How to Tame the Dragon: Understanding Ethiopia's Success in Attracting Chinese Private FDI

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Abstract

This thesis follows up on the sectoral shift in Chinese outward foreign direct investment from resource extraction towards manufacturing, brought about by increased involvement of private enterprises. These private companies carry the potential to further Sub-Saharan African (SSA) countries' economic growth through capital injection, technology spillover and increased intercompany linkages. However, SSA countries differ in their success to attract this beneficial form of investment, therefore, the main question of this thesis is what explains Ethiopia's achievement in attracting large flows of Chinese private investment, while other SSA countries failed to do so. To answer this question, the thesis utilizes Dunning's Eclectic theory of FDI with particular focus on locational advantages, furthermore, it analyses the Sino-Ethiopian diplomatic relations, to find if there are special links between the two countries, enabling the investment tide. The thesis's main findings are that Ethiopia does own some specific locational advantages, however, it fares below the regional average in most indicators. Therefore, its special political relation with China, along with its government's incentive structure and focus on manufacturing are crucial driving factors in attracting private Chinese enterprises to the country's manufacturing sector.

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List of Abbreviations

AGOA – African Growth and Opportunity Act
COMESA – Common Market for Eastern & Southern Africa
CSOE – central state owned enterprise
DAC – Development Assistance Committee
DPA – direct production activity
EBA – Everything But Arms
EIC – Ethiopian Investment Commission
EPRDF – Ethiopian People's Revolutionary Democratic Front
FDI – foreign direct investment
FOCAC – Forum on China-Africa Cooperation
GDP – gross domestic product
GTP – Growth and Transformation Plan
LOC – Latin America and the Caribbean
MFEZ – Multi-Facility Economic Zone
MNC – multinational corporation
MOFCOM – Chinese Ministry of Commerce
NCSOE – non-central state owned enterprise
OECD – Organization for Economic Cooperation and Development
OFDI – outward foreign direct investment
OLF – Oromo Liberation Front
OLI – ownership, location, internalization
PE – private enterprise
PPP – purchasing power parity
SDPRP – Sustainable Development and Poverty Reduction Program
SEZ – Special Economic Zone
SME – small and medium-sized enterprise
SOC – social overhead capital
SOE – state owned enterprise
SSA – Sub-Saharan Africa
TPLF – Tigray People's Liberation Front
UNCTAD – United Nations Conference for Trade and Development
UNECA – United Nations Economic Commission for Africa

Introduction

Most Western media outlets, as well as some scholars, loudly claim that China's new engagement in Africa provides an alternative way of financing for dictators, enabling them to circumvent the conditions of good governance and transparency required by Western investors, and thus make the rich richer and the poor poorer.[1] The ground for these accusations can be found in China's surging interest in Africa, demonstrated by the rapid rise in Chinese investments arriving to the continent during the last 15 years, starting from $75 million in 2003 and reaching $2,517 million already in 2012, targeting all African countries, except of the four, which still maintain diplomatic relations with Taiwan.[2] Besides the swift increase in the invested sums, what makes China's presence even more apparent in the continent is the nature of its projects, having the country's large state owned enterprises focus on resource extraction and infrastructure development, both areas prone to international attention. Finally, the two main issues, drawing international criticism are, first, the relative freedom of Chinese state owned enterprises to invest in countries with low human rights records, compared to companies of Paris Club countries. Second, China's tendency to combine aid, trade and investment, strongly condemned for a long time by members of the Development Assistance Committee, the main aid organ of the OECD, as neo-colonial.

Nevertheless, an increasing amount of scholarly literature demonstrates the falseness of these accusations on multiple grounds.[3] First, as Brautigam, Alden and many others point out,

[1] "Mr Hu's Mission to Khartoum | The Economist," accessed May 19, 2018, https://www.economist.com/node/8630782; Human Rights Watch (Organization), *World Report 2007* (New York; London: Seven Stories ; Turnaround [distributor, 2007), 3, http://www.hrw.org/wr2k7/wr2007.pdf.

[2] United Nations Conference on Trade and Development, *Bilateral FDI Statistics 2014*, 2014; Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford [England] ; New York: Oxford University Press, 2009), 278.

[3] Brautigam, *The Dragon's Gift*; Chris Alden, Daniel Large, and Ricardo Soares de Oliveira, eds., *China Returns to Africa: A Rising Power and a Continent Embrace* (London: Hurst, 2008).

China never 'left' Africa, but maintained investment and aid flows even in times of domestic austerity measures under Mao, therefore its engagement with Africa is by no means new. Second, Chinese investment in countries experiencing crisis, might not have worsened, but rather improved their situation, as did the comprehensive framework of aid, trade and investment in multiple instances.[4] Third, as Kaplinsky and Morris point out, one must not presume a homogenous China or Africa, because it obscures the various tendencies happening simultaneously and the diversity of actor- and country-specific features.[5] They demonstrate that Chinese companies investing into resource extraction are the Central State Owned Enterprises (CSOE), which pursue official policy aims of the Central Committee, for example to secure energy supply for domestic growth. However, although being the first and major Chinese investors in Africa, they constitute decreasing share of African Chinese engagement.[6] Moreover, as we will see from the brief overview of existing literature later on, newly arriving Chinese companies led by private investors are mostly focusing on the manufacturing sector, and thus, consistent with the theoretical literature, presented in the subsequent paragraphs, carry the potential of furthering host country economic growth.

As the few existing studies on the topic demonstrate, however, not all Sub-Saharan African countries are equally successful in tapping into this beneficial tide of Chinese private investment.[7] Therefore, the question arises, what determines a country's success in attracting Chinese private investors. In order to answer this question, the present thesis will analyze the case of Ethiopia, which shows outstanding achievement in attracting Chinese investment.

[4] Brautigam, *The Dragon's Gift*, 273–92.
[5] Raphael Kaplinsky and Mike Morris, "Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons," *The European Journal of Development Research* 21, no. 4 (September 1, 2009): 5, https://doi.org/10.1057/ejdr.2009.24.
[6] Kaplinsky and Morris, 555.
[7] Xiaofang Shen, "Private Chinese Investment in Africa : Myths and Realities (English). Policy Research Working Paper; No. WPS 6311" (World Bank, Washington DC, 2013), 9, http://documents.worldbank.org/curated/en/488211468216585858/Private-Chinese-investment-in-Africa-myths-and-realities.

Hence, the main question of the thesis is what determines Ethiopia's success in attracting Chinese private investment into its manufacturing sector.

The theories, which lay the foundation for expecting FDI into the manufacturing sector to further economic growth, are put forward in Hirschman's *The Strategy of Economic Development*, and Romer's Endogenous Technological Change. In his seminal work, *The Strategy of Economic Development*, Hirschman outlines two major paths for economic growth, which are both instrumental from an FDI point of view.[8] The first is the interplay between social overhead capital (SOC) and direct production activities (DPA), where he concludes that development programs mostly overemphasize SOC investments, which is also the case in Chinese investment in Africa, given that they constitute the most secure form of investment, although SOC shortage, resulting from excessive DPA investment can further growth quicker. Hence, he advocates investment into direct productive activities, besides infrastructure development.

The second growth aspect is the induction of investment activities within the DPA sector, through forward and backward linkages. Hirschman's main insight here, is that industry A can trigger the emergence of further industries, which can supply the input products for A, representing backward linkages, reaching back from secondary and tertiary to primary sector, inducing wide and in depth economic development. As for forward linkages, they can strengthen the effect of backward linkages, by creating an ex ante supply for future emerging industries, however they are not on their own sufficient for triggering new industries.

For the present thesis' analysis on Chinese PEs increasing investment into African manufacturing, Hirschman's crucial insight is that manufacturing industries develop

[8] Albert O. Hirschman, *The Strategy of Economic Development* (New York: Norton, 1978).

significantly more linkages than agriculture or mining, and thus contribute to economic growth more. Therefore, developing countries should aim at hosting such investments.

The second theory, which is instrumental when analyzing effects of FDI, is the endogenous growth theory, put forward, for example, by Romer, who stresses that economic growth is driven by domestic R&D activities and human capital accumulation. In developing countries, however, these two are rather scarce, therefore technology spillover brought about by specific FDI activities can be crucial to launch developing countries' growth trajectory.[9]

Despite the straightforward argumentation of these theories, empirical research on FDI provides us with highly ambiguous results, as demonstrated by this paragraph briefly and the literature review more in detail. Nevertheless, FDI to manufacturing might be the key in this regard as well. When researching the effects of FDI on domestic economic growth, numerous authors demonstrate effective technology spillover to domestic firms, increasing their productivity, however, multiple scholars claim the opposite as well.[10] When researching this controversy, Wang demonstrates on East Asian data, that the diverse effect of different FDI sectors can most likely account for these uneven results. She points out that FDI to the manufacturing sector, compared to non-manufacturing sectors, furthers economic development significantly, where the latter has no positive impact at all. As an explanation, she suggests that technology spillover is best enabled by investments into manufacturing, regardless of being labor-intensive (textile, leather, clothing) or R&D-intensive (IT, machinery) industry, through

[9] Paul M. Romer, "Endogenous Technological Change," *Journal of Political Economy* 98, no. 5 (1990): S71–102.
[10] Richard E. Caves, "Multinational Firms, Competition, and Productivity in Host-Country Markets," *Economica* 41, no. 162 (1974): 176–93, https://doi.org/10.2307/2553765; Magnus Blomström and Håkan Persson, "Foreign Investment and Spillover Efficiency in an Underdeveloped Economy: Evidence from the Mexican Manufacturing Industry," *World Development* 11, no. 6 (June 1983): 493–501, https://doi.org/10.1016/0305-750X(83)90016-5; Ari Kokko, Ruben Tansini, and Mario C. Zejan, "Local Technological Capability and Productivity Spillovers from FDI in the Uruguayan Manufacturing Sector," *Journal of Development Studies* 32, no. 4 (April 1996): 602–11; Mona Haddad and Ann Harrison, "Are There Positive Spillovers from Direct Foreign Investment?: Evidence from Panel Data for Morocco," *Journal of Development Economics* 42, no. 1 (October 1, 1993): 51–74.

direct training of employees, or domestic participation in research, as well as copying new technologies.[11]

This claim is further supported by Chuang and Hsu, as well as Chuang and Lin, who analyze data on Chinese and Taiwanese manufacturing industry, respectively, and provide solid evidence that FDI into manufacturing sector prompts intra-industry technology spillover, resulting in substantial productivity growth of domestic firms.[12] As the literature review will demonstrate in detail, studies on Sub-Saharan African, and particularly on Ethiopian data deliver similar results about manufacturing FDI's effectiveness, therefore this thesis will take this finding as the basis of analysis and feel encouraged to ask what the driving factors behind Ethiopia's success in attracting the beneficial form of Chinese private FDI might be.

To determine the most significant factors of attraction, theories on the behavior of multinational corporations (MNC) can provide a useful rod of measure. Since the late nineteenth century, academicians developed an abundant body of literature on the determinants of FDI, regarding the issue from multiple angles. Accordingly, several categorizations exist as well, differentiating for example based on presumption of perfect or imperfect markets, or micro and macro determinants etc.[13] One of the most comprehensive theories describing multinational corporations' (MNCs') choices to invest abroad is Dunning's Eclectic (OLI) Theory, which unites three components, namely the ownership, local and internalization aspects.[14] Ownership refers to the superior knowledge a company holds in profit generating

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[11] Miao Wang, "Manufacturing FDI and Economic Growth: Evidence from Asian Economies," *Applied Economics* 41, no. 8 (March 2009): 996; 998.
[12] Yih-Chyi Chuang * and Pi-Fum Hsu, "FDI, Trade, and Spillover Efficiency: Evidence from China's Manufacturing Sector," *Applied Economics* 36, no. 10 (June 10, 2004): 1103–15, https://doi.org/10.1080/0003684042000246812; Yih-Chyi Chuang and Chi-Mei Lin, "Foreign Direct Investment, R&D and Spillover Efficiency: Evidence from Taiwan's Manufacturing Firms," *Journal of Development Studies* 35, no. 4 (April 1999): 117–37, https://doi.org/10.1080/00220389908422583.
[13] Imad A. Moosa, *Foreign Direct Investment: Theory, Evidence and Practice* (Basingstoke, Hampshire: Palgrave Macmillan, 2002), 23.
[14] John H. Dunning, "The Eclectic (OLI) Paradigm of International Production: Past, Present and Future," *International Journal of the Economics of Business* 8, no. 2 (July 2001): 173–90,

assets compared to its competitors, locality describes the advantages arising from investing in a particular country, and internalization accounts for the degree to which it is more desirable for a company to acquire control over a foreign firm, instead of leasing or selling its superior assets. The present thesis will utilize this framework, especially the location aspect, to determine the crucial features of Ethiopia's success in attracting Chinese private FDI.

Before starting the main body of the thesis, however, the two main concepts, around which the thesis revolves, need clarification. These are foreign direct investment and private enterprises, as understood in the case of China. In all definitions of FDI, which separates it from other forms, such as portfolio investment, the crucial concept is control, meaning that the investor aims to acquire a say in the operation of the new company.[15] The simplest way to measure influence is through the share of assets held by the investor, therefore, an investment will be considered FDI, if the investor acquires a minimum of 10% share in the company. Moreover, forms of capital injected into the firm, encompass reinvested profits, as well as direct capital transfers from the parent firm.[16] As for private enterprises in China, one has to keep in mind that privatization saw multiple rounds, and was never fully finished. Meaning that the state withholds politically crucial industries, such as military and petroleum extraction, moreover, even where it allowed the private sphere to enter, it retained partial ownership, therefore, despite some 20-20% of pure ownership structures at the two ends of the spectrum, the greatest amount of enterprises demonstrates a mixed, public-private, ownership pattern.

https://doi.org/10.1080/13571510110051441; John H. Dunning, "The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions," *Journal of International Business Studies* 19, no. 1 (March 1, 1988): 1–31, https://doi.org/10.1057/palgrave.jibs.8490372.

[15] Moosa, *Foreign Direct Investment*, 1; Robert E. Lipsey, "Foreign Direct Investment and the Operations of Multinational Firms: Concepts, History, and Data," in *Handbook of International Trade*, ed. E. Kwan Choi and James Harrigan (Oxford, UK: Blackwell Publishing Ltd, 2003), 3, https://doi.org/10.1002/9780470756461.ch10.

[16] International Monetary Fund, ed., *Balance of Payments and International Investment Position Manual*, 6th ed (Washington D.C: International Monetary Fund, 2009); Organisation for Economic Co-operation and Development et al., eds., *OECD Benchmark Definition of Foreign Direct Investment*, 4. ed (Paris: Organisation for Economic Co-operation and Development, 2008).

Hence, for the sake of this thesis, drawing on previous studies, I will consider private enterprises those with more than 50% private ownership. [17]

The remainder of the thesis is structured as follows. The literature review displays the scholarly debate around the effectiveness of FDI generally, as well as particularly in Africa. Moreover, it maps out the various arguments concerning Chinese engagement in Africa, with particular focus on the transition from state owned to private enterprises, as well as the existing research on the determinants of Chinese private enterprises' location decisions, to set the stage for the present thesis' analysis. The subsequent and main case study chapter utilizes Dunning's Eclectic theory to determine the crucial natural and infrastructural endowments of Ethiopia, as well as the government incentives put in place to attract manufacturing FDI. Furthermore, it analyses Ethio-Chinese bilateral political relations, to determine their effect on private enterprises location decisions. Finally, the Conclusion summarizes the main findings of the thesis and draws consequences for the broader academic field of international political economy.

[17] Kaplinsky and Morris, "Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons," 552; Yi-min Lin, *Dancing with the Devil: The Political Economy of Privatization in China* (Oxford New York: Oxford University Press, 2017).

Chapter 1: Literature Review

Since the East Asian growth miracle, starting with Japan in the mid twentieth century, followed by the Southeast Asian 'Tigers' and ultimately with China, foreign induced development became increasingly a target of research, in order to understand the reasons behind success in Asia and failure elsewhere, and to draw consequences for newly developing countries, particularly in Africa. Hence, a wide range of literature analyzes the effects of FDI on various developing economies, ranging from South America through Eastern Europe to East Asia.

Impact of FDI Generally on Developing Countries

The results of studies on FDI effectiveness are highly mixed. Some of them find that FDI does not exert any effect, or its effect is even negative, whereas others demonstrate clear positive effects through technology spillover, especially by FDI to the manufacturing sector. Kokko et al. find, using firm-level data from Uruguay, that FDI only exerts positive effect in case of low technology gap between foreign and domestic firms, pointing to the fact that a basic domestic absorptive capacity is needed to take over new forms of technology, which claim is also supported by Borensztein et al.[18] This finding is partially contradicted by Chuang and Hsu, however, who, on Chinese census data find that technology spillover is more visible on low-technology groups, displaying the potential for larger improvement.[19] This contradiction might be solved through pointing to the higher basic skills of Chinese companies.

The positive effect of FDI to manufacturing is also confirmed by Blomström and Persson on Mexican data, as well as Wang, who analyses panel data from 12 Asian countries

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[18] Kokko, Tansini, and Zejan, "Local Technological Capability and Productivity Spillovers from FDI in the Uruguayan Manufacturing Sector," 5, 9–10; E. Borensztein, J. De Gregorio, and J-W. Lee, "How Does Foreign Direct Investment Affect Economic Growth?," *Journal of International Economics* 45, no. 1 (June 1998): 133–34, https://doi.org/10.1016/S0022-1996(97)00033-0.
[19] Chuang * and Hsu, "FDI, Trade, and Spillover Efficiency," 1113–14.

through 10 years, showing also, however, that FDI to resource extraction shows significant negative influence. While confirming FDI's positive effect, Chuang and Lin also show on Taiwanese data, that FDI is an effective substitute for domestic R&D, which would otherwise drive productivity improvements. On the other hand, contrary to the analyses mentioned above, Haddad and Harrison, do not find any connection between increased foreign presence and growing productivity of domestic firms in Morocco.[20] Hence, based on the above quick overview, one can conclude that FDI generally can have ambiguous effects on host country economies, depending on its target sector, with manufacturing being positive, whereas resource extraction negative, as well as on host country factors, such as development level and government policies. Therefore, developing country governments have the responsibility to formalize their policies to attract and make use of the more beneficial types of investment. The extent in which FDI benefitted African countries so far will be assessed in the next section.

Impact of FDI Generally on Africa

Contrary to the surging amount of research on the impact of FDI on developing countries, the impact of international FDI on Africa seems to be a less popular topic among researchers. One important recent analysis on FDI's effect specifically on Sub-Saharan Africa, however, is the one of Jugurnath et al. from 2016, utilizing static and dynamic regression to determine FDI's effect on the continent. They find that it has a significant and positive effect on growth, through technology and know-how transfer, job creation, and, importantly, through motivating local private enterprises' quality improvement through competition. Nevertheless, the ratio, in which

[20] Wang, "Manufacturing FDI and Economic Growth"; Chuang and Lin, "Foreign Direct Investment, R&D and Spillover Efficiency"; Blomström and Persson, "Foreign Investment and Spillover Efficiency in an Underdeveloped Economy"; Haddad and Harrison, "Are There Positive Spillovers from Direct Foreign Investment?: Evidence from Panel Data for Morocco."

specific countries can utilize it, depends on their own endowments, especially on the level of education, with higher levels enabling higher spillover from foreign firms.[21]

Analyzing the effect of FDI on SSA between 1990 and 2003, Adams finds that current FDI has significant negative effect on domestic investment (DI), which shows out crowding of domestic firms from the market, whereas lagged FDI does exert some positive influence, attributable to the establishment of backward linkages. In total, he finds that when controlled for country-specific variables, FDI has no positive influence on the region, therefore improved government policies are needed, along with improving absorptive capacity of domestic firms.[22]

Obwona's research on the determinants and impact of FDI to Uganda shows that FDI has a significant influence on GDP growth in the country, and demonstrate that macroeconomic and political stability, along with policy consistency are the most significant factors to encourage foreign direct investment, which insight will be utilized in the present thesis' analysis.[23]

Chinese FDI Generally

Research on Chinese FDI around the world shows similar results to analysis on FDI regardless of nationality. Authors highlight the danger of extractive investments, out crowding of local companies on the one hand, whereas benefits of technology spillover on the other.[24] Peters' research on Chinese FDI targeting Latin America and the Caribbean (LOC) is important

[21] Bhavish Jugurnath, Nitisha Chuckun, and Sheereen Fauzel, "Foreign Direct Investment & Economic Growth in Sub-Saharan Africa: An Empirical Study," *Theoretical Economics Letters* 06, no. 04 (2016): 805, https://doi.org/10.4236/tel.2016.64084.

[22] Samuel Adams, "Foreign Direct Investment, Domestic Investment, and Economic Growth in Sub-Saharan Africa," *Journal of Policy Modeling* 31, no. 6 (November 2009): 942–46, https://doi.org/10.1016/j.jpolmod.2009.03.003.

[23] Marios B. Obwona, "Determinants of FDI and Their Impact on Economic Growth in Uganda," *African Development Review* 13, no. 1 (June 2001): 67–69, https://doi.org/10.1111/1467-8268.00030.

[24] Randall Morck, Bernard Yeung, and Minyuan Zhao, "Perspectives on China's Outward Foreign Direct Investment," *Journal of International Business Studies* 39, no. 3 (2008): 337–50; Yuping Zhou and Sanjaya Lall, "The Impact of China's FDI Surge on FDI in South-East Asia: Panel Data Analysis for 1986-2001," *Transnational Corporations* 14, no. 1 (2005): 41–65.

to highlight, however, given that it provides a significant point of reference for studying FDI arriving to Africa, documenting a similar rise of Chinese investments since the 2000s, reaching even greater heights than in Africa, making LOC the second largest recipients of Chinese FDI. However, she displays that 87% of the arriving Chinese FDI is still public, with 99% of it targeting resource extraction.[25] Therefore, her research can act as a warning sign for other developing regions that targeted government policies are needed to attract private investment, offering real economic benefits.

Chinese General FDI in Africa

Given the apparent rise of Chinese engagement in Africa, several studies have been conducted to determine its effects on the continent from different angles.[26] For a long time, the loudest voices in global conversation were the ones of western leaders and journalists condemning China for looting Africa's riches and enabling oppressive regimes to flourish despite the all the western effort to plant the seeds of good governance in the continent, which narrative is still alive and well today.[27] Recently, however, increasing scholarly literature

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[25] Enrique Dussel Peters, "Chinese FDI in Latin America: Does Ownership Matter?," *Working Group on Development and Environment in the Americas, Discussion Paper*, no. 33 (2012): 1.

[26] Ivar Kolstad and Arne Wiig, "Better the Devil You Know? Chinese Foreign Direct Investment in Africa," *Journal of African Business* 12, no. 1 (March 28, 2011): 31–50, https://doi.org/10.1080/1536710X.2011.555259; Kaplinsky and Morris, "Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons"; Sukalpa Chakrabarti and Ishita Ghosh, "FDI in Africa: A Comparison of the Indian and Chinese Experience," *Procedia - Social and Behavioral Sciences* 157 (November 2014): 340–52, https://doi.org/10.1016/j.sbspro.2014.11.038; Stuart John Barton, "Sino-Substitution: Chinese Foreign Direct Investment in Zambia," *Journal of Chinese Economic and Foreign Trade Studies* 7, no. 2 (May 27, 2014): 90–109, https://doi.org/10.1108/JCEFTS-08-2013-0025; Barry Sautman and Yan Hairong, "Friends and Interests: China's Distinctive Links with Africa," *African Studies Review* 50, no. 3 (2007): 75–114, https://doi.org/10.1353/arw.2008.0014; Matthias Busse, Ceren Erdogan, and Henning Mühlen, "China's Impact on Africa - The Role of Trade, FDI and Aid: China's Impact on Africa," *Kyklos* 69, no. 2 (May 2016): 228–62, https://doi.org/10.1111/kykl.12110; "Chinese Trade and Investment Activities in Africa," accessed April 12, 2018, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Chinese%20Trade%20%20Investment%20Activities%20in%20Africa%2020Aug.pdf.

[27] "Clinton Warns against New Colonialism in Africa | Reuters," accessed May 18, 2018, https://www.reuters.com/article/us-clinton-africa-idUSTRE75A0RI20110611; Eric Olander and Cobus van Staden, "China's Role in Africa's 'Looting Machine,'" *Huffington Post* (blog), August 7, 2015, https://www.huffingtonpost.com/eric-olander/china-role-africa-looting-machine_b_7956046.html; "Chinese

demonstrate the complexity of this seemingly black and white relationship. Some of them focus on the whole continent utilizing panel data, others on specific regions, like Sub-Saharan Africa, or smaller sub-regions, and plenty of them analyze particular countries. The way of analysis also spans both micro and macro levels, ranging from individual-level interviews, analyzing (dis)satisfaction of local workers, or hindrances met by Chinese entrepreneurs in their dealings with local authorities to analyzing technology spillover through regression analyses and comparing country experiences with different investors, such as India and China. In this section, I will give a broad overview of the researches, relevant to this thesis.

In their comparison of Indian and Chinese investment activities to Africa, Chakrabarti and Gosh are quick to point out on the first page that despite optimistic projections, the continent is severely lagging behind in its pursuit of Millennium Development Goals, which calls for a reconsideration of past development approaches.[28] They highlight the similarities of the two Giants' engagement with the continent by demonstrating that both base their rhetoric on mutually beneficial cooperation, by transfer of know-how and training of personnel, while tapping into the growing market of African countries. An important insight of the paper is that contrary to developed countries' OFDI, which saw a significant drop after the international financial crisis of 2008-2009, FDI from developing countries continued to rise, displaying the reliability of new forms of financing. Moreover, they clearly point to the fact that India is pursuing its national interests, when engaging with Africa, which is useful to keep in mind, when confronted with criticisms vilifying Chinese engagement in Africa, in contrast to the

Neocolonialism in Africa | Pambazuka News," accessed May 18, 2018, /global-south/chinese-neocolonialism-africa.

[28] Chakrabarti and Ghosh, "FDI in Africa," 341.

beneficial engagement of DAC countries. Finally, a crucial data in relation to this thesis is that already in 2011, 55% of Chinese investment in Africa was private-owned.[29]

The 2014 article, *Sino-substitution: Chinese foreign direct investment in Zambia*, gives a surprisingly strong rebuttal of accusations towards China, claiming that its businesses receive special treatment, due to the Chinese government's political clout on local autocratic leaders. The author demonstrates that the Chinese were latecomers in the race for African market and resources, arriving to a playing field, levelled by neo-liberal changes, brought about by requirements of Western donors. Therefore, if local governments' ability to stand up against foreign investors' is curtailed in the present system, it is not due to the deeds of the Chinese, but the earlier rule makers. The evidence brought in support of this argument is the case of Zambian Multi-Facility Economic Zones (MFEZ), the local version of China's Special Economic Zones (SEZ). The author demonstrates that negotiations about establishing MFEZs in Zambia were already on their way well before the arrival of Chinese investors, led by traditional Western parties. However, the project was stuck due to World Bank and IMF consultants' lack of flexibility, therefore Chinese enthusiasm towards the projects was strongly welcomed by local leaders, in the words of then Zambian President Mwanawasa, "we only turned to the East when you people in the West let us down".[30] Furthermore, a significant insight of the article, also supported by other authors, is that, when overcoming the initial difficulties, SEZs can be effective drivers of economic growth through clustering emerging businesses, of which China has already built 10 throughout Africa.[31] Although apparently not taking into account the fact that Chinese state-owned companies do operate under

[29] Chakrabarti and Ghosh, 343, 346, 342, 348.
[30] John Barton, "Sino-Substitution," 100.
[31] John Barton, 93; Hai-Tao Tsao, Cheng-Chang Lu, and Ryh-Song Yeh, "China's Outward FDI in Africa: Enterprises with Different Ownership Types," *Contemporary Chinese Political Economy and Strategic Relations: An International Journal, Vol 1, Iss 2, Pp 489-527 (2015)*, no. 2 (2015): 514; "Chinese Trade and Investment Activities in Africa," 10.

circumstances distinct from their Western counterparts, due to soft loans from Chinese policy Banks, the article does provide a crucial insight in the triangular relationship of the West, Africa and China.

The African Development Bank's 2010 Policy brief on China-Africa trade and investment relations is worth mentioning separately, because using data from the early 2000s, it provides a useful account of the then ongoing shift from mining and CSOE focus, to manufacturing and private enterprises. Using data from 2006, it shows that more than 40% of Chinese FDI in that year went still to mining, whereas only 4.3% to manufacturing. However, it is quick to conclude, which indeed turned out to be the case that the focus is shifting rapidly towards the latter. One crucial point stated by the report is that already in the second half of the 2000s, China accounted for a major part of Africa's telecommunication infrastructure, which only increased afterwards, resulting in almost complete dependence on Chinese technology in telecommunications in some countries, as demonstrated by multiple analyses.[32] Hence, we can conclude that Chinese engagement in Africa is a complex black box, which one has to open to understand adequately. Resource extracting activities might pose the threat of looting the countries riches, while leaving the broad population without substantial benefits, without building linkages to local economies. However, Chinese investment is not restricted to extraction deals, but involves increasingly other sectors along with other actors, who might offer tangible benefits for host countries, as explored by the subsequent section.

[32] "Chinese Trade and Investment Activities in Africa," 8, 10; Alemayehu Geda, "Scoping Study on the Chinese Relation with Sub Saharan Africa: The Case of Ethiopia," AERC Scoping Studies on China-Africa Economic Relations (Nairobi: African Economic Research Consortium (AERC), 2008), 7, http://hdl.handle.net/10419/93155.

Chinese Private FDI in Africa

A crucial insight to help nuance our understanding of the real processes which go in China-Africa cooperation, and the disparity between the predominantly positive perception of African populations about Chinese engagement and the neo-colonial accusations of multiple Western sources, is to look behind stereotypes and ideologies and unravel the complexity of the two agents' relation. Kaplinsky and Morris provide one of the main pillars of this thesis from the existing literature, given the thorough analysis they provide on the various aspects of China-Africa cooperation. Their crucial insight, already cited in the introduction, is that one cannot presume either a homogenous China, or a homogenous Africa, to which, based on their text I would also add that neither are constant.[33] They show how one can distinguish three subsequent phases in their cooperation, displaying completely different behaviors. First, after the Bandung Conference of 1955, the Chinese attitude towards Africa was characterized by the rhetoric of spreading the Marxist revolution and supporting fellow governments under the flag of the Non-Aligned Movement, mainly meaning prestige infrastructural projects, such as stadiums and the Tanzam railway project. The second phase started from the 1990's, when large central state-owned enterprises (CSOEs) went global, engaging in major mining and construction projects, focusing on securing the home country's energy needs, but not ceasing to deliver prestige projects either. Finally, the most recent and most interesting phase started in the early 2000s, when, encouraged by the government's 'go global' policy, also identified by other authors as a crucial turning point, private enterprises started overseas businesses at a break-neck pace, focusing mostly on light manufacturing, as well as chemicals.[34] As they point out, despite the

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[33] Kaplinsky and Morris, "Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons," 551.
[34] Kaplinsky and Morris, 552; Andrew G. Ross, "An Empirical Analysis of Chinese Outward Foreign Direct Investment in Africa," ed. Dr. Rania Miniesy, Prof. John Adams, *Journal of Chinese Economic and Foreign Trade Studies* 8, no. 1 (February 2, 2015): 5, https://doi.org/10.1108/JCEFTS-12-2014-0025; Hai-Tao Tsao, Cheng-

change in sectoral focus, the distinctiveness of this new phase lies in the complexity of ownership relations. This entails CSOEs pursuing profit seeking motives of influential individuals legally not owning the company, or provincial private enterprises following the guidelines of local officials to obtain support, finally, state officials might utilize their official relations to conduct private business.[35]

The last point, worth highlighting in their analysis, is that the interconnectedness of trade, aid and investments, often vilified by DAC countries, might not be so misplaced, given that it offers a comprehensive strategy of developing local infrastructural capacity, while also benefitting the investor. This claim can be easily criticized from a neo-colonial standpoint, nevertheless it is actually strengthened by other authors as well, who show that Chinese infrastructure projects not only connect mines with port facilities, but even remote places with core networks, without any obvious benefit for the investors.[36] Hence, based on their analysis, one implication of the new phase can certainly be drawn, namely that CSOEs are here to stay, however, they might as well benefit local economies, whereas the new forms of engagement carry enormous potential, ready to be exploited by African countries.

Chen and Jian provide another crucial segment of the big picture of diversifying Chinese engagement in Africa, which was less pronounced in Kaplinsky and Morris' analysis. They demonstrate that provincial level entities, including provinces, municipalities, special administrative regions and autonomous regions, especially the former three, became significant players on the world scene, parallel to the Central Government. This is a crucial insight when aiming to disaggregate the seemingly homogenous Chinese foreign engagement. They display

Chang Lu, and Ryh-Song Yeh, "China's Outward FDI in Africa: Enterprises with Different Ownership Types," 495.

[35] Kaplinsky and Morris, "Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons," 552.

[36] Brautigam, *The Dragon's Gift*, 280–81.

how the reform era, starting from 1978, empowered provinces to pursue their own policies, with attaching provincial branches of central SOEs to provincial government and ultimately assigning all economic, scientific, financial etc. matters to them via the 1982 Constitution. Hence, from the mid 80's, provincial governments acquired all the means they needed to emerge as independent actors. Coupled with the fact that economic performance of the guided unit became part of the cadre evaluation system, as demonstrated by other authors, no wonder that provinces quickly became developmental provinces. They competed first for inward FDI, and recently embarked on and promote outward FDI through special subsidy programs, in order not to lose their competitive edge against each other, as well as hedge the effect of emerging protectionist policies in Northern countries. Moreover, their influence cannot be neglected, given that the aggregated production of the six coastal provinces in purchasing power parity (PPP) terms amounted to $3,534 billion in 2007, making it the third largest economy in the world at that time.[37]

As the authors demonstrate, however, in the pursuit of their own interests, provinces maintain an ambiguous relationship with the Central Government. Most of the time, the relationship is symbiotic, provinces acting as tools or partners of the government, sending medical teams or co-financing central projects. Nevertheless, they might as well complicate diplomatic relations, if African workers engage in strikes against them, or when they neglect central guidelines, for example restrictions on exports, which would aim at the subordination of economic interests to political ones.[38] Thus, although not discussing, for example, the distribution of provincial enterprises' investment between different African countries, and the

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[37] Zhimin Chen and Junbo Jian, *Chinese Provinces as Foreign Policy Actors in Africa*, Occasional Paper (South African Institute of International Affairs, 2009), 3, https://books.google.hu/books?id=L1UanQAACAAJ.
[38] Chen and Jian, 13, 18, 19; Hai-Tao Tsao, Cheng-Chang Lu, and Ryh-Song Yeh, "China's Outward FDI in Africa: Enterprises with Different Ownership Types," 518.

rationale behind it, the article provides a crucial argument in the research of China's OFDI, pointing to the importance of province level actors.

The previous points of complexity and beneficial presence are further strengthened in the analysis of Tsao, Lu and Yeh, who strongly claim that Chinese engagement in Africa is not neo-colonial at all. They claim that Chinese investments into resource extraction are closely tied to infrastructure, which also benefits host countries, moreover, private companies engage in activities closely interconnected with local businesses, the number of which they assess at 1,855 in 2010.[39] Although these claims can be criticized on multiple grounds even from other parts of the world.[40] Moreover, spillover effects of Chinese enterprises are not self-evident either.

Nevertheless, the article also provides the reader with significant insights. First, the authors show that Chinese FDI is not restricted to resource-rich countries, given that it targeted 50 out of 59 African countries, a large number of which do not possess natural riches.[41] This finding is consistent with other research on the topic, which names the lack of official diplomatic relations with Taiwan, as the only prerequisite for receiving Chinese investment.[42] Second, they augment Kaplinsky and Morris' analysis of the different ownership styles, while countering Barton's point on the level playing field between Chinese and non-Chinese investors, by pointing out clearly that CSOEs enjoy advantages over Western competitors. These entail their freedom to invest in any country regardless of its human rights conditions, while utilizing the Chinese governments diplomatic clout in arranging terms of engagement. Moreover, they

[39] Hai-Tao Tsao, Cheng-Chang Lu, and Ryh-Song Yeh, "China's Outward FDI in Africa: Enterprises with Different Ownership Types," 491, 498.
[40] One can take the case of the Budapest-Belgrade railway line into consideration, which will be built under the aegis of the One Belt One Road project and sparks controversy in both host countries.
[41] Hai-Tao Tsao, Cheng-Chang Lu, and Ryh-Song Yeh, "China's Outward FDI in Africa: Enterprises with Different Ownership Types," 495, 497.
[42] Brautigam, *The Dragon's Gift*, 278; "Chinese Trade and Investment Activities in Africa," 1.

can offer lower labor costs through borrowing under market prices from state owned policy banks, like the China Exim Bank, which routinely combines aid, low interest or interest free loans and grants. Finally, an important claim of theirs, also related to the present thesis' analysis in that it takes African agency into consideration, is that even CSOEs' investments into resource extraction per se can benefit local economies, as demonstrated by the experience of Botswana, if met with proper government regulations.[43]

Finally, the most cited analysis on the topic, constituting the second pillar of this thesis, besides Kaplinsky and Morris, is Xiaofang Shen's 2013 research, commissioned by the World Bank. He clearly demonstrates the emergence of Chinese private enterprises as major investors in Africa, showcasing the shift they bring in focusing on manufacturing. Moreover, he points to the fact, also reported by other analyses, that MOFCOM data severely underestimates the presence of private firms, due to the high amount of untraceable financing, such as reinvested earnings, local borrowing, or financing through tax havens, like the Cayman or Virgin Islands. Concerning local reactions to this tide, he displays that the general host country perception is overwhelmingly positive, due to an image of job creation and technology transfer. Lastly, and most importantly, he shows that African countries vary in their ability to attract Chinese private FDI, with Ethiopia being one of the most successful in this regard, therefore its policies are worth researching to draw consequences for other countries on the continent.[44] His analysis is specified and underscored by Seyoum and Lin, who persuasively display on Ethiopian firm-level data that Chinese companies in manufacturing do exert positive influence on domestic

[43] Hai-Tao Tsao, Cheng-Chang Lu, and Ryh-Song Yeh, "China's Outward FDI in Africa: Enterprises with Different Ownership Types," 504–5, 515.
[44] Shen, "Private Chinese Investment in Africa : Myths and Realities (English). Policy Research Working Paper ; No. WPS 6311," 6–9, 16, 24.

firms' productivity through technology spillover and knowledge transfer.[45] Thus we can conclude that the novel forms of China-Africa relations, brought about by NCSOEs and especially private enterprises carry the potential of enhancing host economy growth, as demonstrated in the Ethiopian case. However, different countries show varying degree of success in attracting this beneficial investment, therefore the question arises, what determines the location choice of Chinese private enterprises.

Determinants of Chinese Private FDI in Africa

Compared to the growing body of literature on the effects of Chinese FDI in Africa, the determinants of the location choices of Chinese enterprises within the continent are grossly under researched. The few existing analyses, highlight important points, but leave others unaddressed. They show that state owned enterprises choose location based on different considerations than private enterprises, the first tending to be resource seeking, whereas the second market seeking. Furthermore, another important factor displayed, also useful for this thesis, is the significance of existing Chinese communities in attracting new investors.[46] To the author's knowledge, the only firm level case study concentrating on a specific country was done by Seyoum and Lin, analyzing interview results of a 2012 World Bank survey, conducted among Chinese investors in Ethiopia.[47] Their analysis provides important insights into the reasons of individual firms to invest in Ethiopia, identifying the three most significant

[45] Mebratu Seyoum, Renshui Wu, and Li Yang, "Technology Spillovers from Chinese Outward Direct Investment: The Case of Ethiopia," *China Economic Review* 33 (April 1, 2015): 35–49, https://doi.org/10.1016/j.chieco.2015.01.005.

[46] Bala Ramasamy, Matthew Yeung, and Sylvie Laforet, "China's Outward Foreign Direct Investment: Location Choice and Firm Ownership," *Journal of World Business* 47, no. 1 (2012): 17–25; Juan Zhang, William X. Wei, and Zuanshi Liu, "Strategic Entry and Determinants of Chinese Private Enterprises Into Africa," *Journal of African Business* 14, no. 2 (May 1, 2013): 96–105, https://doi.org/10.1080/15228916.2013.804367.

[47] Mebratu Seyoum and Jihong Lin, "Private Chinese Investment in Ethiopia: Determinants and Location Decisions: Private Chinese Investment in Ethiopia," *Journal of International Development* 27, no. 7 (October 2015): 1223–42, https://doi.org/10.1002/jid.3025.

determinants; firm-specific advantages, access to domestic market, and host government incentives in this order. Nevertheless, the limitations of their research prevent them from listing host country features and incentives in their entirety, as well as posing some crucial questions, such as why investors prefer Ethiopia over other countries, how the present attractive policies came into place, and finally, what the role of bilateral Ethio-Chinese political relations in enhancing the investment tide might be.

Therefore, the present thesis takes their findings as a starting point to explore the above questions, by asking what explains Ethiopia's success in attracting Chinese private investors to its manufacturing sector compared to other Sub-Saharan African countries, and what the role of domestic and bilateral political evolution might be in enabling this success. The exact methods, and the theory applied to answer this query, will be outlined in the next two sections.

Chapter 2: Theoretical Framework & Research Methodology

Theoretical Framework

After reviewing the existing literature, one question stands out, namely what factors can account for Ethiopia's success in attracting Chinese private FDI, so crucial to the development of the country's manufacturing sector. In order to determine the significant factors, one has to find a rod of measure, for which theories of foreign direct investment provide numerous options. Given the increasing significance of FDI in global economic relations, displayed also by the four-fold increase in the number of multinational corporations (MNC) between 1988 and 2007, no wonder that a vast number of theories emerged analyzing the behavior of these companies, and why they embark on foreign direct investments, instead of other means.[48] As pointed out by Moosa, in his seminal book on the topic, there exist not only multiple theories, but also multiple classifications to organize these theories, like analyzing micro or macro determinants, utilizing Marxist, neo-classical or other theories, or presuming perfect or imperfect markets.[49]

The main questions in relation to MNCs' emergence and operation, as pointed out also by Oatley, are twofold.[50] First, why companies start investing outside their home country, and second, why they resort to direct investment, instead of trade relations with foreign firms. One of the main problem of most theories is that they cannot answer the two questions simultaneously. Theories, assuming perfect markets, such as the differential rates of return, and portfolio diversification, besides falling short of addressing market imperfections, fail to address the entirety of host country features, as well as the reason for internalizing market

[48] Thomas H. Oatley, *International Political Economy*, Fifth edition (London New York: Routledge, 2016), 160.
[49] Moosa, *Foreign Direct Investment*, 23.
[50] Oatley, *International Political Economy*, 161–63.

transactions. Most theories assuming imperfect markets deliver insights closer to reality, but cannot grasp the entirety of the double question.

The most comprehensive theory, attempting to answer this double-question, is Dunning's Eclectic or Ownership, Location, Internalization (OLI) theory, which presumes imperfect markets and incorporates two crucial market imperfections into the analysis, namely the inability of the market to adequately price intangible assets, as well as the chance of opportunistic behavior by business partners. In doing so, it combines three previous theories, namely those highlighting organization, location and internalization advantages.[51] The first was developed by Hymer, and later furthered by Kindleberger, mainly claiming that firms investing abroad meet numerous disadvantages, stemming, for example, from lack of local legal knowledge, or the necessity to pay higher wages to attract local workforce. Therefore, in order to indulge in FDI, advantages have to be greater than these hindrances, as Kindleberger put it, they have to be firm-specific, transferable to foreign subsidiaries, and ultimately larger than the hurdles.[52] Lall and Streeten provide a comprehensive summary of the possible ownership advantages. Their list includes cheaper capital, superior management and marketing techniques or technology, better access to raw materials, exploiting economies of scale and finally, bargaining and political power.[53]

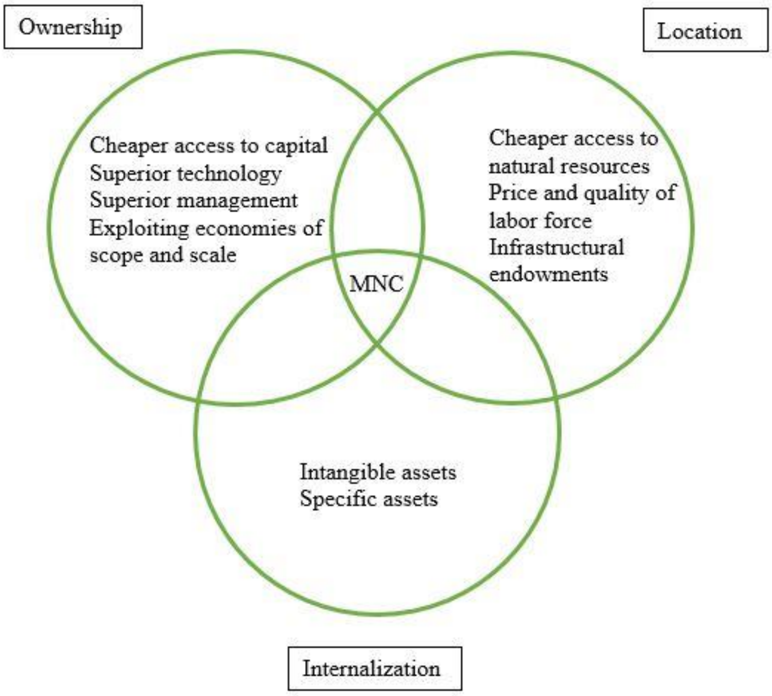
The second factor of Dunning's theory is location, which was originally conceived by Horst, and refers to the endowments of a particular location, for example natural or labor

[51] Dunning, "The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions"; Dunning, "The Eclectic (OLI) Paradigm of International Production"; Oatley, *International Political Economy*, 168–71.
[52] Stephen Herbert Hymer, *International Operations of National Firms* (MIT press, 1976); Charles P. Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven, Conn.: Yale University Press, 1969).
[53] Sanjaya Lall and Paul Streeten, *Foreign Investment, Transnationals and Developing Countries* (Springer, 1977), 20–28.

resources.[54] Through these endowments, investors might face tradeoffs between cost or productivity of labor. Interestingly, this factor might be a strong determinant of African Chinese investment, just as was the case for Western investment in China, some decades ago, given the abundant and cheap labor force. The third and last factor is internalization, put forward first by Coase in the first half of the twentieth century.[55] It addresses the crucial question why multinational companies do not resort to increased production in the home country, while supplying foreign demand through exports. The hypothesis' insight is that in several cases, companies deem it more beneficial to internalize market transactions, given its ability to decrease uncertainty, cost and time of transactions between the home and host country.

Hence, by combining these three approaches, Dunning concludes that a company will opt to become an MNC, if all three OLI advantages are present at the same time, as summarized in Figure 1.[56] This means, first, that it has superior "ownership of, or access to, a set of income-generating assets" or the ability to coordinate these assets more efficiently than domestic firms of the host country. Second, it seems more efficient to utilize these advantages outside market environment, and third, a foreign country offers better environment for the investment, than the company's home country.

[54] Thomas Horst, "Firm and Industry Determinants of the Decision to Invest Abroad: An Empirical Study," *The Review of Economics and Statistics*, 1972, 258–66.
[55] Ronald H. Coase, "The Nature of the Firm," *Economica* 4, no. 16 (1937): 386–405.
[56] Dunning, "The Eclectic (OLI) Paradigm of International Production," 176.



1. Figure: Overview of the Eclectic paradigm[57]

Besides the OLI theory, several other hypotheses also exist, providing a more comprehensive account of motivations to indulge in FDI, such as Vernon's Product life cycle hypothesis, pointing to the different company behavior throughout the evolution of a specific product, as well as the oligopolistic reactions hypothesis, postulating a spillover of FDI trends within a specific industry.[58] Although these theories might also possess kernels of truth in relation to Chinese investment in Africa, and specifically in Ethiopia, the present analysis will not touch upon them, given its focus on host country features. Finally, three other hypotheses are worth mentioning, which will be later incorporated into the location factor of the Eclectic theory, namely political risk, tax policies and trade barriers hypotheses, to be explained later in more detail.

[57] The author's own figure, based on Dunning, "The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions."
[58] Raymond Vernon, "International Investment and International Trade in the Product Cycle" in *International Economic Policies and Their Theoretical Foundations (Second Edition)* (Boston: Academic Press, 1992), 415–35https://doi.org/10.1016/B978-0-12-444281-8.50024-6.

Research Methodology

Based on the theoretical background of Dunning's Eclectic theory, the main aim of this thesis is to map out the location advantages of Ethiopia, accounting for the superior performance of the country in attracting private Chinese FDI. To match this goal, the analysis will draw on secondary, as well as primary material. The former entails statistical data from international agencies, such as the World Bank, the African Development Bank and the UNCTAD. The latter involves official statistics, laws and investment guidelines of the individual countries, acquired through their websites (Ethiopian Investment Commission (EIC), Ethiopian Ministry of Finance and Economic Cooperation, Chinese Ministry of Commerce), and through private contact, as in the case of FDI statistics of the EIC. Moreover, the novelty of the present analysis lies in situating the seemingly current issue of Chinese enterprises' locational choice into the wider narrative of intertwining political and economic decisions, which resulted in the present Ethiopian investment policies. Therefore, the thesis will utilize process tracing to unravel the changes in domestic economic policies, as well as bilateral Ethio-Chinese relations to account for unexpected prominence of Ethiopia on Chinese investment landscape.[59] It will draw upon historical analyses of the recent Ethiopian past, as well as the subsequent policy documents, determining the then actual policies.

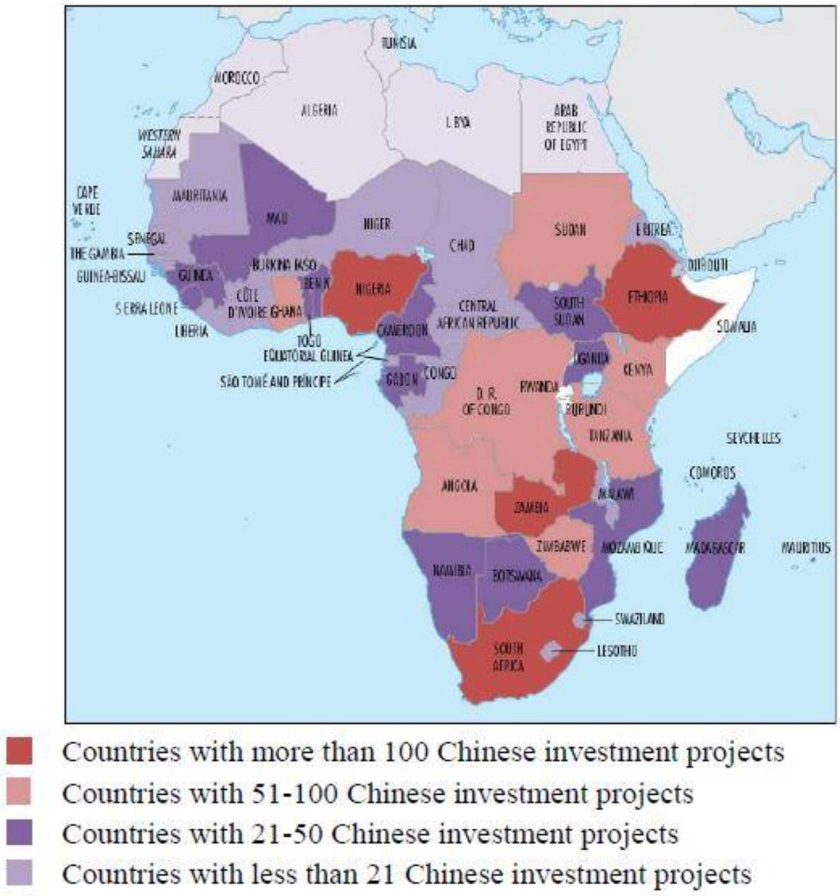
Concerning the validity of statistical data, as Johns Hopkins University's China-Africa Research Initiative and others point out, accurate data on Chinese FDI in Africa is hard to acquire, given multiple hurdles. First, sources often refer to announced commitments, which often do not translate into actual cash flows; second, a significant amount of investment is channeled through tax havens (Virgin-Islands, Cayman-Islands) or Hong Kong, and finally, it

[59] Andrew Bennett and Jeffrey T. Checkel, *Process Tracing : From Metaphor to Analytic Tool.*, Strategies for Social Inquiry (Cambridge ; New York : Cambridge University Press, 2015, 2015), http://it.ceu.hu/vpn.

is difficult to account for new assets, if acquired through purchasing a parent firm located elsewhere.[60] Therefore, in the subsequent analysis, greater emphasis will be given to host country data, either directly, or through databases drawing on such data, to assure greater precision.

To select Ethiopia as a case study for this analysis can be justified on multiple grounds. First, Ethiopia is one of the four largest recipients of Chinese FDI in Sub-Saharan Africa, as displayed by Figure 2, and the only resource-scarce country among them. This special constellation of the two features deserve attention, given that usually among developing countries, the largest recipients of foreign investments are countries with vast natural resource reserves, which attract resource-seeking FDI, given that the purchasing power of local populations is in most cases not high enough to attract market-seeking investments. Hence, the Ethiopian case suits the present analysis in two ways, first, given the lack of natural resources, the Chinese investment arriving to the country is targeting different sectors, especially manufacturing, and second, the high amount of investment in the absence of natural resources calls for explanation, rendering the analysis desirable.

[60] "Data: Chinese and American FDI to Africa," China Africa Research Initiative, accessed April 23, 2018, http://www.sais-cari.org/data-chinese-and-american-fdi-to-africa/.



2. Figure: Sub-Saharan African countries according to Chinese investment project in them[61]

Second, as demonstrated by Figure 3, Chinese FDI stock in Ethiopia shows a steep and steady growth since 2003, seeing 120-fold increase in 10 years, whereas foreign investment coming from other countries is sporadic, or virtually negligible, except of the lagged arrival of Turkish investment, which still remains incomparable to the Chinese stock. Hence, the country provides an ideal case to analyze the factors which were particularly effective in attracting Chinese FDI, but had smaller or nonexistent effect on other investors. Third, as also shown by Figure 3, the emergence and rise of Chinese FDI in Ethiopia started parallel to the tide of

[61] Figure adapted from Shen, "Private Chinese Investment in Africa : Myths and Realities (English). Policy Research Working Paper ; No. WPS 6311," 9.

Chinese private enterprises investing abroad, triggered by the central ‘going global’ strategy in 2004, therefore demonstrating the importance of private enterprises in the investment surge.

ETHIOPIA

(Millions of US dollars)

Reporting economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Belgium	-	-	-	-	-	-	-	-	- 0	..	- 0	- 0
China	-	-	5	8	30	96	109	126	283	368	427	607
India	-	-	-	-	-	-	-	-	-	2	4	6
Italy	-	-	-	-	-	-	149	188	205	211	210	-
Korea, Republic of	1	2	2	2	2	2	2	2	2	2	-	-
Norway	-	-	-	-	-	-	-	-	-	-	1	-
Turkey	-	-	-	-	-	-	6	11	28	21	23	36
United States	40	50	50	7	6	2	2	2	3	6	9	11

Source : UNCTAD FDI/TNC database.

3. Figure: Ethiopian inward FDI stock, according to countries between 2001 and 2012[62]

Fourth, as apparent from the database acquired by the author from the Ethiopian Investment Commission listing all FDI arriving to the country between August 22, 1992 and March 14, 2018, overwhelming amount of Chinese FDI, especially in the last 5-8 years is targeting the manufacturing sector instead of any other. Therefore, the manufacturing sector’s apparent success in attracting Chinese investment, whereas leaving other investors less motivated, generates an investment landscape worth researching.

[62] United Nations Conference on Trade and Development, *Bilateral FDI Statistics 2014*.

Chapter 3: Location and Political Advantages of Ethiopia

Overview

Since the early 2000s, the Ethiopian economy saw an immense GDP growth, starting from $8,870 million in 2003 to $70,197 million in 2016, elevating the country among the world's fastest growing economies for several years, often even leading the list. [63] The main drivers of this growth are the agriculture, services and construction industries, with manufacturing lagging behind, contributing only 4.3% to the GDP in 2016. However, manufacturing experienced unprecedented growth rates as well, reaching more than 18% during 2015 and 2016, carrying the promise of effective transition towards a manufacturing based economy.[64] Exactly in this period, starting from 2004, Chinese OFDI, especially private OFDI started to target overseas markets, following the new governmental policy of 'going global', resulting in an unexpected investment tide. Given that most private enterprises target the manufacturing sector, if adequately harnessed, this tide constitutes a major opportunity for developing countries to develop their manufacturing industries, as demonstrated by the case of Ethiopia.[65]

Nevertheless, most Sub-Saharan African countries were less successful in making use of this chance than Ethiopia, thus this chapter will explore the crucial features of Ethiopia, enabling its success in attracting private Chinese FDI to its manufacturing sector. As Seyoum and Lin demonstrate, one of the most important reasons of Chinese private SMEs to invest in

[63] "These Are the World's Fastest-Growing Economies in 2017," World Economic Forum, accessed May 16, 2018, https://www.weforum.org/agenda/2017/06/these-are-the-world-s-fastest-growing-economies-in-2017-2/; United Nations Publications, *African Statistical Yearbook 2017.* (S.l.: United Nations Publications, 2017); United Nations Publications, *African Statistical Yearbook 2009.* (S.l.: United Nations Publications, 2009).
[64] United Nations Publications, *African Statistical Yearbook 2017.*, 179.
[65] Shen, "Private Chinese Investment in Africa : Myths and Realities (English). Policy Research Working Paper ; No. WPS 6311," 6–8.

Ethiopia, are the incentives of the host government.[66] However, they refrain from specifying these advantages in detail, which hiatus will be filled by the subsequent analysis. The chapter is organized as follows, first, a brief historical overview is given to display, how the Ethiopian People's Revolutionary Democratic Front (EPRDF) managed to establish a secure investment climate after years of civil and border wars. Then the locational advantages of the country are analyzed, based on Dunning's Eclectic theory of FDI, ranging from natural endowments to government policies, and finally the special political ties between the two governments are mapped out, along with their effects on investor decisions.

Historical, Social and Ethnic Context

Chinese FDI in Africa is widely perceived as an investment, less concerned with country risk, given the immense support it receives from its home government. This perception, although partially true for central state owned enterprises, fails to describe the motives of private companies, which constitute the main subject of analysis of this thesis, given their profit seeking motives and greater distance from the government, making them more vulnerable.[67] Therefore, a crucial determinant in their choice of investment location, is political and economic stability, as well as consistency of policies. However, these features are difficult to achieve in multi-ethnic regions going through multiple regime changes in short periods. The subsequent section, thus, will give a brief overview of Ethiopia's recent history, to map out the tendencies leading to a strong visionary government with a comprehensive investment promotion strategy.

[66] Seyoum and Lin, "Private Chinese Investment in Ethiopia," 1237.
[67] Shen, "Private Chinese Investment in Africa : Myths and Realities (English). Policy Research Working Paper ; No. WPS 6311"; Hai-Tao Tsao, Cheng-Chang Lu, and Ryh-Song Yeh, "China's Outward FDI in Africa: Enterprises with Different Ownership Types"; Kaplinsky and Morris, "Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons."

Certainly the key to understanding the different growth trajectories of African countries and their response to global FDI, including their effectiveness to attract Chinese private enterprises, is to abandon the image of a homogenous continent and recognize the distinctive historical and geographic features of the particular countries.[68] Hence, to understand the recent success of Chinese private FDI in the Ethiopian manufacturing sector, one has to fit it in to the broad developments of the Ethiopian polity since the end of the military-Marxist Derg regime in 1991, and even further, the political and cultural legacy of the Ethiopian Empire ranging from the 1st century AD until the second half of the twentieth century. Central to this story is the feature of transition in the political, social, ethnic and economic sense, arriving to an equilibrium in the mid-2000s. The first half of the twentieth century in Ethiopia saw a strongly centralized Abyssinian Empire, under the emblematic leadership of Emperor Haile Selassie, led by an Amharic(ized) elite, strongly repressing other ethnic minorities and centrally guiding the economy, which resulted in an ethnic-based upheaval in 1977. The revolution, however, despite succeeding in dethroning the dynasty, failed to establish new, effective governance and economic mechanisms, instead of the demolished old ones, resulting in the economy's exploitation first through rent seeking and later through channeling all resources to finance its wars for survival, resulting in widespread famines.

The Derg regime had one major achievement, however, namely that contrary to its repressive politics, it allowed a revival of ethnic nationalism, through establishing the Institute for the Study of Ethiopian Nationalities and encouraging the research and expression of ethnic identities. Although carrying the potential of easing ethnic-nationalist discontent, this policy move opened the Pandora's Box of the 'nationality question', which remained a central driver

[68] Kaplinsky and Morris, "Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons"; Gérard Prunier, "The Meles Zenawi Era: From Revolutionary Marxism to State Developmentalism," in *Understanding Contemporary Ethiopia* (London: Hurst, 2015), 415–37.

of Ethiopian politics ever since, given the multi-ethnic society of the Ethiopian polity, constituting presently of 56 recognized ethnicities, carrying constantly the kernel of separatism.[69] The freedom to organize based on ethnicity provided a channel for expressing economic and political grievances, therefore the upheaval against the Derg acquired a strong ethno-nationalist flavor, apparent also from the major combatant forces, the Tigray People's Liberation Front (TPLF), and the Oromo Liberation Front (OLF), both bearing names of influential Regions within Ethiopia.

Hence, as the revolution against the Derg succeeded in 1991, the new regime had to hold together and ensure the survival of the polity constituted of opposing militant ethnic groups, opposing social classes of peasant masses, pastoralists and urban elites, coupled with an economy torn apart. Therefore, as Gérard Prunier points out, no matter, if one praises or dislikes Meles Zenawi as a formative personality of post-Derg Ethiopia, being head of the TPLF and later Prime Minister and President of Ethiopia until 2012, starting the reconstruction and stabilization of Ethiopia without autocratic moves, is hard to imagine.[70]

The timeline from 1991 until today can be divided into three major phases which led to the present regulatory framework and good relations with China, conducive to the arrival of Chinese private firms. First, the Transitional Government between 1991 and 1995, then the first Elected Government encompassing the Ethio-Eritrean war, and finally the post 2001 period with Meles Zenawi as supreme leader, along with later prime ministers following his footsteps after his 2012 death. The Transitional Government steered the shift from the state of war to an 'ethnic-federalist' system, under the leadership of the Ethiopian People's Revolutionary Democratic Front (EPRDF), aiming to establish widespread support for the new government,

[69] Sarah Vaughan, "Federalism, Revolutionary Democracy and the Developmental State, 1991-2012," in *Understanding Contemporary Ethiopia* (London: Hurst, 2015), 286–88.
[70] Prunier, "The Meles Zenawi Era: From Revolutionary Marxism to State Developmentalism," 421–23.

as well as harmonizing the different ethnicities. Given the inclusion of most ethnic associations at the negotiating table and broad rights of Regional governments, it achieved a stakeholder feeling among them, enabling the first elections. After the first elections were won, however, and EPRDF support started to increase in rural areas through ideological mobilization, the EPRDF center started to take back control on increasing policy areas, triggering the rise of a two-front opposition. The two camps of critics comprised ethno-nationalists on the one hand, demanding more autonomy for ethnicities, and pan-Ethiopian nationalists on the other fearing the country's dissolution through a too lose federalist system. Surprisingly, what rescued the situation for the EPRDF, was the war with Eritrea between 1998 and 2000, which, as unnecessary and horrible as it was, evoked a pan-Ethiopian feeling, uniting the country. Moreover, and even more decisively for the country's future, PM Zenawi came out victorious from the conflict, which set his path to become the country's supreme leader, coming true ultimately after a break in the TPLF elite in 2001, leaving him alone at the top of the party hierarchy.

Despite the widespread consensus that democracy is the most desirable form of governance, out of the existing options, this might not always be the case for developing countries, as demonstrated by the strong, but successful governments of East Asia on the one hand, and the post-Arab Spring countries on the other. For Zenawi, the choice for or against broader democracy was an open question for a long time.[71] The final blows to democratic development in Ethiopia were given by the opposition itself, during the 2005 elections, and particularly their aftermath. Zenawi, feeling secured in his position, allowed free elections and unrestricted campaigns for the opposition, which seized the opportunity to be unexpectedly successful, winning 174 out of the 501 parliamentary seats. However, after the success, the

[71] Prunier, 427–28.

internal divisions of the joint opposition front came to the fore, starting with disagreement on joining the parliament at all, resulting in infights between the factions representing different ethnicities and social classes. Therefore, instead of seizing their historic opportunity to voice their concerns through official channels, the opposition demonstrated its inability of harmonized action, paving the way for a more autocratic rule by Zenawi.[72]

What, thus, came after 2001 and especially 2005, can essentially be seen as the attempt of a visionary autocratic government to develop its country through strong centralized leadership, coupled with the evolution of perception of a single leader, Meles Zenawi. From the viewpoint of a Chinese private investor, an autocratic government provides stability, and does not act as a deterring feature, given their familiarity with such situation. Moreover, the similar development strategy evolved in an asset in the improvement of bilateral relations with China. On the economic side, the government's central role entails grand 5 year plans of centralized development engineering along with retaining the major role of public investment in bringing about growth, whereas the second, demonstrated by Gérard Prunier, the development path of Zenawi himself, from a revolutionary Marxist to a believer of state developmentalism.[73] This trajectory of changing economic policies and the general features of the Ethiopian economy will be analyzed in the next section.

Economic Structure

Similarly to the Chinese economy, before its opening up to global capital, the Ethiopian economy is mainly based on agriculture, thus referring to the Chinese growth success both rhetorically and in practice turned out to be a useful tool, in both furthering bilateral relations, and in fact developing the economy, exploited routinely by Zenawi and his successors.

[72] Prunier, 429.
[73] Prunier, "The Meles Zenawi Era: From Revolutionary Marxism to State Developmentalism."

Although the premise of agriculture as foundation was much more valid at the start of the Federal Republic in 1991, as well as at the turn of the new millennium, than it is today (accounting for 51% and 37% of the GDP in 2000 and 2016 respectively), it still remains true. Especially if we look at employment by sector, where agriculture is still leading, providing jobs for 77.3% of the active population in 2016. The second largest sector contributing to GDP, is the services sector, which saw an enormous rise since the early 2000s, from $7,970 million in 2000 to $70,197 million in 2016.[74] One of the reasons for this growth surge is the tendency of most domestic investors targeting these sectors, given the relative ease of setting up the business, promising quick benefits.

Compared to the first two, manufacturing is still lagging behind, contributing only 4.3% to the GDP in 2016.[75] Nevertheless, since 2004, it saw an enormous, 14 fold increase, with unprecedented 18% growth rates in 2015 and 2016. One of the main reasons of the lagging behind of manufacturing, as demonstrated by some authors, is the lack of domestic investment arriving to the sector, despite the government incentives. Accounting for this controversy, is the government's de facto suspicion towards the private sector, manifesting in difficult access to capital, despite the rhetoric and government efforts to trigger a structural shift towards the manufacturing industry; as well as strong oligarchic tendencies in the sector, with the overwhelming influence of the MIDROC group, led by the Saudi billionaire Sheik Mohammed Hussein Al Amoudi.[76] If we postulate, based on Hirschman's insights on launching economic growth through increase in manufacturing production, as well as the numerous case studies on other developing countries' growth trajectories, we can say that this growth rate is crucial for

[74] The author's computations, based on data from the *African Statistical Yearbooks 2009* and *2017*
[75] United Nations Publications, *African Statistical Yearbook 2017.*, 179.
[76] René Lefort, "The Ethiopian Economy: The Developmental State vs. The Free Market," in *Understanding Contemporary Ethiopia* (London: Hurst, 2015), 380–82.

maintaining sustainable economic growth.[77] Therefore, under the uneven circumstances facing domestic investors, the increasing presence and influence of Chinese private enterprises can be seen as a crucial enabler of the sectoral shift to manufacturing, ultimately enabling sustainable economic development.

Hence, one of the key questions for Ethiopian policymakers seems to be how to attract Chinese investors into manufacturing, to further the sector's growth. In this pursuit, however, they seem to be relatively successful, compared to other SSA countries, therefore, the remainder of this chapter will analyze Ethiopia's endowment features, along with governmental investment promotion measures and Ethio-Chinese bilateral political relations, to identify the crux of Ethiopia's success in attracting Chinese private investors.

Location Advantages

To answer the initial research question of this thesis, namely what explains the prominence of Ethiopia in receiving Chinese private FDI, compared to other SSA countries, the thesis utilizes Dunning's OLI theory. From the three aspects, ownership, location and internalization, the most instrumental factor for this purpose is location, given that the other two are firm-specific features, thus largely similar concerning all countries of the region. Therefore, in the remainder of this section, the particular aspects of locational advantages, identified by the literature, will be analyzed in relation to Ethiopia.[78] These aspects involve market size, local comparative advantages, government regulations, infrastructural endowments, price of capital, price and quality of labor, as well as trade barriers. Moreover,

[77] Hirschman, *The Strategy of Economic Development*, 113–16.
[78] Horst, "Firm and Industry Determinants of the Decision to Invest Abroad: An Empirical Study," 260; Moosa, *Foreign Direct Investment*, 33–36; Dunning, "The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions"; Dunning, "The Eclectic (OLI) Paradigm of International Production."

identified by more recent research, the Ease of Doing Business Index provides a useful indicator to account for the hospitability of an environment to set up a new business.

Market Size

The size of a potential market appears as a significant factor in virtually all relevant theories. To determine the size of a market, there exist several proxies, such as average MNC sales or the amount of country GDP. Given that it was used by most research on the topic, GDP will be used here as well.[79] Ethiopia's GDP is the fifth highest in the region, significantly lagging only behind some resource-rich countries, like Nigeria, South Africa and Sudan, and closely following Kenya, with $70,197 million in 2016, compared to a SSA average of $32,015 million, and the two countries receiving . Moreover, its GDP showed an average growth rate of 10,1% through the 9 years preceding 2017, indicating a sustainable growth trajectory. Adding to the positive GDP growth, the country is also endowed with a quickly growing and particularly young population, being the second largest in Africa, showing the presence of abundant workforce, as well as potential domestic market.[80] Finally, when analyzing market-seeking FDI, which is the type of most Chinese private enterprises arriving to Ethiopia, one has to consider the access to third markets as motivation, which in the case of Ethiopia means duty free access to both EU and US markets through the Everything But Arms (EBA) and the African Growth and Opportunity Act (AGOA) frameworks, respectively. Moreover, the country has preferential access to Japan, Canada, China, Turkey, Australia and New Zealand, as well as to regional markets through COMESA.[81] Nevertheless, as demonstrated by the same study, in the

[79] Seyoum and Lin, "Private Chinese Investment in Ethiopia"; Peter J Buckley et al., "The Determinants of Chinese Outward Foreign Direct Investment," *Journal of International Business Studies* 38, no. 4 (2007): 499–518; Alessia Amighini, Roberta Rabellotti, and Marco Sanfilippo, "China's Outward FDI: An Industry-Level Analysis of Host-Country Determinants," *Frontiers of Economics in China* 8, no. 3 (2013): 309–36.
[80] The author's computation, based on the *African Statistical Yearbook 2017.* United Nations Publications, *African Statistical Yearbook 2017.*, 36, 48, 178–79.
[81] Ethiopian Investment Commission, *An Investment Guide to Ethiopia* (Addis Ababa, 2017), 5.

case of Ethiopia, access to the local market is a more significant driver than to produce for export.[82] Hence, we can conclude that market size is a significant local advantage of Ethiopia, home to the second largest population and fifth highest GDP in Sub-Saharan Africa, given that other SSA countries are also part of the above mentioned agreements, but, except for Nigeria, none is endowed with this population size.

Comparative Advantages

A significant motivating factor for Chinese private investors to prefer a particular location before others can stem from its comparative advantage in crucial factors of production *vis-á-vis* other regions. As demonstrated also by the World Bank's study on light manufacturing in Africa, the region, at present has a comparative advantage over other large regions of the world in engaging in light manufacturing, given the abundance of cheap labor, lack of competition and rapidly growing demand.[83] This general trend, however, cannot account for Ethiopia's prominence within SSA. On the other hand, though, hosting one of the world's largest herds of cattle, and thus locally available cheap leather, coupled with cheap labor, the country has great endowments to attract the various branches of labor-intensive leather industry.

Another form of comparative advantages can stem from the infrastructural endowments of a particular country. These encompass transport and telecommunication infrastructure, both of which received enormous amounts of Chinese investment in recent years, even to the extent that some authors point to total dependency of the Ethiopian telecommunications sector on Chinese technology, given its high penetration of the sector and incompatibility with third country technology. They point to the fact that given the incompatibility with other technology,

[82] Seyoum, Wu, and Yang, "Technology Spillovers from Chinese Outward Direct Investment: The Case of Ethiopia," 41.
[83] Hinh-truong Dinh et al., eds., *Light Manufacturing in Africa: Targeted Policies to Enhance Private Investment and Create Jobs*, Africa Development Forum (Washington, DC: World Bank, 2012).

Chinese firms will emerge as the only possible suppliers in the long run, therefore creating possible job opportunities for manufacturing SMEs arriving later.[84] Hence, although these investments were predominantly initiated by state owned enterprises, they might literally have paved the way for smaller private enterprises to enter the economy. Moreover, a crucial factor concerning infrastructural endowment of the country is the presence of Special Economic Zones. Besides being identified as a novel and successful way of development by several authors, through clustering businesses, and thereby decreasing infrastructure costs, as well as facilitating intra-industry linkages, Chinese investors might already have experience in operating such parks from home.[85] As displayed by the Ethiopian Investment Commission’s website, the Ethiopian government places substantial emphasis on development through industrial parks, with six operational and eight upcoming parks.[86] Furthermore, besides improved access to infrastructure, the government also provides generous tax policies to companies investing into the parks, which will be discussed at greater length later, within the governmental incentives sub-section.

Finally, an important, although less highlighted infrastructural factor is access to hydroelectric power, as demonstrated by Moosa, through providing cheap and steady electricity.[87] Ethiopia is particularly well endowed in terms of potential for harnessing this power, being home to the Blue Nile, as well as other large rivers, like the Tekeze and Omo, and places increased emphasis of dam building projects, resulting in major growth of hydroelectric

[84] Geda, “Scoping Study on the Chinese Relation with Sub Saharan Africa: The Case of Ethiopia,” 7.
[85] Deborah Bräutigam and Xiaoyang Tang, “‘Going Global in Groups’: Structural Transformation and China’s Special Economic Zones Overseas,” *World Development* 63 (2014): 80–81; John Barton, “Sino-Substitution,” 93; Hai-Tao Tsao, Cheng-Chang Lu, and Ryh-Song Yeh, “China’s Outward FDI in Africa: Enterprises with Different Ownership Types,” 514.
[86] “Industrial Parks,” accessed May 10, 2018, http://www.investethiopia.gov.et/investment-opportunities/strategic-sectors/industry-zone-development.
[87] Moosa, *Foreign Direct Investment*, 36.

power generation from 1,646 GWh in 2000 to 9,300 GWh in 2016.[88] Moreover, besides the sheer amount of generated power, similarly to the telecommunication sector, large number of tenders for new dams are won by Chinese state owned companies, like the *Tekeze* Hydro Power Project, which have a tendency to prefer Chinese subcontractors, thus creating job opportunities for private companies.[89] Nevertheless, compared to other SSA countries, even those receiving less Chinese investment, such as Mozambique, this capacity is still lagging behind, thus cannot act as crucial factor of attraction.[90]

Besides physical infrastructure, another the usual determining factors for investment, is quality of labor, measured most simply by primary and secondary enrollment ratio, as well as adult illiteracy rate. Contrary to possible expectations, Ethiopia is ranking below the average in all these indicators, for example 51% illiteracy rate in 2015, compared to the SSA average of 33%,[91] therefore, labor quality cannot count as an attractive feature for investors.

Finally, a significant indicator of a country's overall business environment is the World Bank's Ease of Doing Business Ranking. Similarly to labor quality, Ethiopia ranks below the SSA average in this index, standing at the 161st place out of 190 countries, well behind countries attracting significantly less Chinese investment, such as Namibia or Niger.[92] Hence, the key for the country's attractiveness has to lie in some other factors.

[88] United Nations Publications, *African Statistical Yearbook 2009.*; United Nations Publications, *African Statistical Yearbook 2017.*
[89] Geda, "Scoping Study on the Chinese Relation with Sub Saharan Africa: The Case of Ethiopia," 7.
[90] United Nations Publications, *African Statistical Yearbook 2017.*, 260.
[91] The author's computation, based on data from the United Nations Publications, 40.
[92] "Ranking of Economies - Doing Business - World Bank Group," accessed May 22, 2018, http://www.doingbusiness.org/rankings.

Government Regulations and Incentives

Historical Trends of Government Policies

As outlined in the historical introduction, the government's perception of what is beneficial for the country's development is what ultimately determines the evolution of the Ethiopian economy. More precisely, from the 2000s onwards, the perception of Meles Zenawi, whose outlook on economy changed significantly during his years in power. During the 90's however, the party influence on Zenawi was more substantial, as well as his own views being rooted in his Marxist background, thus the obvious initial step for him and the TPLF was to seek support of the proletariat to their rule, as well as to modernize the economy through them. Given the minimal amount of workers and the overwhelming majority of farmers, he naturally turned to peasants as the support base and agriculture as the starting point of development, as happened also in China. Moreover, as Lefort points out, the two previous regimes, the Empire and the Derg, promoted export-led and import substituting policies, respectively, both of which essentially failed, therefore coupled with revolutionary ideology, the TPLF's claim to develop the economy from inward, through agriculture, not in need of massive external technology input, seemed a rational choice.[93] Despite this strategy later proved to be misplaced, it provided a ground for Ethio-Chinese cooperation.

Agriculture first was the general guideline throughout the 90's, as well as the first 5-year plan, starting in 2000, with the Sustainable Development and Poverty Reduction Program (SDPRP), manifesting in the Agricultural Development Led Industrialization paradigm. The main rationale behind the plan was that increased agricultural productivity would lead to increased purchasing power of successful farmers, which would generate increased demand of

[93] Lefort, "The Ethiopian Economy: The Developmental State vs. The Free Market," 362–63.

consumer goods, triggering new manufacturing industries, also producing more effective technology for the agricultural industry, contributing to further growth. Hence, a virtuous cycle would be initiated, ultimately leading to sustainable growth. The only tool, in their view, needed to initiate this cycle, would be state intervention with an initial injection of technology and knowledge transfer to peasants, along with a strict control over the private sector, which would only hinder the government plan, buy pursuing its own goals. Despite their revolutionary claim, this idea of pure state action draws heavily on the Abyssinian political legacy of the polity, pointing to the value of longue durée analysis of political behavior.

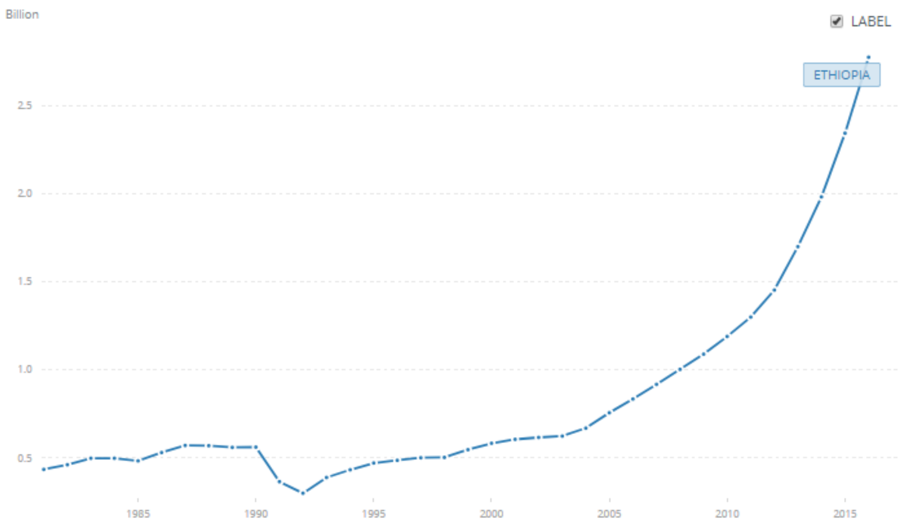
At the turn of the 2000's, however, it became obvious that this strategy had failed miserably, failing to substantially increase agricultural output, in fact achieving 10% contraction for two consecutive years between 2002 and 2003.[94] Therefore, the government started their journey towards the shift in emphasis and promotion of manufacturing. The first step of this journey was the second 5-year plan, starting from 2005.

Current Framework in Operation

The current Growth and Transformation Plan II is the fourth 5-year plan since the turn of the millennia. To Chinese private investors, its predecessor, the GTP I embodied the most significant feature, the shift from agriculture, to industry focus, which apparently resulted in steepening the curve of manufacturing growth from 2012 onwards, as the Plan's effect started to take place, as showed in Figure 4. The GTP I aimed to empower the private sector, attract FDI and achieve annual 20% industrial growth rate. According to the analysis put forward in the GTP II, the 20% growth rate was almost achieved, however private sector participation in manufacturing is still lagging behind due to multiple structural bottlenecks, such as slow

[94] United Nations Publications, *African Statistical Yearbook 2009.*, 181.

customs process and difficult access to credit, among others.[95] Therefore, the GTP II carries on the main strategies of the GTP I, but aims to address the identified bottlenecks in the system, to enable increased performance of the manufacturing sector.



4. Figure: Ethiopian manufacturing, value added in constant 2010 US$[96]

The legal framework, determining the investment opportunities of and incentives for foreign investors, is clear, easily accessible on government websites, and seems to be particularly tailored to foreign private enterprises. The main structure is regulated by the Investment Proclamation No. 769/2012, extended by the Amendment Proclamation No. 849/2014, and the Investment Regulation No. 270/2012 extended by the Amendment Regulation No. 312/2014. Moreover, specific laws have been put into place to regulate the investment environment of industrial parks, namely the Industrial Parks Proclamation No. 886/2015, as well as the Industrial Parks Regulation, No. 417/2017. The most important points

[95] Ministry of Finance and Economic Development (MoFED), *Growth and Transformation Plan (GTP) 2010/11-2014/15* (Addis Ababa, 2010), 17; National Planning Commission, *Growth and Transformation Plan II (GTP II) (2015/16-2019/20)* (Addis Ababa, 2016), 18–32, 76–98.
[96] "Manufacturing, Value Added (Constant 2010 US$) | Data," accessed May 21, 2018, https://data.worldbank.org/indicator/NV.IND.MANF.KD?locations=ET&view=chart.

of these regulations are their direct focus on the transition towards a manufacturing-led economy, and attracting foreign investors, as well as the exclusion of foreign investors from specific sectors. According to the very first two sentences of the Investment Proclamation No. 769/2012, "… the encouragement and expansion of investment, especially in the manufacturing sector has become necessary …", and "… it has become necessary to further increase the inflow of capital and speed up the transfer of technology into the country;".[97] As for the sectoral distinction, the Investment Regulation No. 270/2012 establishes four different categories, areas of sole government owner, joint ownership with the government, areas reserved generally for Ethiopian nationals, and finally areas open to foreign investment. With a few exemptions, however, like postal services and power transmission belonging to the first category and telecommunication to the second, most areas, especially in manufacturing are ready to attract foreign investors, which to enhance, a generous incentive structure was put in place.[98] In the subsequent chapter, the main features of these incentives, relevant to the present thesis will be outlined.

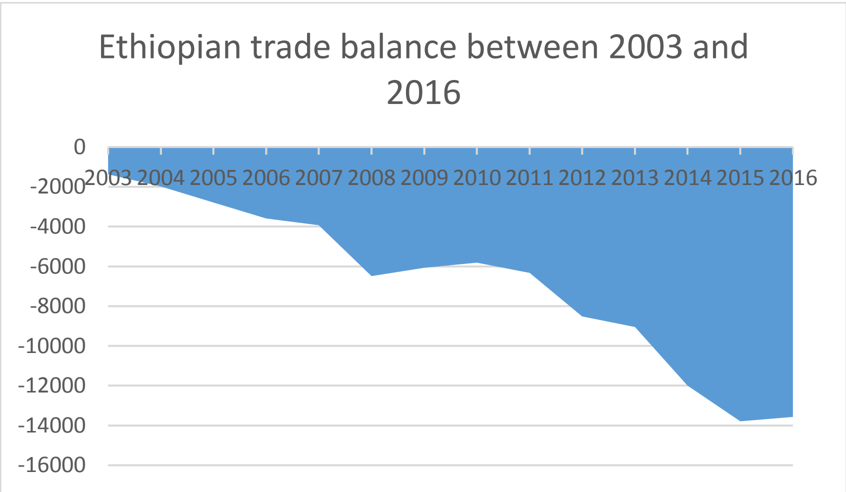
Incentive Structure

In its 2017 incentive package for industrial parks, the government clearly asserts its aim to "make Ethiopia a leading manufacturing hub in Africa by 2025", which is an ambitious goal, if we take into account that manufacturing presently only accounts for 4,3% percent of the country's GDP.[99] Nevertheless, the government apparently takes this plan seriously, and thus developed a comprehensive incentive structure to promote investment into manufacturing. The three key pillars of this structure are the designation of priority sectors, strong export-promoting

[97] Gilma Woldegiorgis, "Investment Proclamation No. 769/2012," no. 63. (2012): 6572.
[98] Gilma Woldegiorgis, "Investment Regulation No. 270/2012," no. 4. (2012).
[99] Ethiopian Investment Commission, *Industrial Parks in Ethiopia - Incentives Package* (Addis Ababa, 2017), 4; United Nations Publications, *African Statistical Yearbook 2017.*, 179.

measures and government-led establishment of industrial parks throughout the country. The first entails agriculture, agro-processing, and manufacturing, which can offer special investment circumstances due to government subsidies and increased attention. Moreover, within each sector, there are privileged areas for investment, offering further benefits. Within the manufacturing sector, the focus is on textile and apparel, leather and leather products, agro-processing and pharmaceuticals.[100]

The second, export promotion, is an important measure for the government for multiple reasons. It could adjust the country's balance of payments account by correcting the trade balance, which showed growing deficit in the past 15 years, starting from $-1,374 million in 2003 and peaking at $-13,789 million in 2015, as shown by Figure 5.



5. Figure: Ethiopian trade balance between 2003 and 2006[101]

In 2016, it showed a slight positive shift with $-13,575 million, breaking the trend of growing deficit, possibly a sign of the positive effects of the new government policies, starting with the first Growth and Transformation Plan between 2010 and 2015. Nevertheless, the balance still needs major adjustment, until it reaches a more sustainable level.

[100] Ethiopian Investment Commission, *An Investment Guide to Ethiopia*, 6–11.
[101] The author's figure, based on data from the United Nations Publications, *African Statistical Yearbook 2017.*; and the United Nations Publications, *African Statistical Yearbook 2009.*

Moreover, as demonstrated by the literature, growing exports in developing countries usually lead to quality improvement of domestic firms, given the high requirements of developed markets. Finally, export promoting measures can attract market-seeking investors, aiming to circumvent trade barriers of developed countries through EBA or AGOA, leading to increasing FDI inflows. Therefore, exporting companies receive additional tax exemptions.

The third and maybe most important pillar of both the investment promotion and manufacturing promotion scheme is the establishment of industrial parks in various locations of the country, as well as the specific incentives offered to companies investing in them. In total, there are six operational parks, two initiated by the government, and four private, out of which two are owned by Chinese investors, thus in themselves constituting attractive investment destinations through business networks. Moreover, eight more parks are under construction, all initiated by the government. The first incentive, offered by the Parks, is their fine endowment in infrastructure, meaning both physical and intellectual. Physical infrastructure involves transport connections to the core Ethiopian transport networks, as well as airports, and the port of Djibouti, used as main access to the sea. Furthermore, it also entails secure and low-cost access to electricity, with the government providing dedicated power stations to parks. Intellectual endowment concerns proximity to universities and vocational training schools, providing increasing number of skilled workers. The second incentive concerns easier establishment of forward-backward linkages between businesses, due to geographical proximity.[102] Finally, there is an elaborate structure of governmental fiscal and non-fiscal incentives in place, which will be outlined in the followings.

Fiscal incentives are threefold, namely income tax exemption, customs duty exemption and access to industrial park space at promotional rates. The first entails corporate income tax

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[102] Ethiopian Investment Commission, *Industrial Parks in Ethiopia - Incentives Package*; “Industrial Parks.”

exemption up to 15 years, depending on the relative distance of the park from the capital, and the nature of investment if it develops the park further, or uses existing facilities, as well as personal income tax exemption for expatriate workers for up to 5 years. The second concerns duty free imports of construction materials, machines, and spare parts, as well as capital goods, in case of manufacturing companies, whereas the third offers land leases for up to 80 years under preferential prices. Non-fiscal incentives entail one-stop shop provision of official documents at the park's head office, expedited visa procedure, customs facilitation, as well as other concessions, ranging until securing the right of remittances in foreign currency.[103]

Bilateral Relations Promoting Investment

As demonstrated so far in this chapter, the Ethiopian government's incentive framework, as well as its 5-year plans' focus on manufacturing constitutes an attractive feature for Chinese private investors. Moreover, several natural endowments of the country can also be attractive. Nevertheless, in some aspects, Ethiopia is ranking below the regional average, therefore other factors also need to be in play, to account for the uniquely large number of Chinese investment, as well as the preferential investment climate, secured through bilateral agreements between the two governments. The key question, which, thus arises, is what explains the special interest and preferential treatment of Chinese companies. The answer lies in the political connections of the two countries, as will be explored in detail in the following section.

Similarly to the domestic evolution of Ethiopian investment policies, which arrived to the promotion of manufacturing in the mid-2000s, paving the way for Chinese private investors, the political relations of the two countries went through a long process of evolution as well, until the establishment of the present multilayered cooperation. Sino-Ethiopian relations were

[103] Ethiopian Investment Commission, *Industrial Parks in Ethiopia - Incentives Package*, 6–12.

present already at the final years of the Empire, with officially establishing diplomatic relations in 1970. Nevertheless, despite minor economic and political exchanges, like occasional loans, the connection remained low profile during the Empire's last years, as well as under the Derg.[104] As with everything, change arrived when the Ethiopian People's Revolutionary Democratic Front (EPRDF) seized power in 1991. As the means of consolidating power between 1991 and 1995 did not exclude organized violence, the EPRDF started to sense discontent from Western lenders, such as the World Bank and IMF, and felt the increasing need to find new partners to support its development. Interestingly, China was not the only candidate, the transitional government seriously considered Russia as potential ally as well. After mutual visits at the highest level, however, namely Prime Minister Zenawi visiting China in 1995 and President Jiang Zemin reciprocating the gesture in 1996, Sino-Ethiopian relations were kick started, taking Russian cooperation from the agenda.

As Zenawi emerged as supreme leader of Ethiopia during the subsequent decade between 1996 and 2005, Sino-Ethiopian relations were also consolidated.[105] More high-level visits displayed the improving relationship, with Chinese Premier Wen Jiabao travelling to Ethiopia in 2003, and Zenawi making his second official trip to China in 2006. These bilateral visits, however, only constituted one pillar of the deepening cooperation. They triggered several bilateral economic agreements, like the Sino-Ethiopian Agreement for trade, economic and technical cooperation in 1996, as well as the establishment of the China-Ethiopia Joint Commission in 1998, with the task of reviewing the development of bilateral economic relations

[104] Seifudein Adem, "China in Ethiopia: Diplomacy and Economics of Sino-Optimism," *African Studies Review* 55, no. 1 (2012): 144–45, https://doi.org/10.1353/arw.2012.0008.
[105] Edson Ziso, "The Drivers of Chinese Investment in Ethiopia Since 1995: Institution, Economics and Politics," in *A Post State-Centric Analysis of China-Africa Relations : Internationalisation of Chinese Capital and State-Society Relations in Ethiopia*, ed. Edson Ziso (Cham: Springer International Publishing, 2018), 115, https://doi.org/10.1007/978-3-319-66453-8_5.

every two years.[106] The third and most interesting pillar of Ethio-Chinese cooperation is the mutual recognition on multilateral fora. These include two crucial platforms of China-Africa cooperation, where Ethiopia seems to play elevated role. First, the second meeting of the Forum on China-Africa Cooperation (FOCAC), right after the inaugural one in Beijing, was held in Addis Ababa in 2003, moreover, along with Zenawi's visit to China, Ethiopia co-hosted the enormous China-Africa Summit in 2006 in Beijing, displaying Ethiopia's primacy in representing the Continent in its relations with China.

Hence, one can clearly see Ethiopia's unique role in China's dealings with Africa. The question, which thus arises, is what lies behind the elevated stance of Ethiopia, and if it influences private enterprises' decision to invest in the country? The first question is easier to answer, so we will consider it first. The main explanation for China's superior interest in Ethiopia, which is only comparable to its major resource exporters, like Nigeria and South Africa, is the country's political usefulness for China's Africa policy, as well as its broader global aspirations. This usefulness lay and lies in two factors, namely Zenawi's person, until his 2012 death, and Ethiopia in a wider sense. Until now, China managed to develop friendly relations with most African governments, only a handful of them still maintaining official relations with Taiwan, which is apparent in the broad range of development assistance and investment programs, targeting almost all African countries.

Nevertheless, no other African leader supported China's involvement in Africa, as well as its model of engagement, as outspoken as did Meles Zenawi in multiple instances. At the 2006 FOCAC Summit, he proclaimed succinctly that "China is not looting Africa", in a

[106] Manickam Venkataraman and Solomon M Gofie, "The Dynamics of China-Ethiopia Trade Relations: Economic Capacity, Balance of Trade & Trade Regimes," *Bandung: Journal of the Global South* 2, no. 1 (December 2015): 11; Adem, "China in Ethiopia: Diplomacy and Economics of Sino-Optimism," 145.

response to the grooving worldwide narrative of China's neo-colonial aspirations.[107] Moreover, he clearly stated his satisfaction with Chinese engagement and praised its rapid development as a model, stating that "[t]he Chinese interest in Ethiopia has been nothing short of a godsend", and that "Chinese transformation disproved the pessimistic attitude that 'if you are poor once, you are likely to be poor forever'".[108]

Second, Ethiopia itself possesses a significant political clout in both Sub-Saharan, and wider Africa, being a symbol of black freedom and the main initiator and driver of pan-Africanism, hosting the headquarters of the African Union, as well as the United Nations Economic Commission for Africa (UNECA).[109] Therefore, as then President Hu Jintao put it, "Ethiopia could play a pivotal role in enabling China to consolidate its cooperation with other African countries".[110] Moreover, playing on this perception of Ethiopia, as Africa's leader, Zenawi stepped up as voicing pan-African attitude towards China multiple times, claiming for example that "for Africa, the influence of China is not a source of concern or danger. African countries are happy to see the rise of China".[111]

Hence, based on the above, we can see that through Zenawi's personal commitment, and the country's political preconditions, Ethiopia emerged as a key bridgehead for Chinese Africa policy, triggering a tide of investments from the mid-2000s onward. Given that private enterprises do not respond directly to the Central Government, one can question, if this high-level strategic game influence their decisions or not. However, as several authors pointed out,

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[107] "Ethiopian PM: China Not Looting Africa," accessed May 14, 2018, http://www.focac.org/eng/jzdlm/jmhz/t403870.htm.
[108] Mary Fitzgerald, "China Invests in Ethiopia but at What Cost?," The Irish Times, accessed May 14, 2018, https://www.irishtimes.com/news/china-invests-in-ethiopia-but-at-what-cost-1.1273424; Quoted in Adem, "China in Ethiopia: Diplomacy and Economics of Sino-Optimism," 148.
[109] Adem, "China in Ethiopia: Diplomacy and Economics of Sino-Optimism," 148; Edson Ziso, "Introduction," in *A Post State-Centric Analysis of China-Africa Relations*, by Edson Ziso (Cham: Springer International Publishing, 2018), 18, https://doi.org/10.1007/978-3-319-66453-8_1.
[110] "The Embassy of Ethiopia in China," accessed May 14, 2018, http://www.ethiopiaemb.org.cn/bulletin/05-1/005-1.htm.
[111] "Ethiopian PM: China Not Looting Africa."

host country regulations, as well as existing network of Chinese entrepreneurs does significantly influence potential investors' location decisions,[112] both of which is enhanced through good intergovernmental relations and substantial presence of Chinese state owned enterprises.

Therefore, this chapter shows that the Ethiopian government envisions a sustainably growing Ethiopian economy in the near future, for which the key lies in the transition to manufacturing, starting with light industries, and then gradually moving towards more complex products. In achieving this transition, they retain the crucial position for the government, which apparently yields tangible benefits, demonstrated by steady GDP growth of more than 10% in the last decade, as well as the enormous amount and rapid pace of infrastructure developments, paving the ground for private enterprises. Nevertheless, this public primacy poses potential threat to sustainable growth, given that only a free and competitive private sector can be the driver of economic growth in the long run, which needs a level playing field to emerge and operate. Until it emerges, however, a crucial way of starting the sectoral shift is through attracting foreign companies into manufacturing, which are known to induce local firm development through technology and knowledge spillover, as well as forward and backward linkages triggering the emergence of complete supply industries. Given the sectoral shift in Chinese OFDI from resource extraction to manufacturing through the emergence of private enterprises on the global scene, developing countries face a unique opportunity to attract these companies, and harness their potential of triggering economic growth. African countries have already realized this one-time chance, and developed ways of tapping into this tide, however

[112] Seyoum and Lin, "Private Chinese Investment in Ethiopia"; Buckley et al., "The Determinants of Chinese Outward Foreign Direct Investment."

with varying success. The above chapter analyzed the reasons behind Ethiopia's superior performance in attracting Chinese investors, being the only resource-scarce country among the top five recipients of Chinese investment in Sub-Saharan Africa.

This chapter also identifies three major reasons explaining Ethiopia's success. First, the government's achievement to hold together a multi-ethnic polity, and establish secure political and economic environment. Second, the establishment of a comprehensive strategy to orchestrate the transition from an agriculture-based economy to one based on manufacturing. And finally, the intimate bilateral political relations of the two countries, making Ethiopia China's bridgehead in Africa.

Conclusion

The present thesis addressed the key to Ethiopian success in attracting Chinese private investment, which significantly contributes to the growth of the country's manufacturing sector. To answer this query, it based its analysis on Dunning's Eclectic theory of FDI, given that its comprehensive nature provides the most complete framework to adequately describe the double question, why multinational corporations engage in FDI, namely why they invest abroad, and why they resort to direct investment instead of other means. More concretely, out of the threefold theory, which integrates ownership, location and internalization advantages, the thesis focused on location advantages to determine the unique Ethiopian features accounting for its attractiveness to Chinese private investors.

Concerning Ethiopia's natural and infrastructural endowments, the results are ambiguous. Market size stands out as an important attractive feature, Ethiopia having both the second largest population and the fifth highest GDP in Sub-Saharan Africa, whereas the countries receiving significantly less Chinese FDI, like Congo and the Central African Republic, are lagging behind in both aspects. Moreover, in Ethiopia infrastructural endowments play a significant role as well, with transportation infrastructure, as well as hydroelectric power generation seeing a steep rise in the last fifteen years. Nevertheless, even with their recent growth, these infrastructural endowments lag behind some countries receiving less Chinese investment, such as Mozambique, which fares better in both aspects. Furthermore, the quality of workforce renders Ethiopia less attractive as well, given that it performs below the regional average in crucial indicators, such as illiteracy rate. Finally, even in terms of overall business climate, the country lags behind most of the region's countries, being the 161st out of 190 countries, in the World Bank's Ease of Doing Business Ranking. Hence, given Ethiopia's poor performance in several indicators, despite market size being an important attractive factor, there have to be other factors contributing to the country's success in attracting Chinese Private investors.

Employing Dunning's Eclectic theory, the present thesis identifies three main factors, explaining Ethiopia's attractiveness to Chinese private investors, namely the present economic policy framework and investment incentive structure, the government's ability of maintaining political stability while improving its economic policies overtime, and lastly, bilateral Ethio-Chinese political and economic relations. First, starting in 2005, and peaking in 2010, with the first Growth and Transformation Plan, the government put into place a focused economic strategy, aiming to trigger and enable a transition from pure agricultural focus to emphasis on manufacturing production, in order to achieve sustainable economic growth. This central plan rests on three pillars. First, it pinpoints crucial sectors, in which the country has comparative advantage and carry the potential of prompting broad growth, such as leather-processing, textiles and garments, etc., and facilitates resource allocation to them. Second, it promotes export to achieve quality improvement and adjustment of the country's trade balance, and third, it implements measures to attract FDI. After realizing the importance of incoming FDI to spark the growth of these sectors through technology spillover and capital injection, it established a comprehensive investment framework, to attract FDI to these key sectors. This framework centers around the establishment of Industrial Parks, specializing in particular sectors, therefore clustering businesses to overcome infrastructural bottlenecks, as well as facilitate the establishment of forward backward linkages. Moreover, it entails a delicate system of fiscal and non-fiscal incentives, such as income tax exemptions for up to 15 years, customs duty exemptions, and one-stop shop services at industrial parks.

Nevertheless, to bring about these policies, along with its success in attracting Chinese investors, two structural features had to be in place, as emphasized by this thesis, which do not receive adequate attention in economic studies on the issue. First, the domestic evolution of the political structure, parallel to governmental economic policies, centering around the figure of Meles Zenawi, and second, the evolution of bilateral Ethio-Chinese relations, along with the shift in ownership structure of Chinese investors.

The first entails the government's success in holding together a multi-ethnic polity, displaying wide ranging ethnic, social, and regional cleavages, which emerged from a civil war, just to arrive at a costly border war with one of its former provinces. Moreover, it managed to secure a transition from an ideologically motivated economic policy championing agricultural development led industrialization, to one holding manufacturing dear in its endeavor to achieve sustainable growth. Hence, the government established a secure political and economic environment, conducive to Chinese private investment, which contrary to state owned enterprises with strong governmental backing tend to be more risk averse, and thus valuing stability.

The second aspect, which is no less crucial in Ethiopia's success in attracting Chinese investment, particularly private, is the intimate bilateral political relations between the two countries. This cooperation emerged as a result of long years of partner-seeking by both countries between 1995 and 2005, reaching its apex at the 2006 FOCAC Summit, co-organized by China and Ethiopia in Beijing. It made Ethiopia China's bridgehead in Africa, providing a foothold for China to exert influence on other African countries, while Ethiopia claims to apply China's development model to its own circumstances, benefits from both state owned and private investment, and defends China's Africa policy in all possible fora. Although not at the very core of the relationship, Chinese private investors are benefitting from this connection through bilateral treaties securing special treatment for Chinese enterprises, along with a well-established network of Chinese investors already working in Ethiopia through investments of state owned enterprises, prompted by political considerations, therefore rendering the country a conducive ground for private investment.

This thesis offers a number of potential contributions to the wider field. First and foremost, the thesis' emphasis on private enterprises, instead of manufacturing, or general FDI, highlights a crucial aspect of beneficial Chinese investment, providing useful insight for other Sub-Saharan African countries, as well as developing countries in general, in their pursuit of formulating attractive investment policies. Second, to the author's knowledge, the thesis offers the first comparatively motivated analysis on a Sub-Saharan African country's location advantages, to determine the key drivers, which can account for differentiated success in attracting the rising amount of Chinese private firms. Third, it provides an important contribution to the literature on Chinese private firms' location choice to invest in a particular country, by highlighting that the investment tide did not happen in a void, but was triggered by the constellation of two key contextual factors. These factors are the change in ownership style of Chinese companies engaging in OFDI, along with the Chinese government's 'going global' strategy launched in 2004, just at the same time, as the Ethiopian government realized the failure of its agricultural development led industrialization policy, and started to shift towards focusing on manufacturing.

Fourth, the analysis stresses the importance of bilateral political relations in connection to private investors' decisions, which might not be as obvious as in case of state owned companies. It affects decisions through making the country visible for investors, establishing Chinese investor networks, as well as job opportunities through state owned companies subcontracting works in local projects, and establishing special investment climate through bilateral treaties. Fifth, it highlights the facts how structural economic endowments, even, or especially if they are burdensome, can be utilized to enhance two countries' cooperation, as happened between Ethiopia and China in terms of the predominance of agriculture and lagging behind of manufacturing. Finally, and most importantly from a theoretical point of view, the study demonstrates that Chinese private enterprises largely behave according to the tenets described in Dunning's Eclectic paradigm, with an important add-on that host country measures can be substantially different towards various set of investors, depending on host-home country relations.

Hence, to conclude, Ethiopia's success in attracting Chinese private FDI cannot be explained purely through its natural endowments, but depends crucially on bilateral Ethio-Chinese relations, and the Ethiopian government's ability to maintain political stability and secure an economic and investment framework focusing on manufacturing and attracting foreign, especially Chines private investors.

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