

# Chinese enterprises involvement and contribution to Ethiopia's industrialization<sup>1</sup>

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Development economists and policy makers alike have long recognized the importance of investment as a major source of long run economic growth. Empirical evidence and experiences from East Asian countries show that growth cannot be sustained without technological and industrial upgrading, to which foreign direct investment is central (WB, 2012). In Ethiopia, the share of the industry sector accounts for only 14% of GDP as of 2016. Its manufacturing subsector is only 5%. The country sets ambitious targets for the manufacturing to account for 18.8% in 2020. Meeting this target hinges on attracting both domestic and FDI manufacturing firms. Following this, the Ethiopian government envisages rapid industrialization through enhancing technological capability and skills development driven by investment linkages. Due to its favorable policy and labor-cost advantages, Ethiopia has already attracted large projects and brand manufacturers in labor intensive manufacturing in textile and garment, leather and leather goods production.

Although FDI to Ethiopia has been hampered by unrest in recent years, it remains on an upwards trajectory. The country is already becoming the preferred destination of foreign direct investment (FDI) in the sub-Saharan Africa. In 2017, for example, only Egypt (7.4 billion USD) attracted more FDI than Ethiopia (3.6 billion USD) and half of the total FDI committed in East Africa in 2017 went to Ethiopia (UNCTAD, 2018). Recognizing the immense potential for greater Chinese investment promotion and its contribution to Ethiopia's industrialization and acknowledging the gaps, PSI conducted a research on the China's involvement in and the contribution to Ethiopia's industrialization within the last one and half decade in comparison with other African countries. This is useful for the Ethiopian government to make informed decision so as to improve the business environment for foreign investors in general and Chinese investors in particular so that it can expand economic growth and job creation in the country.

The political relationship between China and Africa dates back many decades. However, it was after the establishment of the Forum on China-Africa Cooperation (FOCAC) in 2000 that Sino-African economic relations have only surged. By the same token, China's investment in Ethiopia

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has shown drastic change after 2000. Evidences shows that FDI flow from China to Ethiopia increased from 31 numbers of investments in 2005 to 160 in 2018, indicating significant increase in almost one decade. A closer look into the data shows more than increase in numbers of investment. More than 5300 numbers of FDI registered in Ethiopia between 1992 and 2019. The major countries of origin are from Germany, United Kingdom (UK), France, Australia, the Netherlands, Saudi Arabiya, India, USA, Canada, and China. Of this total numbers of FDI, more than 1350 are from China, which accounts 25% of the total FDI in the country. Next to China, FDI from USA and Canada (together) accounts for 9.7%. FDI from India accounts for 9.3% of total FDI flows to Ethiopia between the study period. More than 829 (61%) of the Chinese companies are operational. At least 70 percent of Chinese enterprises invest in manufacturing sector followed by investment in real estate and hotels (15 percent) and construction sector (12%). Less than one percent of Chinese FDI invest in the agriculture sector whereas about 15% of the FDI from countries other than China invest in the sector.

Looking into the geographical distribution of Chinese investment in Ethiopia, almost 90% of the investments are in Addis Ababa and Oromiya. More than half (53%) of the investment are within the administration boundary of the capital city, Addis Ababa. Oromiya regional state receives the second largest share of Chinese investment in Ethiopia (36%). About 5% and 1% of the Chinese investment are in Amhara and SNNPR, respectively. At least 86% of the Chinese investments are owned by Chinese. In 2017, Chinese enterprises provided employment opportunities for more than 100,000 permanent employees. On the other hand, Ethiopia has earned USD 31,160,482.70 from the exports of goods and services only from Chinese enterprises operating in industrial parks during the month of July 2018 to June 2019.

Another potential channel for dynamic gains from foreign direct investment is through transfers of technology, or of know-how. In this regard, Ethiopia has learned a lot from Chinese enterprises in the form of management skill, construction, design and after-care operation. For instance, in developing its flagship state-owned IP, the Hawassa Industrial Park (HIP), Ethiopia derived micro-level engineering, technology, and operational knowledge by coordinating with the Chinese contractor, CCECC. The Ethiopian construction industry had benefited tremendously from working with a Chinese contractor. In order to facilitate further skill transfer after-care engineering and administrative operations of Industrial Parks, Ethiopian engineers and IP managers were paired with Chinese experts. In addition to these, Ethiopia also learned the Chinese model of integrating SEZs with cities to boost urbanization and the development of corresponding industries, such as housing and restaurants.

The above information not only helps understand the state of Chinese involvement in Ethiopia but it also informs the importance of Chinese engagement in the country's industrialization. In

this regard, it is essential that Ethiopian policy makers give due emphasis to understand the fundamental challenges facing Chinese investors so as to leverage the untapped opportunities that are currently available from the Chinese investment.

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