China’s Manufacturing and Africa’s Industrialisation: A Case Study of Chinese Manufacturing Investment in Ethiopia

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Agenda

1. Introduction
2. Background
3. The Presence of Chinese Manufacturing Investment in Ethiopia
4. Conclusion

1. Introduction

1.1 Chinese Investment in Africa: Both BIG and SMALL

- Official statistics of China's OFDI in Africa reveal a paradoxical picture. China's OFDI in Africa is both big and small (Chen, Dollar and Tang, 2015).
- Chinese OFDI have come late to Africa and this OFDI accounts for a very small share of the total Chinese OFDI stock. Until the end of 2017, it was 2.4% (MOFCOM, 2018, p.68).
- The dynamics of Chinese OFDI are robust, and the pace of Chinese OFDI growth is very fast. In 2017, Chinese investment (flow) to Africa reached US$ 4.11 billion, with an annual growth of 70.8% (ibid).

(W. Chen, unpublished PhD thesis, 2020)

1. Introduction

1.2 FOCAC (2015 and 2018)

- The 2015 FOCAC encouraged Chinese trade with Africa and Chinese firms to invest and engage in manufacturing and thereby facilitate employment and technology/skills transfer (Eom, Brautigam and Benabdallah, 2018, p.5).
- At the 2018 FOCAC summit, President Xi encouraged firms to invest more than US$10 billion in Africa over the following three years (Brooking, 2018).

1.3 Private enterprises are critical in realising China’s economic aspiration of “industrial capacity cooperation” (*chan neng he zuo*) and “strategic complementarity” (*zhan lve dui jie*) in Africa (Sun, 2015).

(W. Chen, unpublished PhD thesis, 2020)

2. Background

Ethiopia's Context

- The Ethiopian government (GoE) is eager to transition its economy from agriculture-led growth to light manufacturing-led growth.

(e.g. Growth and Transformation Plan (GTPI 2010/11-2014/2015); (GTP II 2015/16-2019/20) (National Planning Commission, 2015)).

- *Vision 2025* aims to make Ethiopia the leading manufacturing hub in Africa (Oqubay, 2015).

As a landlocked and natural resource-scarce country, Ethiopia lacks any significant source of mineral exports.

Industrial investment capital has derived from three main sources:

(1). domestic savings

(2). external development aid and concessional loans

(3). FDI

(Clapham, 2018 cited in W. Chen, unpublished PhD thesis, 2020)

Country Profile

- **Geographical Location**
  - 'The Roof of Africa'
- **Population**
  - Approx. **100 million** (young labour force of approx. **45 million** growing annually by around 2.3 million (Xinhua Africa, 2017 cited in W. Chen, unpublished PhD thesis, 2020)
- **GDP (2017 estimate)(nominal)**
  - $76.9 billion
- **GDP per capita –PPP (2017)**
  - $2,070
- **Economy**
  - Mainly relies on agricultural-led growth, with agricultural and animal husbandry products account for over 90% of its total export
  - Ethiopia enjoyed a double digit growth rate and over a threefold increase in per capita income in the past 15 years(EIC, 2020, p.23).

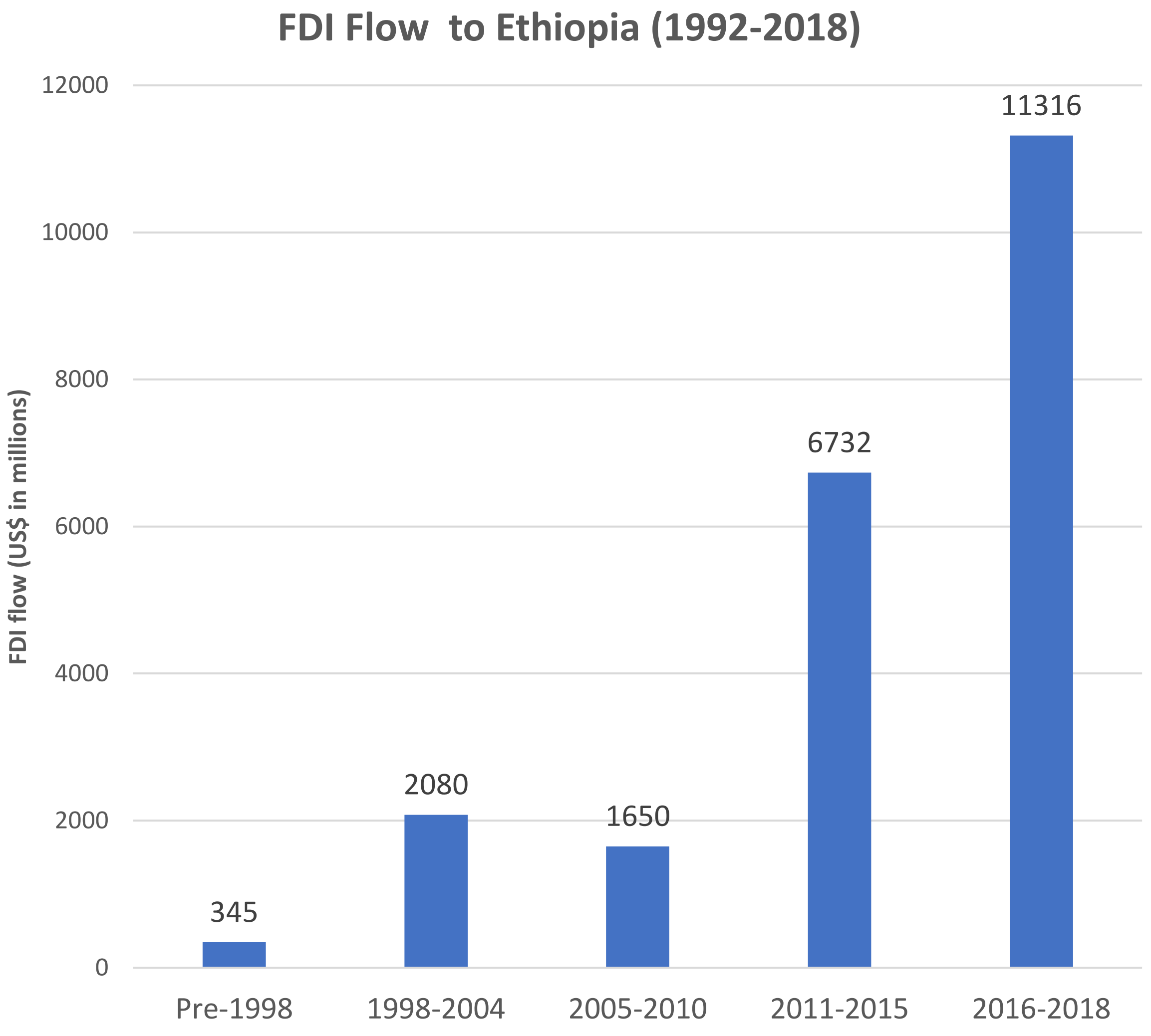
3. The Presence of Chinese Manufacturing Investment in Ethiopia

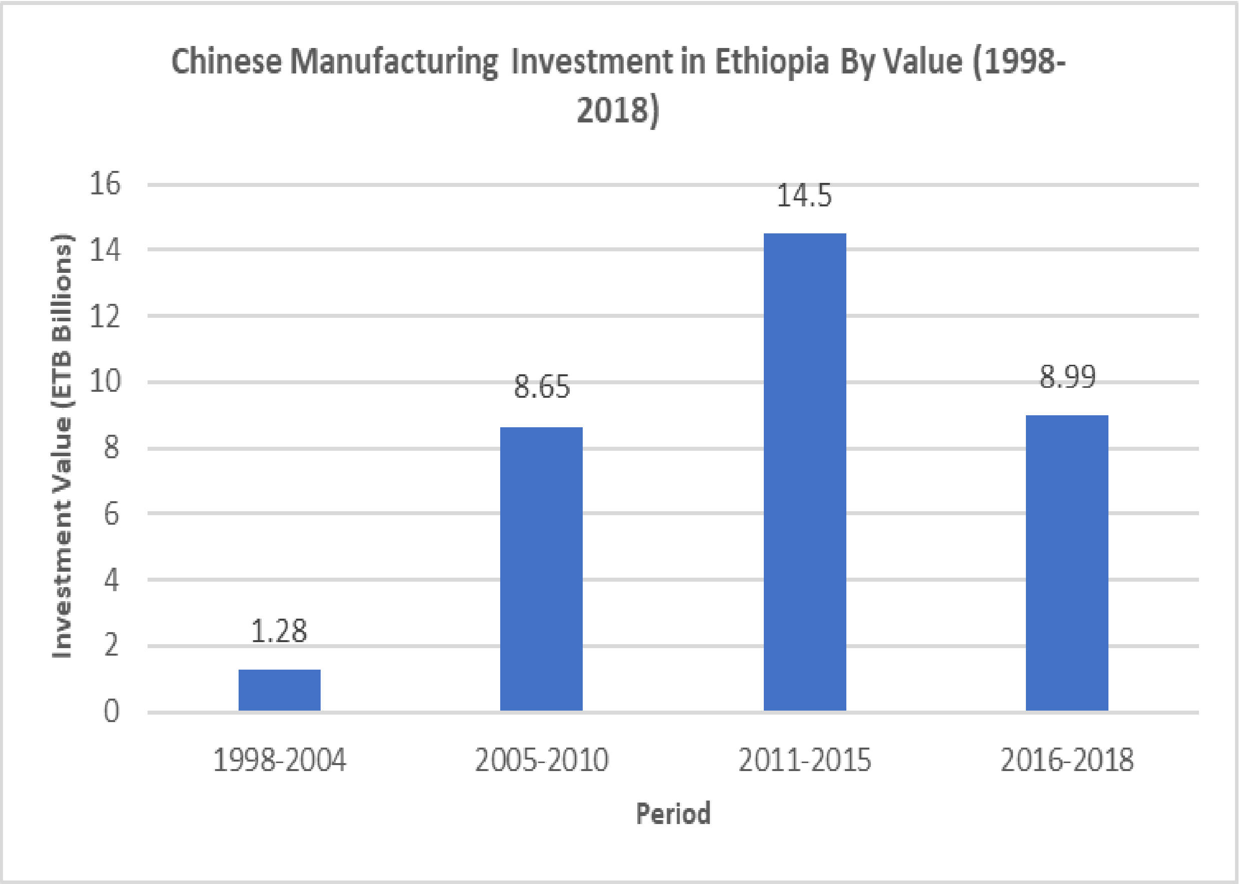
- According to the Ethiopian Investment Commission’s (EIC) data (2018), China ranked **first** in the past two decades with 1,149 investment projects permitted.

- In Ethiopia, both official statistics and empirical evidence that were collected in the course of author’s PhD research show that **the Chinese private sector plays a dominant role in manufacturing FDI** (both by the number of projects and by value).

- In the past two decades, investments (stock) in the manufacturing sector reached ETB 29.17 billion, accounting **for 78.69 %** of total Chinese investment by value (author calculated and compiled based on data collected from the EIC, 2019).

(W. Chen, unpublished PhD thesis, 2020)





(Source: author calculated and compiled based on data collected from EIC, 2018 in W. Chen, unpublished PhD thesis, 2020)

A. Transitional Period (1991-1998)

B. Exploratory Period (1998-2004)

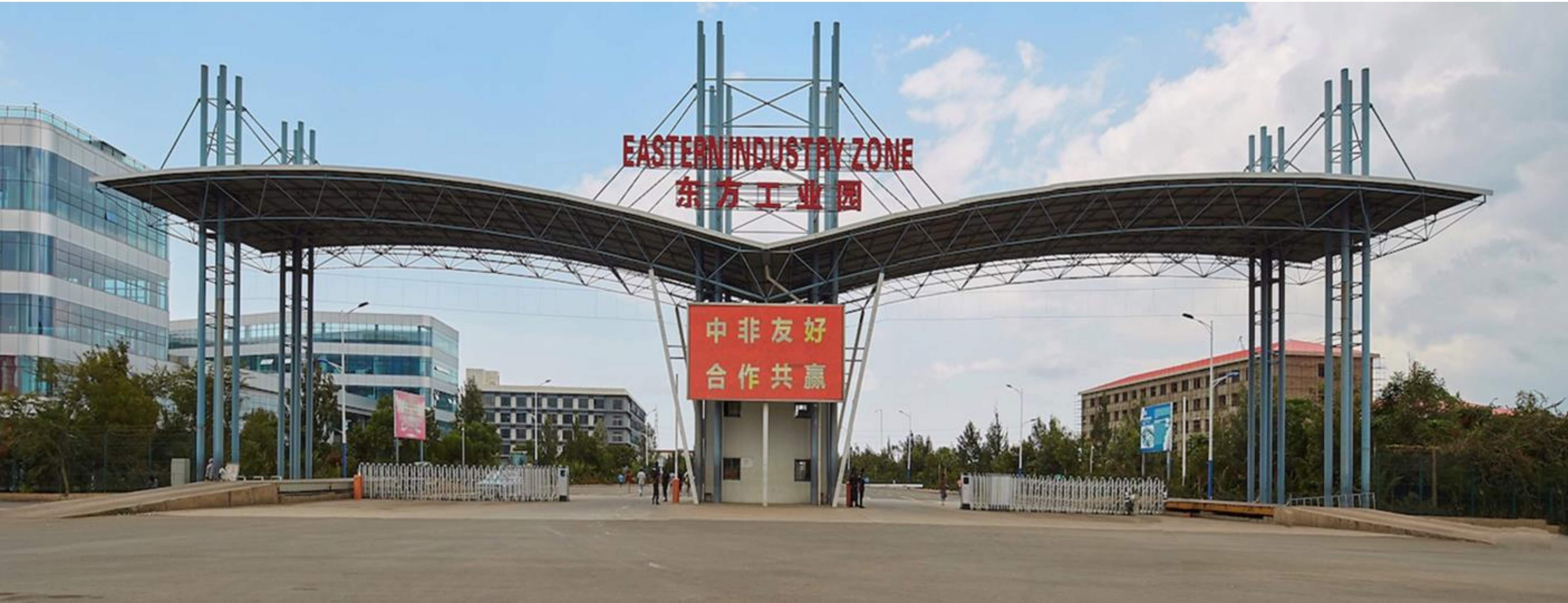
- The launch of the Forum on China Africa Co-operation (FOCAC) in 2000 marked the beginning of China's visible economic activities in Ethiopia.
- Before 2004 though, very few Chinese firms were present in Ethiopia due to the political turbulence and unfavourable investment environment in the host country.

C. Development Period (2005-2010)

- The 2006 FOCAC Summit launched the Program for China-Africa Cooperation in Economic and Social Development.
- The aim of this Program was to share China's experience with attracting investment and creating FDI growth through utilising SEZs as major tools.
- SEZ projects in 19 countries (including Ethiopia) were identified by the Chinese government under this program (Nicolas, 2017, p.15).

(W. Chen, unpublished PhD thesis, 2020)

The First OETCZ Project in Ethiopia: The Eastern Industry Park (EIP)



- As the **first** industry park in Ethiopia constructed, developed and operated by **Chinese private investors** (Jiangsu Yongyuan Investment Co. Ltd).

- The EIP is a **mixed** industry park. Chinese private firms are concentrated in **light manufacturing** sectors and **construction material** sectors, accounting for 48.1% and 35.44% of the total Chinese firms respectively .

- As of Sep 2018, there were 86 firms in the EIP **(78** of 86 are Chinese private firms). Chinese firms in the EIP created **14,794** jobs for locals with an average localisation rate of **92.57%**.

(Author calculated and compiled based on the EIP Committee data collected in Oct 2018 in W, Chen unpublished PhD thesis,2020)

D. Rapid Development Period (GTPI (2010/11-2014/15)

- Attracting “leading geese”
  - The export-oriented manufacturing industry had been prioritised as a key strategic industry and benefited from policy reform. The GoE had also targeted firms as "leading geese". This came from their realisation that they need to attract technologically advanced firms from countries with higher costs that can benefit from Ethiopia's cost advantages (Brautigam et al., 2018, p.164).
- Industrial Park Strategy
  - Ethiopia's focus on industrialisation, and China with its "going out" strategy and the BRI program are examples of policies that have fuelled China's and Ethiopia's interests to converge over the last two decades.
  - China's has promoted the creation of industrial parks as part of the BRI, and this has led to it playing an important role in Ethiopia's industrial park development.
  - The development of IPs has been marked a big success in attracting and facilitating high-quality investment in Ethiopia.

(W. Chen, unpublished PhD thesis, 2020)

Attracting “Leading Geese”- Huajian

"*In 2011, responding to the further proactive "going out" policy; keen invitations by the then PM Meles; supported by the Guangdong provincial government and Huajian's clients; the Chairman of Huajian Group Mr Zhang Huarong decided to invest in Ethiopia*"

(W. Chen, 2018a, p.26).

Huajian Light Industry City is a flagship project with a demonstration effect on "South-South cooperation“ under the BRI. It is projected to procure a US$ 2 billion investment and yield US$ 4 billion in returns over 10 years.

Huajian promised to create 100,000 jobs for locals by 2025, boosting export revenues and skills transfer.

(W. Chen, unpublished PhD thesis, 2020)

E. All-round, Strategic Development Period (GTP II (2015/16-2019/20))

- Developing industrial parks with high specialisation and attracting Investment into Ethiopia from the entire supplier chain (EIC, 2018).

An exemplifying case: Hawassa Industrial Park (Tripartite Cooperation between the PVH Group, The Ethiopian Government and Strategic Suppliers of PVH).

(W. Chen, unpublished PhD thesis, 2020)

- Meanwhile, a key part of GTP-II is for Ethiopia to reduce its dependence on imported goods.
- In recent years, the GoE is more dedicated to attracting capital-, and knowledge/technology-intensive, value-added manufacturing industries (e.g. Sansheng Pharmaceutical Ltd’s; Humanwell Pharmaceutical Ethiopia Plc.).

5. Conclusion

- Sino-Ethiopia relations have evolved from political and diplomat engagements in the last century to a new dimension of full-edged strategic cooperation and partnership.
- The growth in Chinese manufacturing investment in Ethiopia has been remarkable, barely existing in 2000, but now surpassing other countries. Both countries' interests have converged with Ethiopia seeking to attract FDI to accelerate its manufacturing capabilities based in its SEZs, and China looking to export its development model and relocate surplus capacity and labour-intensive industries.

"[T]he rise of China neither necessarily produces a new 'colonial-type' relationship nor does it automatically guarantee African countries the freedom to determine their own development path without external intrusion".

(Cheru and Oqubay, 2019, p.284)