

# Analyzing the Effects of Socio-Economic Relationship of Ethiopia and China

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**Abstract:** *The aim of this study is to examine the influence of Ethiopia and China's socio-economic relations. The study employed both qualitative and quantitative approaches to analysis. The integrated research approach allows the situations to be analyzed and understood by combining both quantitative and qualitative approaches. The study used fifteen years (2004-2019) data for all the necessary analysis and interpretations. Based on secondary details, the analysis was carried out. Secondary data sources taken from various books, journals, research journals and official documents analytically used for a general overview of the consequences of Ethio-China socio-economic relations. This study investigated the effects of the socio-economic relationship between Ethiopia and China by taking into account dependent variable effective socio-economic relationship and independent variables social, economic, cultural and political relations. Comprehensive economic, social, political and cultural cooperation is established by this partnership. Among these relations, economic cooperation, which essentially relies on mutual advantages, is the dominant one. The two countries have close political connections, in addition to economic links. Ethiopia has high values for Chinese cooperation and Chinese investment, which are politically free and without hegemonic preconditions, because of good political stability, innovative leadership, and very good strategy, rich in natural and human resources and strategic geographical position.*

**Keywords:** Relationship; Social; Economic; Political; Cultural;

## 1. INTRODUCTION

The interaction and friendship between the Ethiopian and Chinese people can be traced back to ancient times from about 100 B.C., when the Han dynasty of China and the Axumite Empire of Ethiopia had trade exchanges [1]. However, the relationship between China & Africa started on the parts of the Red Sea borders of the continent around the first Millennium A.D. and both are very aware of their ancient civilizations and their long histories [2]. After the Cold War, China directed its attention more to economic and to some extent political aspects and developed bilateral relations with Ethiopia in an all rounded way without considering democracy, good governance, human rights, and political transparency. Although in 1972 relations between China and Ethiopia were formalized with the establishment of embassies in their respective capitals, in the period between 1970 and 1980 [3]. As an emerging power, China increasingly involved in Africa as a source of energy and raw material to fill its expanding economy. Because of this, the deep engagement between China and Ethiopia becomes expanding in different agreements. The two sides cooperated closely and supported each other on International Affairs. Yet, China is very much present in Ethiopia and creates a close and special relationship with Ethiopia in multidimensional socio-economic issues.

From social relation point of view, the two countries built cultural cooperation in education, training, cultural exchange, and people to people relationship. Similarly, China-driven relations mainly strengthening based on economic implantation but also its soft power in Ethiopia. This cooperation has focused on in agriculture, mining, communications, and energy [4]. That is why; the socio-economic relations of Ethio-China become so close over the last ten years. In addition, since Ethiopia has 108 million people with diversified cultural values, it is more attractive to utilize as a good market opportunity for China. So, the basic effects on socio-economic particularly Ethiopia could be affected by China in human development, trade volumes, foreign direct investment flows, infrastructure, technology transfer and integration. In this case, the socio-economic effect of the two countries mainly depending up on cultural, economic, foreign policy, political and technological relationships. Hence, the purpose of this study is to analyze the effect of socio-economic relations between Ethiopia and China. This study intended to addresses specific research questions to answer: 1) why the socio-economic relation between Ethiopia and China growing? 2) What are the major factors that contributed for the trade imbalance between Ethiopia and China? 3) What are the difficulties that influence the bilateral socio-economic relations between Ethiopia and China?

## 2. REVIEW OF RELATED LITERATURE

### 2.1. Ethiopia-China Relations

The interaction and friendship between the Ethiopian and Chinese people can traced back to ancient times from about 100 B.C., when the Han dynasty of China and the Axumite Empire of Ethiopia had trade exchanges. Mohane and Kale note that the economic and political ties between China and Africa have been said to date as far back as 500 years ago [5] From the outset, with

the establishment of the People's Republic of China and the subsequent Cold War, China and Africa's relations were largely political. The cornerstone for these China-Africa relations was the (Afro-Asian Conference) Bandung conference of 1955, where China started building ties and offered economic, technical, and military support to African countries and liberation movements to unite with them against the imperialist powers.

Ethio-Chinese relations acquired new and greater significance after Chinese President Jiang Zemin visited Ethiopia in May 1996. Indeed, it can argue that the foundation for the new Sino-Ethiopian relations laid and consolidated in this period. In 1998, the two countries formed the China-Ethiopia Joint Commission, whose major task was to review and assess the bilateral relations every two years and recommend measures that would contribute to their further consolidation. As years passed, the bilateral relationship continued to gain momentum. Chinese Prime Minister Wen Jiabao came to Ethiopia in December 2003 and concluded agreements in various areas with his Ethiopian counterpart (see Ethiopian Herald 1996, 2003).

In May 2005, Ethiopia held a relatively open, free, and fair general election. To the surprise and dismay of the ruling party, opposition groups did extremely well, winning one-third of the seats in the Ethiopian House of Representatives. A government crackdown on the opposition soon followed. Some opposition groups subsequently boycotted the government, others fled the country, and still others ended up in jail. Despite its poor election performance, the EPRDF managed to form a new government in 2005, and Parliament re-elected Zenawi as prime minister for another five-year term. But the crackdown on the opposition also generated considerable criticism and disavowal, particularly from the West, including the suspension of new lending programs of the World Bank for Ethiopia [6]. It was in this context that Sino-Ethiopian relations entered the next phase.

## **2.2. Socio-economic effect of Ethio- China relationship**

It is quite difficult to accurately assess' the advantages and disadvantages of Chinese involvement in Ethiopia. It has argued that there have hosts of controversial effects in terms of the relationship between China and Ethiopia. Trade has influenced in terms of competition in domestic markets for locally oriented manufacturers and competition in external markets from export-oriented industry [7]. According to Alden, the balance of trade between the two nations favors China, as local industries, and merchants have been negatively affected by the huge influx of cheap Chinese goods on the market, which cost less and are of better quality than the locally produced ones[8]. In addition, the Ethiopian producers clearly do not have the capacity to compete with Chinese companies, since these Chinese manufacturers have a distinct advantage in that they incur low costs of production and market prices. De Lorenzo is of the view that the most worrisome aspect is the impact that Chinese competition has on African enterprises and exports.

Chinese aid, investment, and trade are on the rise in Ethiopia. One of the major reasons for Chinese investments in Africa is that, Africa offers the highest return on FDI.[7] As a result, China is now having a significant impact on African economies with this increasing expansion being particularly evident in Sub-Saharan Africa, especially in Ethiopia. The amount of Chinese investment in Ethiopia relatively higher compared to other.

Attracting FDI is central to Ethiopia's strategy for industrialization, which has compelled the government to initiate reforms to the country's investment policy to increasingly entice more FDI inflows[9]. Although Ethiopia is by large an agriculture-based economy, it has, over the years, been able to attract significant amounts of FDI. China's investments in stocks have been on the rise significantly over the past few years. It has noted that a significant amount of Chinese investments in Ethiopia is not state-owned, as Chinese private investors have come to claim a stake in the manufacturing sector. Chinese FDI in Ethiopia has been on the rise as show by the fact that it reached US\$58.5 million in 2010, from being almost nonexistent in 2004[10]. This has made Ethiopia one of the top destinations of Chinese FDI coming into Africa. Nicola states that FDI from China and India has allowed Ethiopia to undertake the development of technological sophistication of its leather industry. Chinese investments in the manufacturing sector amount to sixty percent.[9] More so, Chinese investment has some additions, which include generous loans, debt cancellation, infrastructure development, and no interference in Ethiopia's politics.

### 2.3. Conceptual framework

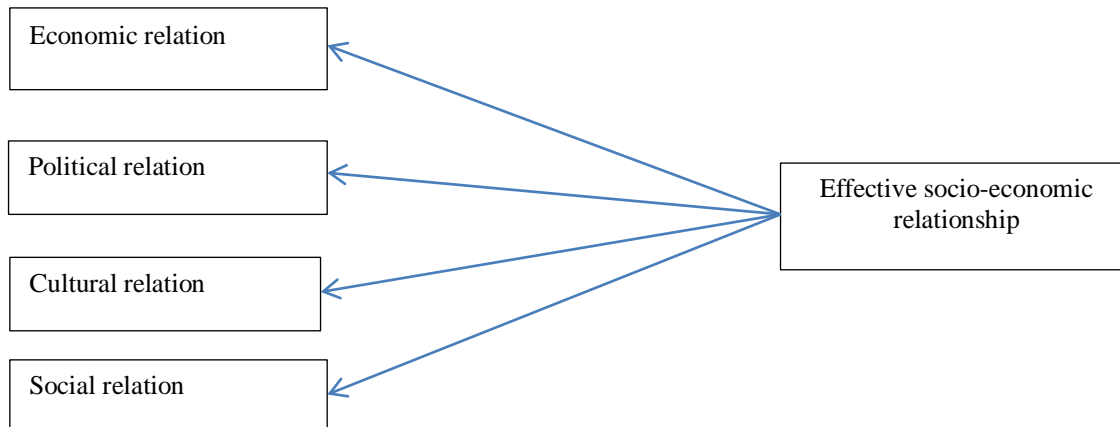


Fig.1. conceptual framework own perception.

### 3. METHODOLOGY

The study utilized both qualitative and quantitative research approaches. Mixed research methodology enables to explore the conditions and understand the situation by integrating both quantitative and qualitative methods (Luís et al., 2017). The study has carried out depending on of secondary data. In this study secondary source of data's used. The secondary sources of data taken from different books, articles, research papers and official documents analytically used with general overview about the effects of socio-economic relations between Ethio-China.

This study mainly reviewed data related to foreign direct investment volumes, export and import exchange of trade flow, infrastructure, and cumulative outcomes of socio-economic relationships between Ethio-China. Hence, all the secondary data collected from the World Bank, World Trade Organization, investment commission, and other research and governmental documents used. The study used fifteen years (2004-2019) data for all the necessary analysis and interpretations. All the secondary data obtained from different sources analyzed using descriptive statistical techniques. This study analyzed the effect of socio-economic relationship between Ethiopia and China by taking consideration of the social, economic as well as diplomatic and political relations.

### 4. RESULTS AND DISCUSSION

#### 4.1. The economic relationship

The economic relationship of Ethio-China is multi-faceted. Starting from the time 1992 - 2019, China provided over \$2.9 billion loan finance tied to infrastructural projects undertaken by Chinese firms. Here, there is growing in Chinese foreign direct investment in the Ethiopia's economy. On the other hand, Ethiopia's focus on infrastructure has created various opportunities for Chinese investors and firms. For Ethiopia, Chinese finance provides critical support for the government's legitimacy, as electricity, transport, and employment opportunities continue to expand, and stimulating economic growth. Moreover, as table 1 shows that the numbers of licensed Chinese projects at different levels on total registered projects 985 projects 802 (81%) projects are in operation. Those projects at operation level created 152,997 permanent and 79,175 temporary employments for labor.

As the table indicates the FDI projects incorporated more than 10 different sectors but the higher share of the projects 541 (67%) were engaged into manufacturing sector followed by real estate and equipment rent 103 (12.3%), construction 97(1.2%), and Hotels 31(3.9%). Therefore, the total capital flows for the period indicate a sum of 2.9 billion USD. The other case that shows the socio-economic relations of Ethiopia and China is highly increasing by Chinese government or firms demand in expanding foreign direct investment as the total number of projects indicate on pre-implementation phase.

**Table 1:** Licensed Foreign Direct Investment (1992 - 2019)

Sector	Pre-Implementation		Implementation	Operation			
	Total No of Projects	Pre-implementation No of Projects	No of Projects	No of Projects	Capital in USD	Perm Employee.	Temporary Employee
Agriculture	627	163	4	3	1,166,046	64	53
Manufacturing	2,838	751	130	541	2,262,116,03	54,305	21,608
Mining	22	3	1	3	3,090,601	58	42
Electricity	2	1		1	1,000	10	5
Education	112	19		1	393,148	6	4
Health	108	14	1	10	1,305,419	60	42
Hotels investment	233	49	3	31	8,586,113	717	236
Transport and Communication	127	29		9	2,110,161	203	60
Real estate, Machinery and Equipment	1,021	233	10	103	77,567,665	86,866	27,243
Construction Contracting	435	121	33	97	550,969,665	10,638	29,637
Others*	107	19	1	3	4,741,774	70	245
<b>Grand Total</b>	<b>5,632</b>	<b>1,402</b>	<b>183</b>	<b>802</b>	<b>2,912,047,595</b>	<b>152,997</b>	<b>79,175</b>

Source: Ethiopia Investment Commission (2019)

According to the following table 2, indicates that the total share of the 1295 total numbers of projects distribution across the part of all regions including cities. The total numbers of 985 Chinese projects that are in implementation phase and operation significantly affects the Ethiopian economy. In addition, the total FDI volume is almost \$USD 2.9 billion that has been playing a great role in the aggregate Ethiopian socio-economic development aspect. On the other hand, particularly, the distribution of numbers of projects those who are in implementation and operation show that 549 (42.4%) reside and dispersed in the country capital of Addis Ababa, and 346 (26.7%) of projects exist in Oromia regional, to some extent the 23 (1.8%) Amhara region. From this fact, it is possible to conclude the distribution and disparity of Chinese projects show that there is skewed nature for their locational advantage such as market access, road accessibility, and potentials for resources depending on the feasibility study of the projects.

In contrast, the distribution of all projects indicate that there is high disparity for raising equity issues by the regions or community. So that, to balance those both the Ethiopian government and Chinese firms should come up with solutions unless their might be happened instability related to industry peace and security.

**Table 2:** Chinese FDI Status by Region

Region of Investment	Pre-implementation	Implementation		Operation			Project distribution	
	Total number of projects	No of Projects	No of Projects	Capital in USD	Permanent Employee.	Temporary Employee.	Total No of projects	Share (%)
Addis Ababa	157	78	471	1,354,642,168	30,408	38,646	706	54.6
Afar			2	152,413	5	35	2	0.15
Amhara	36	11	12	129,188,992	3,458	1,244	59	4.6
B.Gumze	4						4	0.31
Dire Dawa	2	3	7	43,688,738	81,097	20,273	12	0.93
Gambella	2		1	393,480	10	100	3	0.23
Harari			1	2,500	5	5	1	0.001
Multiregional		3	35	34,343,014	1,731	2,198	38	2.94
Oromia	106	84	262	1,326,923,201	32,302	16,188	452	34.93
SNNPR	3	3	7	13,043,946	3,866	423	13	1
Somali								
Tigray		1	4	9,322,354	110	63	5	0.39
Grand Total	310	183	802	2,911,700,806	152,992	79,175	1295	100.00

**Source:** Author's compile analysis from Ethiopian Investment Commission (2019)

#### 4.2. The trade relations of Ethio-China for socio-economic development

Now a day, Chinese world trade has grown rapidly over the last decades. The trade relations of Africa and China become large as the context of Africa's purchasing power. Likewise, the trade relation between Ethiopia and China has growing fast depending on their sustainable mutual benefits. For instance, as the following table 3 sows that the trade balance of the two countries continues to deepen due to the country's investment-led economy, which strongly encourages imports. In 2018, total exports of goods and services amounted to USD 2.83 billion, whereas total imports of goods and services amounted to USD 15.5 billion. This indicates that the socio-economic relations of the two countries become very significant especially for Ethiopia. In addition, Ethiopia spent USD 6.69 billion in imports of services while the export of services generated USD 4.49 billion. Hence, the trade relations of Ethiopia are more or less in progress nearly to have at least balanced export-import process but still a very import-export imbalance is challenging Ethiopia. The two countries should revisit their trade agreement that causes gap in import-export to make more sustainable, minimize and advantageous their trade relationships.

**Table 3:** Foreign Trade Values of Ethio-China

Foreign Trade Values	2014	2015	2016	2017	2018
Imports of Goods (million USD)	18,991	19,063	16,588	16,076	15,500
Exports of Goods (million USD)	4,469	3,825	4,612	3,163	2,831

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Imports of Services (million USD)	4,230	4,612	3,627	4,844	6,695
Exports of Services (million USD)	2,734	2,851	2,981	3,264	4,498

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Source: World Trade Organization (WTO, 2018): Latest available data

### 4.3. The foreign and diplomatic relations of the two countries

Actually, China and Ethiopia diplomatic relationship has established in 1970 with an agreement of mutual benefits. China needed Ethiopia, and other African nations, at the UN and Ethiopia, which ruled by Emperor Haile Selassie, he was a diplomatic leader towards African independence, and could no longer ignore the most populous third world nation involved in solidarity and material support in the anti-colonial struggle movements. However, a strong and continuous relationship recalibrated after the Cold War in 1991, with consolidation of power by the Ethiopian People's Democratic Revolutionary Front [3].

In fact, Ethiopia-Chinese relationship is unique in many ways. First, Ethiopia's traditional relationships with the industrialized nations of North to South, whereas its relationship with China is South to South, allowing for a two-way approach that, at least in theory, is mutual. Second, China's economic relationship with Ethiopia is in line with China's policy of non-interference in the domestic affairs of nations. Third, such Ethio-China relations are bilateral, with the Forum on China-Africa Cooperation (FOCAC) serving as setting for engagement in areas related to economic, diplomatic, and social agendas. For this reason, China does not see Ethiopia primarily as an aid recipient, but as an important politically and economically in its new Africa relations policy. This is because Ethiopia offers China much in the way of political resources funded by China as a gift to the African Union, at a cost of \$200 million, which continues to strengthen Beijing's influence in Africa.

Furthermore, Chinese-Ethiopian cooperation manifested at several levels. First, Ethiopia sees China as a source of economic assistance and investments as well as adaptable and inexpensive technologies capable of lifting millions of small and micro enterprises out of poverty through access to agricultural and industrial modernization. This is because state intervention is critical for structural transformation over the country. In addition, Ethiopia considers China a vast market for its agricultural commodities and vehicle for improving the lives of the society, which make up about 83 percent of the population, is peasant.

Therefore, the foreign and diplomatic relationship of Ethiopia & China is both historical and ancient. Even though, Ethiopia has cheap labor, raw materials, rich natural resources China prefers Ethiopia to have strategic relationship beyond socio-economic effects. That is why China is supporting Ethiopia to be a center of Africa Union. China is supporting Ethiopia's space science foundation from the base. Mainly, majority of Ethiopia's huge infrastructure development and financing, manufacturing industrial investments, power generation projects, in telecommunications sector to extend 4G and 3G service to the country, and human development in terms of skill transfer and experience sharing. So, Chinese government and firms engaged massively in Ethiopia socio-economic strategic development and transformational change beyond financial aid.

### 4.4. The political economic relationship between Ethio-China

From political economy perspective, Ethiopia never colonized and along with China has a long imperial history. China's imperial period ended with the fall of the Qing dynasty and formation of the Republic of China as a constitutional republic in 1912. The overthrow of Emperor Haile Selassie in 1974 by a left-wing military junta ended Ethiopia's empire. In 1970, four years before the end of Ethiopia's empire, the People's Republic of China established formal diplomatic relations with Haile Selassie's imperial government. Although China and Ethiopia have imperial backgrounds, they only became well acquainted after both of them became republics [10]. Hence, this fact serves the two countries as one cornerstone for their strong political relations.

Currently, China is Ethiopia's most important bilateral political and economic partner. While Ethiopia now exports few natural resources of strategic interest to China, it is important for their political relation reasons. Other ways, with a population of about 108 million people, Ethiopia is the second most populous country in Africa next to Nigeria. It serves as a base for the foundation of headquarters for the African Union, in which China supports. Ethiopia has one of the strongest militaries in Africa and, although landlocked, it serves as a regional center for the Horn of Africa that enhances Ethiopia and China for mutual peace and security mission.

Ethiopia needs China not only for economic assistance but also for political relations. Because Ethiopia used China's development as an alternative source and considered as a role model in the context of Ethiopia. China also supports Ethiopia in different international issues. China look towards Ethiopia especially in terms of Ethiopia's strategic importance and market potential. Ethiopia supports and prefers for Chinese companies and China is getting diplomatic support from Ethiopia for its foreign policy among others. Because of these reasons, the relations of the two country become people-to-people, government-to-government, and party-to-party. Even though, there is a strong economic and political relation between Ethiopia and China, There are also common factors both from Ethiopia and China's side, which enhanced the bilateral relations. The bilateral relations are still

imbalanced, dumping of low price export, underbidding local companies and ideological differences among others. However, Ethiopian and Chinese relations motivated by win-win approach, political and economic factors.

#### 4.5. The socio-cultural relationship of the two countries

From cultural perspectives, both countries have historic & ancient relationship. Starting their relations Ethiopia and China become to established high socio-cultural linkages. Besides, above economic cooperation of the two countries, there is also bilateral socio-cultural relations. To enrich the relationship, China has been working to enhance its bilateral ties with Ethiopia for many years. Cultural cooperation in socio-cultural experience sharing, training, development, short & long term education between countries become increasing. More recently, it extended to training in different issues starting from government officials, educational staffs, youths, and community figureheads. The socio-cultural cooperation is largely China-driven; it mainly aimed at strengthening its economic embedding but also its soft power in Ethiopia. This cooperation also centered on technical cooperation in agriculture, mining, communications, energy, more or less infrastructure and construction. This enables an opportunity to exchange working experience has and habits in-between. Recently, Ethiopia has its first ever satellite thanks to China-Ethiopia cooperation. This is one success of the socio-cultural relationship of the two countries. So that, there two countries are building are building mutual socio-cultural relations in action beyond counting their historic and cultural relationship in simple words.

### 5. CONCLUSION AND RECOMMENDATION

#### Conclusion

The socio-economic relationship of the two countries is multi-lateral. Even though, the relationships are ancient and historic, the two countries established organized relationship after 1991 [4]. However, holistic socio-economic interaction has done starting from 2000 and 2019; China provided over \$12 billion in loan finance; moreover usually tied to infrastructure projects undertaken by Chinese firms. There is growing Chinese investment in the Ethiopian economy, while imports of cheap consumer goods from China \$2.9 billion in 2018 greatly exceeding exports from Ethiopia to China \$380 million in 2015. Furthermore, the two countries relationship is depending up on win-win cooperation; Ethio-China relation is asymmetrical. Party-to-party, government-to-government and people-to-people relations. In addition, the relationship between Ethiopia and China is a strategic partnership and cooperation. This relationship is a comprehensive cooperation in economic, social, political and cultural aspects. Among these relations, the dominant one is economic cooperation, in which fundamentally based on mutual advantages. Next to economic relations, the two countries have strong political connections. Because of good political stability, visionary government, and very well policy, rich in natural and human resources, and strategic geographical location, Ethiopia has high values for Chinese cooperation and Chinese investment, which are politically free and without hegemonic preconditions. To sum up, all foreign direct investment, infrastructures, human development, and socio-economic interactions accomplished through corporate Chinese government & Chinese investors on the bases of win-win approaches.

#### Recommendation

Ethiopia and China has a bilateral relationship. Therefore, to enhance the positive socio-economic relations, and to minimize the barriers of their diversified relationship, the following future directions are very important.

- [1] Ethiopia is not benefiting from China on their historic and ancient relationship. Therefore, the socio-economic cooperation of the two countries has to be increasing more compared to other countries.
- [2] Ethiopia must exploit and maximize to reduce the negative balance resulted from trade relations (balancing export & import items).
- [3] As of political, diplomatic, economic relationship, the two countries socio-cultural relationship should be maximize especially in social development like education, training, work experience, and cultural business sharing and so on.
- [4] The win-win bilateral relationship of the two countries must continue for their strong multi-dimensional socio-economic & political economy transformation.

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