalia as well as oil imports from Sudan, the country's two-way trade with its neighbors in 2008 amounted to US $ 118 million, little more than one fifth the amount that would be expected given the size and proximity of these economies.
- **Private Sector Under-development:** Ethiopia's industrial structure is dominated by relatively small number of government-owned firms and conglomerates which features a high degree of concentration, and is characterized by relatively high administrative barriers to entry (Ethiopia ranks 93rd in the world in ease of starting business under the World Bank's Doing Business Methodology). According to the most recent survey of Ethiopia's manufacturing sector, there were only 1,930 manufactures in the country in 2009 defined as "large and medium scale" employing 133,673 persons and 43,338 "small scale" manufacturing establishments which are very small numbers for a country with population in excess of 80 million.

- **Producer Services**: Some of the most sought after services needed to accelerate the efficiency of production in the goods sector such as finance telecommunications and transport are inefficient in Ethiopia. Moreover, though Ethiopians service sectors has been expanding its share of GDP, there is some evidence to suggest that this expansion reflects in part the extraction of rents through high margins, which in turn works to reduce the competitiveness of the underlying industrial sectors. Since only the most profitable firms can engage in export markets, high producer service costs eliminate a swathe of potential industrial goods exporters from export markets.
- **High Tariffs Applied by Potential African Partners:** although Ethiopia has good access to global markets due to zero tariff in the major industrialized countries, it still faces significant tariff barriers in its African trading partners, with a simple average of about 9.54 percent in the countries that are parts of the TFTA.

In sum, the above stated conditions with the macroeconomic policy mix (the use of the exchange rate as an external anchor for domestic price stability); accounts for the yawning trade deficit and low trade share of GDP.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

This paper has attempted to investigate Ethio-China economic cooperation particularly trade relations and road construction since 1991. The economic cooperation between the two countries has shown much improvement since then. On the Ethiopian side, the change of economic policies following the change in leadership, all-round conducive environment for investment and Ethiopia's position in African politics; and on the Chinese side, its growing economic and political interests in Ethiopia and in Africa at large together with the country's non-intervention policy are found to be the contributing factors for the strengthening of economic ties between the two countries. In addition, Addis Ababa as head-quarters of the African Union, makes Ethiopia useful location for China to deal with delegations from other Africa countries.

Ethiopia and China support each other on political issues. Jointly with other African countries, Ethiopia supported China's claim to become the member of the United Nations Security Council. With strong support from Ethiopia and many other African countries, China defeated western countries anti-China proposal at the UN conference on human rights. Ethiopia also regards Taiwan as part of China, which is one of the major issues in Chinese foreign policy. In addition, the Ethiopian government sees China as a model for certain polices, especially in rural development and poverty alleviation. However, it would be difficult to adopt those policies and strategies without adjusting it to the particular circumstances and the realities in Ethiopia. This study has revealed that, given the similarities before China achieve such economic progress; its agricultural, trade and industrial development can provide practical lessons to Ethiopia.

The main purpose of this study was to critically examine economic cooperation between the two countries, particularly the trade relations and road construction. Accordingly, the study has revealed that there are various problems in the co-operations between the countries. The trade imbalance, especially, has continued to be serious challenge. Although Ethio-China trade showed significant increment over the period in question, this paper has revealed that Ethiopia has chronically run a negative balance in its trade with China, rendering the country highly dependent up on foreign aid to finance its imports. Ethiopia's trade deficit can largely be explained by the unequal terms of trade between agricultural commodities (the country's major exports) and capital goods (the country's major imports). It is known that international markets accords high price to value-added or manufactured goods than to primary agricultural products.

The data by the Ministry of Trade illustrate that there has been huge gap between imports from China and exports to it. Trade statistics to all fiscal years since 1991 also reveal the fact that the trade balance is largely in favor of China. Throughout the 1990s, the situation has shown little sign of improvement. The balance of trade deficit was US$ 829.4 million in 1992 and despite a brief amelioration in 1994 when the deficit declined to US$ 609.5 million (Teigist, 2006), it remained approximately the same in the following consecutive years. In the first 11 months of 2010, total trade between the two countries was US $ 2.04 billion, of which Ethiopian export to China accounted merely US $ 221.61 million (Ministry of Trade, November 2010).

This paper also examined the scope of operation of Chinese firms in Ethiopia especially in constructing roads. These Chinese firms account for 18 percent of the total foreign firms in the country. However, despite the positive impact they have on the overall socio-economic development of the country, this study revealed that the firms have posed numerous challenges as well. Firstly, much of their works are not up to standard. Of the 36 road construction projects being carried out by Chinese firms in 2011, about 27 are found to have problems in their general performance (ERA, January 2011). Second, they are aggressive to the point of alienating their Ethiopian competitors. This is because they often offer low bid prices in order to break into the local market, which clearly discourages local contractors. Thirdly, they deny the local laborers access to job since they bring laborers from China. Lastly, these firms could have dual purpose that they also promote the non-economic interest of the Chinese state here. An issue at this point to support the argument is that, most of the Chinese firms operating in Ethiopia are state-owned.

It is known that China has overtaken Japan as the world's second biggest economy. Thus, economic cooperation with the country has development effects, including trade, FDI and financial support/loan on concessional basis. Most of all, trade with China could help integrate Ethiopia more closely into the world economy. Generally, China's economic activity in Ethiopia may produce opportunities for the country's economic development if the Ethiopian government craft and implement policies that can promote the desired outcomes. This paper suggests that Ethiopia shall focus on the export of manufactured goods to narrow the trade deficit and it also needs to work on the development of professional experts to deal with issues of trade and foreign investment.

5.2 Recommendations

Although the economic cooperation between Ethiopia and China has shown progress in the last several years, there have also been numerous challenges in the cooperation scheme. The Ethiopian government needs to deal with the challenges to secure the country's relative advantage in its cooperation with China. In an effort to do so, the following issues might be taken in to consideration;

- It is clear that foreign trade has a major role to play in promoting development; therefore the government shall work on improving the country's trade performance. In an effort to improve trade performance, the Ethiopian government might focus on the export of manufactured goods than primary agricultural products. The country's export remains dependent on few primary products. In relation to this, the government in the medium and/or long term could try to increase the productivity of local industries, in which this will enable Ethiopian exports to become more competitive in reducing and complementing the attractiveness of imports. To make this achievable, the government again shall focus on supply side polices like, better training and education, better infrastructure and further actions on promoting privatization.

- The government may also consider devaluing the domestic currency, which makes Ethiopian commodities cheaper at least in the local markets and, imports more expensive. One among the major challenges being observed now is that due to the low price of imports from China, products of local industries are being pushed out of the market. However the government should pay the necessary attention when devaluing and depreciating the currency especially during the time when the terms of trade are deteriorating. It must be the case that the government needs to see the impact of devaluation on the level of export and import. If devaluation encourages export performance than the damage it causes to restriction of import, then it can be perused. If the opposite materializes, devaluation brings damaging effect on the country's economy. In connection with this, reducing consumer as well as government spending by increasing tax in a way it would not cause a fall in economic growth could be another way of dealing with the trade deficit with China.

- In addition the country's export capacity needs to be diversified both in terms of export potential and export destinations. Ministry of trade report to the 2010/11 fiscal year shows that Ethiopia's export fall short of target in the first half of the fiscal year when coffee, oilseed and flower sales missed forecasts (The Daily Monitor, March 7, 2011:10)

- The government needs to strengthen its effort to secure alternative development assistances, private capital for investment, private remittances, and so on to address the supply and productive capacity problems of the country thereby bolster the export capacity.

- Concerning the challenges related to investments, particularly in constructing roads, the government should work on the training of experts and professionals who can successfully be able to deal with the Chinese construction firms regarding road construction and/or any other areas of investment.

- The government shall also make special treatments to local firms to enable them to compete and engage in a joint venture with the Chinese as well as any foreign firms. This undoubtedly will have positive impact on development of the country in the short term and/or long run.

- The final recommendation in this context is that, Chinese concessional loans and aid should follow the direction of Ethiopia's interest if it is found to be productive. It has been reported that the Ethiopian government signed restrictive concessional loan agreements with China (Capital, December 29, 2010:2). The government shall reasonably acknowledge that development cooperation aimed at providing long term support in terms of resource mobilization is crucial for enhancing the positive impact of trade and investment and then promote overall socio-economic development.

In sum, the above suggestions are somewhat general. Hence, a closer look and investigations on economic and political uncertainties, analysis of the political motives which are being presented in economic terms, and the role of the government in ensuring the country's advantages and building confidence of foreign firms are very important to boost exports and further assist the country's development efforts.

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Appendix

Semi-Structured Interview Questions Prepared for High Ranking Officials of the Ministry of Trade and Ethiopian Road Authority

I: Interview Questions Prepared for Officials Working at the Ministry of Trade

1. What are the major contributing factors for the boom of Ethio-China Trade?
2. What constitutes the major export items which Ethiopia exports to China?
3. Although there has been growth in Ethiopia's overall export performance, the country still maintains serious trade deficit with China. What is done and is there any proposed policy direction which can help to deal with the problem?
4. Data reveal that Ethiopia's export to China is highly dependent on few agricultural products (especially Oilseeds), and this is considered as a major factor for the countries trade deficit. What measures have been taken to diversify exports?
5. What do you think are other mechanisms at least to decrease such exaggerated trade imbalance?
6. It has been reported that some imports from China are poor in quality. Is there any agency to monitor the quality of importing goods?
7. Do you think such huge imports would have an impact on the country's economy negative or positive? How?
8. There has seen great shift in the cooperation (especially in economic areas) from the 'West' to China. What are the major reasons as far as Ethio-China Economic cooperation is concerned?

II. Interview Questions Prepared for Officials Working at the Ethiopian Road Authority

1. How many road construction projects are owned by Chinese enterprises currently in Ethiopia?
2. Most Chinese enterprises are state-owned. What do you think are the challenges and opportunities?
3. It is observable that many Chinese citizens engaged in constructing roads from managerial level to the least levels. What is your reflection on this issue?
4. There are rumors on the quality of constructions carried out by Chinese firms. Do you think it is true? If yes, what do you think are the solutions?
5. Do you have scheduled time to meet and talk to the Chinese about the overall activates being carried out?
6. People working at the Chinese companies are not willing to give information about what and how they are doing? What do you think is the reason?
7. What are the major differences between the Chinese and local firms in the construction sector?
8. What would be the challenges and opportunities of the dominance of foreign construction firms in the country?
9. Is there any special treatment to local firms in the construction sector?
10. Some projects are not completed within the scheduled time. Is there any mechanism to deal with this problem which is authorized by law?

III. List of People Interviewed

Name	Position	Date
Mr.Yared	Staff member of Engineering Technical Support Office at ERA	3 February 2011
Informant I	Directorate Director of Road Asset Management and Implementations Office at AACRA	7 February 2011
Informant II	Monitoring and Evaluation Team Leader at ERA	5 February 2011
Mr. Tariku	Directorate Director of Trade Relations and Negotiations Office at the Ministry of Trade	21 January 2011