



Indian and Chinese FDI in Ethiopia: Nature, Impact, and Challenges

Prateeksha Tiwari

tiwari.prateeksha@gmail.com

Department of East Asian Studies, University of Delhi, Delhi, 110007

ABSTRACT

This paper discusses the nature, impact, and consequences of Indian and Chinese foreign direct investment in Ethiopia. This growing economic engagement has also been analyzed in the broader purview of South-South cooperation. It is argued that while Indian and Chinese economic engagement is playing a substantial role in Ethiopia's long-term development plans, it is not going to alter the nature of Ethiopia's asymmetric integration in the global economy. Even as Indian and Chinese economic assistance comes with no political strings attached, Ethiopia needs to strengthen its institutions and improve transparency to safeguard its long-term interests.

Keywords: GDP growth, India-China FDI, long-term development, manufacturing, South-South cooperation

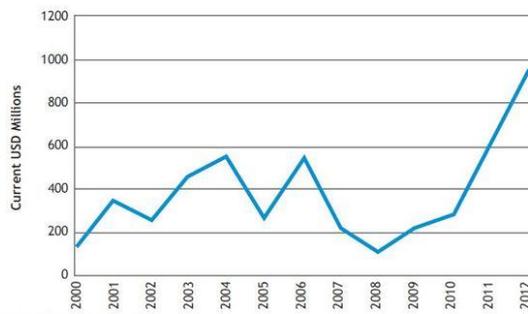
INTRODUCTION

The economic development in Ethiopia in the last two decades is nothing short of phenomenal. After it came out of erstwhile USSR's socialist shadow with the collapse of Derg regime in 1991, Ethiopian GDP grew from US\$19.45 billion in 1991 to US\$47.53 billion in 2013. It recorded an average growth rate of 10% over the last decade, thus attracting worldwide attention as the emerging economic engine of Africa.

Ethiopia's Structural Adjustment Programme (SAP) was launched in July 1992 aiming at 'removing structural rigidities and distortions and enhancing the enabling environment for private sector development' (1). As a result of economic restructuring, Ethiopian economy opened up to private sector investment both from domestic and international agents. Foreign Direct Investment (FDI) in Ethiopia gradually became a significant factor in GDP.

The Ethiopian government undertook Growth and Transformation Plan (GTP) in November 2010 to carry the growth momentum further. The major objectives of GTP are to maintain a minimum 11% GDP growth rate, meet the Millennium Development Goals, and achieve the status of a middle-income nation by 2025 (2). Considering the magnitude of social and infrastructural development the plan aspires to achieve and the current negative rate of domestic savings (3), attracting FDI is no more a trophy to flaunt to domestic population and its neighbours, it is now a critical component for realization of lofty development goals.

Figure 1: Incoming FDI in Ethiopia, 2000-2012, US\$ million



Source: UNCTAD FDI Statistics 2014

Figure-I Incoming FDI in Ethiopia, 2000-2012, US\$ million

Latest government statistics predict an incoming FDI of US\$1.5 billion in 2015, a 25% increase from 2014 (4). In last few years, India and China have emerged as top foreign investors in Ethiopia. Trends indicate the increasing significance of FDI in Ethiopia's economy, thus with an increasingly important role for India and China to play in Ethiopia's development process.

METHODOLOGY

This paper has been written using primary information collected during a research trip to Addis Ababa conducted by School of Advanced International Studies, Johns Hopkins University in January 2014. The case studies included are based on information collected during personal interviews and site visits. Government reports, secondary academic sources, and multiple news sources have also been consulted.

RESULTS

- There is sincere keenness on the part of Ethiopian government to attract and retain foreign investment in the country. However, there is perceived burden of over-expectation amongst investors, who face implausible deadlines and targets. Ethiopian government needs to reassess the weightage of FDI in its long-term development plans and set more realistic targets. The enthusiasm exhibited at the top level is yet to percolate to the workforce, which not only causes problem for businesses but also impedes the pace of technology transfer and skill development.
- Chinese engagement with Ethiopia clearly seems to be directed by a policy direction. 'China' is not a monolithic actor and different state actors have different interests in Ethiopia (and Africa in general), but its interaction with Africa exhibits a very consistent set of norms and principles. There are no observed patterns in Indian engagement with Ethiopia and it seems to be driven by investors' individual interests. In China's case, strong state backing give its enterprises tremendous leverage of political influence, financial capacity, and risk-taking over other investors.
- Ethiopia's manufacturing and service sector is still underdeveloped, thus leaving ample scope for further investment by Indian and Chinese firms. Ethiopian government should gain confidence and experience from its foreign engagement so far as to further open up the economy and take bold structural reforms (such as banking, institutionalization etc.).

- Fanfare surrounding South-South cooperation aside, Indian and Chinese economic engagement is fundamentally the same as Western countries. It will neither reduce Ethiopia's (and Africa's) dependence on primary exports nor alter its asymmetric integration in global economy. Ethiopia's need of the hour is to seek Indian and Chinese investment to assist in its development, and the onus to safeguard its interests also falls squarely on Ethiopia's shoulders.

DISCUSSION

FACTORS ENHANCING ETHIOPIA'S ATTRACTIVENESS AS AN FDI DESTINATION FOR INDIA AND CHINA

There are several factors which make Ethiopia an attractive destination for global FDI, such as:

- Geographical location

Ethiopia is the seat of African Union and hence a sound political linkage to the rest of the continent. Its location in the Horn of Africa makes it a suitable middle point between Africa, Asia, and the Middle East. It is home to Ethiopian Airlines, which carries two-thirds of entire freight and cargo across Africa and connects across more destinations than other African carrier.

- Strong economic trends

Presently, Ethiopia is the largest economy by GDP in East Africa and Central Africa. Ethiopia is a member of COMESA which gives it access to preferential tariff rates to 300 million people in 23 countries. Products manufactured in Ethiopia also enjoy duty and quota free access to US and EU markets under Africa Growth and Opportunity Act (AGOA) and Everything But Arms (EBA) respectively (5).

- Political stability

After the collapse of military junta in 1991, Ethiopia entered a period of political stability under Ethiopian People's Revolutionary Democratic Front (EPRDF) government led by Meles Zenawi for almost two decades until his death in 2012. The nation underwent smooth political succession after Zenawi's death. While the democratic credentials of this regime are debatable, with reports of protests against EPRDF's political monopoly frequently coming to news, it guarantees a stable policy environment to foreign investors.

- Keeness on government's part

Ethiopian top leadership has displayed exceptional keeness in inviting foreign investment to their nation. Many large businesses state their original reason of association with Ethiopia as former PM Zenawi's personal invitation to invest in Ethiopia. Businesses presently operating in Ethiopia report the bureaucracy to be highly intuitive towards foreign investors' needs and often go the extra mile to ensure their smooth functioning (6) (7) (8).

- Cheap, trainable labour

53% of the total population falls in the productive workforce age group of 15-64 (9). According to official Ethiopian sources, Ethiopian universities churn out 10,000 graduates annually in fields of management, accounting, business, and engineering. Currently there are 151 technical and vocational training institutes in Ethiopia, and the number of private universities is also on rise.

Additionally, favorable financial environment (treaties for avoiding double taxation and BIPPA with both India and China), constitutional protection from expropriation, and claimed unexplored reserves of natural sources are other important factors (10).

Apart from the aforementioned common factors, there are a few other factors which make Ethiopia particularly appealing to China:

- Ethiopia as the starting point for greater engagement with Africa

Go Global strategy adopted by China in 1999 encouraged Chinese enterprises to invest abroad. China's meteoric rise as a global economic power triggered a need for energy security and a quest for natural resources, which are the guiding principles of China's overall Africa strategy. In conjunction with the aforementioned advantages which Ethiopia offers as a FDI destination, China hopes to gradually expand its engagement taking Addis Ababa as the starting point.

- Tremendous potential as new markets for its products

China's economic success can be attributed to its state-led export-oriented strategy. Ethiopia has an expanding consumer base faced with limited choices of domestic products, thus presenting the perfect opportunity to China for export expansion.

- Launch pad for international markets

China not only intends to enter newer markets, but also aspires to climb higher up in the manufacturing value chain. However, it still lags behind US and European products in terms of quality and branding. African nations serve as ideal launch pad for Chinese companies to test new marketing and production techniques. China also sends its fresh graduates to work in Ethiopia and other African countries to get them acquainted with toughest of management challenges and work environment.

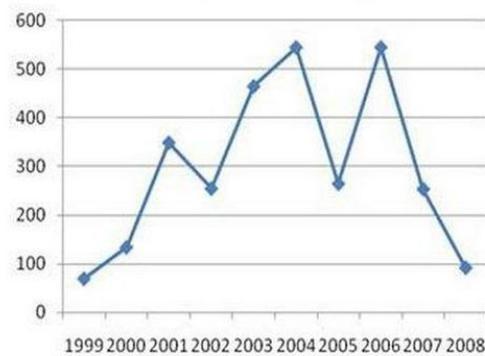
- Strengthening solidarity with African nations

Chinese foreign policy is governed by the principles of multilateralism, win-win cooperation, and anti-hegemonism. It aims to achieve 'equal-partner diplomacy' with African nations in order to dilute US economic and security hegemony. In the past, African nations support has been instrumental in People's Republic of China displacing Republic of China and gaining the United Nations Security Council seat in 1971. More recently, in 2006, Ethiopia passed a resolution supporting China's Anti-Secession Law. In 2007, it joined other African nations in preventing a UN Human Rights Commission resolution condemning China's human rights record. In 2008, Ethiopia reiterated its stance on Tibet as China's internal affair in 2008 and denounced any external power's right to intervene in China's domestic issues. Ethiopia thus is a natural diplomatically, and China is keen on nurturing this relationship.

BRIEF HISTORY OF INDIAN AND CHINESE ECONOMIC ENGAGEMENT WITH ETHIOPIA

Both India and China have historical associations with Ethiopia which predate several centuries. In the post-Cold War period, India-Ethiopia relations ushered in the field of economic cooperation with a trade agreement in 1997 which led to the establishment of a Joint Trade Committee. A noticeable upturn finally came in 2007, when India and Ethiopia signed five major agreements, including Bilateral Investment Promotion and Protection Agreement (BIPPA). India is one of Ethiopia's top three foreign investors, with current investment to the tune of US\$2 billion in 2014 (11).

Figure 2: Indian FDI to Ethiopia, 1999-2008, US\$ million

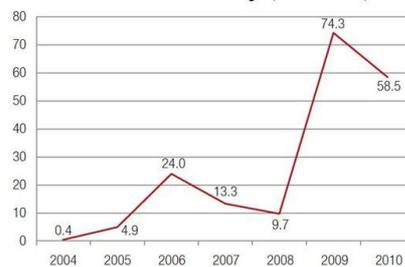


Source: Focus Africa

Figure-II: Indian FDI to Ethiopia, 1999-2008, US\$ million

China and Ethiopia established formal diplomatic relations in 1970, promptly followed by the signing of Ethio-China Economic and Technique Cooperation Framework Agreement in 1971. China's economic cooperation with Ethiopia has expanded rapidly since the establishment of the Forum on China-Africa Cooperation in 2000. US\$5 billion China-African Fund was founded to further facilitate Chinese entrepreneurs to invest in Africa after 2007 FOCAC summit. China became Ethiopia's largest import and export trading partner in 2011. In terms of FDI, official Chinese sources state a growth from 'virtually zero' in 2004 to US\$58.5 million in 2010 (12).

Figure 3: Annual Chinese FDI to Ethiopia, 2004-2010, US\$ million



Source: World Bank Enterprise Survey, 2011

Figure-III: Annual Chinese FDI to Ethiopia, 2004-2010, US\$ million

The increased inflow from countries like India and China has marked a new milestone in South-South cooperation. Today, India and China are respectively the third and second largest economies by GDP (PPP) (13). These two countries, especially China, consciously project the image of 'post-colonial actors' which are capable of understanding Africa's challenges and needs because of their own colonial past and developmental struggles. China has actively constructed a common identity with

African nations weaving narratives glorifying long history, diversity, exploitation by outsiders, and a desire for self-determination. Combined with its win-win diplomacy, fundamentals of peaceful diplomacy, and adherence to Five Principles of Peaceful Co-operation, it not only emerges as an alternative to the West, it appears better than the West for Africa's development (14). Such engagement is welcomed by African nations that have been treated as 'junior partners' in international economic diplomacy for a long time.

The real nature of this South-South cooperation is debatable. So far, China's interests in Africa do not seem to be very different from those of the West. While the mode of engagement is different, there is no significant difference in trade patterns with the West, thus leaving ambiguity about its possible contribution to Africa's development (15).

NATURE OF INVESTMENT

Indian embassy in Ethiopia pegs the 2011 value of approved Indian investment at US\$4.7 billion secured by 596 companies, thus making it the second largest foreign investor in Ethiopia. The value of actual investment is US\$2 billion.

Table 1: Sectoral break-up of Indian investment in Ethiopia, 1992-2008

| Sector | Number of projects | Capital (US\$ million) | Permanent employment | Temporary employment |
|---------------------|--------------------|------------------------|----------------------|----------------------|
| Construction | 7 | 2.68 | 284 | 483 |
| Flower | 9 | 22.1 | 966 | 2715 |
| Agriculture | 2 | 2.22 | 235 | 1620 |
| Water well drilling | 10 | 2.84 | 177 | 126 |
| Plastic | 15 | 14.3 | 1945 | 1621 |
| Textile | 6 | 5.1 | 491 | 254 |
| Assembly | 7 | 1.19 | 171 | 61 |
| Hotels | 1 | 0.04 | 20 | 15 |
| Education | 1 | 0.38 | 62 | - |
| Consultancy | 6 | 0.37 | 59 | 38 |
| Leather | 1 | 0.21 | 25 | 20 |
| Health | 1 | 0.05 | 5 | 10 |
| Other manufacturing | 21 | 10.2 | 1076 | 235 |
| TOTAL | 87 | 61.86 | 5516 | 7198 |

Source: EIA

Chinese embassy in Ethiopia estimates the 2012 value of investment at US\$345 million. Official Chinese sources state that 316 projects are fully or semi-operational while another 900 projects are in the pre-implementation phase.

Table 2: Sectoral break-up of Chinese investment in Ethiopia, 1992-2009

| Sector | Number of projects | Capital (US\$ million) | Permanent employment | Temporary employment |
|-----------------------|--------------------|------------------------|----------------------|----------------------|
| Agriculture | 1 | 0.42 | 100 | 200 |
| Construction | 56 | 52.44 | 4060 | 11781 |
| Assembly | 11 | 3.22 | 259 | 357 |
| Furniture | 7 | 1.88 | 160 | 175 |
| Textile | 22 | 4.2 | 1672 | 558 |
| Comforts and blankets | 7 | 0.92 | 81 | 72 |
| Shoes/leather/plastic | 8 | 1.66 | 327 | 347 |
| Hotels | 15 | 1.45 | 185 | 143 |
| Food manufacturing | 2 | 0.34 | 56 | 10 |
| Education | 1 | 0.02 | 6 | 4 |
| Health | 7 | 0.78 | 81 | 34 |
| Consultancy | 21 | 1.68 | 440 | 734 |
| Other manufacturing | 37 | 33.38 | 5967 | 2099 |
| TOTAL | 197 | 102.44 | 13394 | 16514 |

Source: EIA

Astronomical figures aside, the tragically low rate of approved projects reaching the operational stage is a severe problem (refer Tables III, IV). According to Ethiopian embassy in Washington DC, obtaining an investment license takes only US\$35 and four hours. It appears that for most companies, getting the license fulfils their purpose of eligibility for financial incentives such as duty free imports, easy credit etc. This leads to severe inflation of investment amount and projected employment, which restricts the Ethiopian government's capability to form proper development plans.

Table 3: Licensed and operational Chinese investment in Ethiopia, July 1992 – December 2008

| | Number | Capital (US\$) | Permanent employment | Temporary employment |
|-------------|--------|----------------|----------------------|----------------------|
| Licensed | 311 | 1.6 billion | 24,008 | 134141 |
| Operational | 87 | 61 million | 5,495 | 7210 |
| % | 28.0 | 3.8 | 22.9 | 5.4 |

Source: EIA

Table 4: Licensed and operational Chinese investment in Ethiopia, July 1992 – January 2009

| | Number | Capital (US\$) | Permanent employment | Temporary employment |
|-------------|--------|----------------|----------------------|----------------------|
| Licensed | 1,829 | 429 million | 32,800 | 49,678 |
| Operational | 195 | 102 million | 13,394 | 16,514 |
| % | 10.7 | 23.8 | 40.8 | 33.2 |

Source: EIA

The high concentration of Chinese investment in construction and infrastructure sector can be explained by the prolonged absence of other investors in this sector. However, China's financial and political muscle ensures that this sector stays under Chinese monopoly. Underbidding is the most common tactic adopted by Chinese firms, followed by complete sidestepping of formal allotment procedure. ZTE, e.g., agreed to take the contract for telecom expansion on the condition that it will not participate in bidding. Such flouting of norms is also overlooked by the Ethiopian government, partly because of the urgent nature of the project, and partly because of strong Chinese political influence. It appears that Indian and Chinese companies are more interested in winning contracts than the actual investment in a bid to gain international reputation, access financial incentives from home countries, and use Ethiopia as the testing ground for their further expansion.

There is complementarity to Indian and Chinese investment in road construction sector. Since 2008, all roadway construction projects have been exclusively allotted to Chinese companies. However, regulations prohibit companies from the same country to undertake supervision and consulting. Indian companies including Consulting Engineering Services (India) Limited, RITES, SPAN Consultants etc. have been working on various road consultancy projects. There certainly is scope for more cooperation between Indian and Chinese investments. As Ambassador Verma aptly quoted, 'The world is big enough for both India and China. Frequent comparison of India and China as a zero-sum game is a creation of the media' (11).

While Ethiopia is not a resource-rich nation in traditional sense, it is considered the de facto capital of Africa. As such, some of the projects such as the swanky airport hangar and storage facility built for Ethiopian Airlines, headquarters for African Union, Addis Ababa ring road etc. developed by giant Chinese firms with substantial state funding can be said to serve another purpose of impressing other African leaders. By

showcasing its capability of transforming one of the poorest nations in the world as a rising star of Africa, China hopes to succeed in attracting further destinations for what is called expanding regional influence by some scholars, and market-seeking by others.

COMPARISON WITH WESTERN ECONOMIC ENGAGEMENT

Generally speaking, Indian and Chinese investment and economic assistance is focused towards hard infrastructure like roadway/railway construction projects, telecom infrastructure expansion etc. where Western presence is feeble (16). This is in stark contrast with Western economic assistance which is directed into capacity building and soft infrastructure such as healthcare, education, awareness programmes etc. Ethiopia has so far been in a win-win position as economic engagement from traditional and non-traditional donors has proved to be complementary in nature (17).

Considering the broader purview of economic engagement, the most significant difference between Indian-Chinese and Western assistance is that the former attaches no conditions of political reform or restructuring on the recipient countries. India and China are both rapidly developing nations and it is natural of them to put their economic interests ahead of loftier ideals of global good governance (a caveat in China's case is its strict insistence on One China Policy). China, in particular, receives international criticism for its dogged persuasion of 'keeping business separate from politics' principle, which on several occasions translates into continuing economic partnerships and even arms sales to pariah regimes like Iran, Zimbabwe, Sudan etc. This is not to say that there is no political consultation between China and African nations, but unlike the Western political evangelism, it is largely on request (17).

From the African perspective, with lingering memories of the colonial era, such economic engagement with India and China is not only an assurance to their 'sovereignty', but is also emerging as a lucrative alternative option in joining the international mainstream. After witnessing the SAP debacle in Latin America and several African countries, the no-strings attached partnership with these two Asian nations is a welcome break (14). This widespread sentiment was echoed by a Kenyan government spokesperson, 'You never hear the Chinese saying that they will not finish a project because the government has not done enough to tackle corruption. If they are going to build a road, then it will be built (18).' China's clear refusal to interfere with issues of domestic governance stems from its own need to keep its internal politics free from international criticism. Its own developmental experience under semi-authoritarian, single-party rule reinforces its belief in the Confucian saying 'Do not unto others what you do not want others unto you.'

Because most of the capital coming in from China is either partially or wholly state-owned, Chinese firms can work on a much longer time-horizon than their privately-funded Western counterparts. Chinese investments are also particularly less risk-averse as compared to other investor countries. Strong government support and funding is a major factor behind this confidence. China benefits from 'first mover advantage' in war-torn and politically instable states like Angola, Congo, and Sierra Leone. Unlike their Western counterparts, Chinese enterprises see economic opportunity in challenging political and economic environment (14). US Ambassador to African Union Reuben Brigety, II explains this phenomena as, 'India and China are developing nations, hence are more capable of utilizing the opportunities in (developing) African nations' (5).

Most of Chinese investment is ‘at least partly driven by an active government policy’ (19) thus explicitly or implicitly linked to realizing strategic objectives, such as constructing roadway/railway for access into interiors. Furthermore, Chinese sometimes also utilize economic assistance as a tool to appease African political elite, e.g., financing grand projects like constructing football stadiums and presidential mansions (14).

As a result, the Indian and Chinese developmental models, starkly dissimilar as they are, have a new-found respect in African politics which is struggling to chart its own course of development. Ethiopia’s official foreign policy document remarks its opinion of India as

Much valuable development experience can be gained from India. The possibilities in the area (sic) of trade and investment are wide. India is at the forefront of the struggle to reduce the negative impact of globalization on developing countries. We should make greater effort to benefit from manpower training and learn from India’s development experience (20).

There is great admiration for Beijing Consensus – China’s indigenous model of economic development without political liberalization. The model justifies authoritarian rule by basing regime legitimacy on its capacity to deliver economic prosperity. It supports every nation’s right to self-determination and the freedom to carve an independent growth trajectory based on its unique historical experiences. The concept is naturally appealing to transitional regimes in Africa, which now quote China’s success as the future of their regime to the local population. In 2010, The Economist reported then Deputy PM Hailemariam Desalegn recommending Chinese model for Ethiopia’s economic development. While emphasizing the importance of China’s economic assistance, he quoted, ‘We like the Chinese way of doing things, because they don’t say “do this, don’t do that”—there are no preconditions’ (21).

EFFECTS OF FDI

- Expectations of greater transparency

As domestic industry gradually aligns itself in line with international standards of business conduct, transparency becomes an important effect as well as a determining factor in continuing the growth momentum. Ethiopia’s initial growth spurt is marked by personal initiatives made by the higher levels of bureaucracy, especially by the former PM Meles Zenawi. Ethiopia initiated multiple levels of government-to-government contact, invited prominent business owners for site visits, and made exceptional concessionary deals to attract the initial influx of FDI. Such measures may be termed commendable considering the need of the hour when they were undertaken. However, as Ethiopian government works towards developing a more systematic approach of attracting investment in specific sectors by keeping its long-term development goals in perspective, there is a need for greater transparency in conduct of international monetary transactions. Transparency and accountability are important to assess the effectiveness of aid/financial transactions and to keep corruption in check.

In this particular arena, there are significant problems from both India and China, compounded by the fact that both are non-DAC members. China treats information about its aid to other countries as a ‘state secret’; hence very little official information is

available, especially when compared to Western countries (22). Also, as in the past, many deals are made at executive level discussions, thus completely sidestepping institutional procedures further exacerbating the situation. This creates opportunities for rent-seeking and undermines the principles of good governance which are still to gain firm ground in Ethiopia. In 2014, Ethiopia ranked 110th out of 175 surveyed countries with a transparency score of 33 (higher score implies less corruption) Furthermore, its control of corruption score is -0.7 (-2.5 being the least effective, 2.5 being the most effective). In terms of accountability, its score is even lower at -1.31 (23). Corruption is a major developmental challenge in Ethiopia, and diversification of actors will only compound the problem, unless the government takes steps to regulate the process of seeking investment and allotting projects.

- Social instability

Generally speaking, the tangible results of FDI such as construction of roads and bridges, employment generation, and access to cheaper goods have created a positive image of the investors in local population's psyche (16). However, India's recent strides in commercial agriculture have stirred up debates over social stability and breaking of nation's ethnic fabric.

As a part of GTP, Ethiopian government has renewed its focus on agro-investment. The government believes that commercializing agriculture and inviting foreign investment will bring much-needed forex and new technology, spur innovation, increase efficiency by modernization, and create employment. In 2011, Karuturi Global secured a 50-year lease on 300,000 hectares of agricultural land at less than US\$1 per hectare. housing, schools, healthcare, and new farmland. Kassahun Zerrfu from Gambella's department for investment states, 'it is a coincidence that the investors are coming at the same time as the villages are being relocated' (24).

There are conflicting reports about mass displacements and ethnic assimilation. Alemayehu Mariam describes the Karuturi land deal as

It is about a land giveaway of mindboggling proportions to a foreign company to raise rice, edible oils, maize and cotton for export while millions of Ethiopians are starving and living on international food handouts. It is about making 'land deals of the century' without accountability, transparency, public debate, discussion and, above all, the consent of the people who will be permanently displaced from their ancestral lands. (25)

Ethiopia is one of the 'hungeriest' nations in the world, with more than 10% of its population dependent on food aid. In 2010 alone, Ethiopia received 700,000 tonnes of food and US\$2.75 billion in aid. Obang Metho and Anuradha Mittal, executive directors of the Oakland Institute, wrote an open letter to Barack Obama and termed 'large-scale land investments by foreign investors' as 'the single largest manmade contributor to food insecurity on the continent today' (26).

However, both Indian and Ethiopian official stances reject these accusations of 'land-grabbing' and forced displacement. Indian ambassador to Ethiopia Sanjay Verma clarifies, 'the foreign investors were offered land in otherwise remote, inaccessible areas which required development by the pioneering agricultural investors, before the land could yield. The land was given on attractive terms because of the huge challenges involved in making the investments worthwhile' (11). Metasebia Tadesse, Minister

Counsellor at the Embassy of Ethiopia in New Delhi also supported Ambassador Verma's stand by adding

The majority of these lands are to be found in sparsely populated regions of the country, where the risk of displacing local populations for this purpose is far too negligible, at worst. The areas being allocated for this purpose are totally inaccessible in terms not only of infrastructure development, but also those which have hardly been inhabited by people. The Government of Ethiopia takes the issue of climate change and social impact seriously. The lands that are made available for investors are thoroughly studied in order to ensure that the investment projects' impact on the livelihood of the local communities as well as their impact on climate is kept to the most minimum possible (27).

The jury is still out on the real nature of social and ethnic problems, if any, caused as a result of land acquisition by foreign investors. However, it is sufficient to say that in a traditionally agricultural country like Ethiopia, FDI in agro-business has proved to be replete with trials and tribulations.

- Employment generation and skills transfer

One of the direct benefits of Indian and Chinese investment in Ethiopia has been employment generation. Ethiopia's adult unemployment rate is 17.5% and the literacy rate is equally abysmal at 49% (9). Under such circumstances, the employment provided by these foreign enterprises is highly welcome and it helps in creating further capital, reduce crimes, and bolster social stability.

The lion's share of this employment is taken up by labour jobs requiring work at construction sites, factories, and mines. While the explicit purpose of foreign firms in Ethiopia is to reap the benefits of cheap labour, there are reports of wages lower even by Ethiopian standards being paid. Entry level salary in Ethiopia is between US\$35-40 per month, which is meager compared to Chinese figure of US\$629 per month (28). There is no minimum wage legislation in Ethiopia except for public servants. Despite of trade unions' protests, there is no prospect of government intervening in minimum wage settlement in near future. Aklilu Woldemariam, director of investment promotion at Ethiopia's Investment Agency quoted, 'We do have a labour law in this country, which is in line with international standards, but the government will not actually intervene in setting the minimum wage.' The justification for this stance is given by asserting how manufacturing is in a nascent stage and low wages with no fixed minima is to entice the investors. (28)

As far as jobs slightly higher up on the skill-intensity scale are concerned, local graduates have choice between profiles such as clerks, secretaries, guards etc. Managerial level positions are all occupied by foreigners. This is a major hindrance in the skill transfer process. Foreign firms associate numerous advantages with hiring their own nationals in managerial positions: opportunity to gain international exposure preparing them for newer and bigger markets, generating high-skill domestic employment, retaining critical control of their ventures are a few to be named (29). They cite lack of discipline and international business ethics amongst Ethiopian locals as reasons behind not investing time and resources in training.

- Diversification of investment sources

Recent data indicates that India, China, and Saudi Arabia are among top five investors in Ethiopia. The increasing amount of investment flowing in from non-traditional donors is helping in diversification of donor sources. This gives Ethiopia more room for negotiating with Western countries as it is not entirely dependent on their aid and investment anymore. Between 2003 and 2011, Ethiopian PPP per capita doubled from US\$527 to US\$1,100. According to African Progress Panel, Ethiopia's 'success' while world economy grappled with economic recession in 2008 is largely attributed to association with BRIC nations. This BRIC effect 'helped first to insulate Africa partially from the global economic downturn, and then to drive recovery' (26).

- Increasing technical dependency

While the monetary and technological infusions into Ethiopian economy are certainly acting as catalyst in the development process, a lack of long-term vision might risk the economy becoming over-dependent on foreign technology and aid. Completion of infrastructure or telecom projects by Chinese companies does give an instantaneous boost to the economy, but in absence of an effective skill transfer mechanism, there is a significant probability of long-term dependence. ZTE, e.g., undertakes projects conditional to using equipment and technical personnel brought in from China, which implies that Ethiopia will have to invoke Chinese assistance for subsequent upgrades and repairs. Such short-sighted project planning puts China in the position of long-term monopoly, and Ethiopia might need to pay significantly higher prices for future technological assistance. It appears the immediate priority of Ethiopian officials is expansion of infrastructural network and there is little importance given to long-run operational costs and quality (30).

- Threat to local business

In a survey conducted on 30 Chinese firms operating in Ethiopia, 96% indicated their intention to sell their production in Ethiopian market (30). This coupled with 36% of total imports from China being consumer goods (31) does not spell an optimistic situation for the local businesses. While there are occasional complaints of Chinese goods being lower in quality, domestic businesses simply cannot compete with the Chinese on cost, variety, and scale. One of the most severely hit industries is footwear, which is a traditional occupation in Ethiopia, and now faces existential threat from Chinese giant corporations. The customers enjoy the greater variety and competitive prices, but the domestic industry is being seriously undermined by this unlevel competition.

INVESTORS' GRIEVANCES

- Lack of skilled local labour

Lack of skilled, "disciplined" local labour is the other side to the abundant labour coin. Foreign investors routinely complain about lack of discipline and work ethic in local labour. Common complaints are: inefficiency, slacking attitude, frequently requesting off days citing personal reasons, abandoning work after pay day, coming to work under influence of narcotics etc. Some of these can be attributed to the fact that Ethiopia has rather recently started integration with global community, exemplifying how 'the message of globalization has not travelled down' (32).

However, for the foreign investors, these factors translate into additional expense of training labour in basic work etiquette, additional supervision, and need to bring in skilled/unskilled labour from home countries. Some of these enterprises have started their own training programmes, collaborated with local institutions to provide training, and/or send employees to India/China for training as a part of their corporate social responsibility. However, as FDI becomes an increasingly important source of economic development, the Ethiopian government will have to share the responsibility of equipping its labour force with skills necessary to survive in international atmosphere.

- Logistical and infrastructural challenges

Ethiopia is a landlocked nation, relying exclusively on Djibouti for incoming and outgoing shipments. Investors complain about the deplorable state of roadway linking Ethiopia to Djibouti port which sometimes leads to shipments getting stuck midway for as long as 2-3 weeks (6). Such unpredictable delays severely strain the global supply chain, thus eroding the benefits accrued from cheap labour and locational advantage. In comparison, air freight is multiple times costlier than sea freight which makes it an unviable option. Ethiopian officials and foreign investors are both equally affected by this situation, which could explain the importance given to highway and road construction. The fact that Chinese companies are highly proactive in infrastructure development is a testimony to this statement.

Frequent power outage is yet another logistical challenge faced by foreign investors. On an average, Ethiopia experienced eight power outages every month in 2011 (12). It also took 112 days for an electricity connection after submission of application, which is three times higher than the Sub-Saharan average. Coupled with aforementioned problems of labour indiscipline, meeting production targets becomes a huge challenge.

Ethiopian government has monopoly over banking and telecommunications sector. The presence of Chinese firms like ZTE and Huawei in telecom is in infrastructure building and development, and not in service provision. Telephonic and internet coverage are very low in Ethiopia (23% and 1% respectively) and there is nearly no cellular coverage outside of Addis Ababa, which is a very serious problem especially in the mining industry, in which unforeseen problems occur frequently (7).

- Obstacles created by trade regulations and customs

Foreign enterprises in Ethiopia depend heavily on imported supplies and materials because of lack of local supply network. However, due to inefficiency of current custom regulations, the standard customs clearance time is 47 days, twice as longer than Kenya and a month more than Djibouti. Another issue reported in trade regulations is conflict over documented values of import supplies when calculating tariffs. The value documented by Chinese suppliers is not considered and instead the international 'standard price' is used for calculations, which leads to a severe tariff inflation (12).

- Difficulty in accessing finance

This issue is more frequently encountered by small and medium firms, which usually do not enjoy native government's funding support. Currently, Ethiopia has nineteen banks – three of which are state-owned and sixteen are private. However, a 2011 regulation increased the minimum paid up capital for establishing a new bank from US\$3.64 million to US\$24.3 million, which serves to ensure government's monopoly in banking

sector. While investors can avail credit at market terms, the 100% collateral requirement is a serious deterrent for SME investors. The lack of a securities market and heavy regulation of sales and purchases of debt only aggravates the problem in accessing finance (3).

- Security concerns

Although safety is not a major concern in Ethiopia, there have been some instances of violence directed against Indian and Chinese firms. In October 2013, an attack on Indian-owned Verdanta Harvest Plc by unidentified locals resulted in destruction of equipment worth US\$140,000 (33). Ambassador Verma identified this as a problem whose recurrence is anticipated by several other Indian investors (11). In another incident, 9 Chinese nationals were killed and 7 kidnapped by a pro-Sudanese separatist group Ogaden National Liberation Front in March 2007. The attack happened in Abole region in eastern Ethiopia where China's Zhongyuan Petroleum Exploration Bureau was exploring for oil (34). The Chinese foreign ministry reserved its comments stating only that the attack was meant to derail the progress of Sino-Ethiopian relations.

OPPORTUNITIES AND CHALLENGES

The current trends in Indian and Chinese engagement with Ethiopia predict an increasingly important role of economic assistance from these countries in Ethiopia's development process. However, there are challenges which first need to be dealt with in order to explore further opportunities.

Some of the challenges facing the future of Indian and Chinese investment in Ethiopia are:

- Ethiopia is surrounded by politically unstable states like Eritrea, South Sudan, and Somalia. While the instable neighbourhood has not affected Ethiopia's viability as a FDI destination so far, a regional conflict might jeopardize its prospects (7). Ethiopia's reliance on Djibouti port for its imports/exports also weakens its position against Djibouti in case of a bilateral conflict.
- Low rate of project actualization after obtaining license is also a challenge which the Ethiopian government needs to deal with. This, however, may be indicative of other problems (finance, logistics, mismatch between government's expectations and reality) and thus may require a broader framework of solutions.
- The government also needs to reign in growing levels of corruption and ensure greater transparency and institutionalization.
- The government needs to adopt a proactive stance to improve linkages between foreign and domestic business in order to ensure skill transfer, productive capacity, boost local employment and assist in integration with global markets. Joint ventures can prove effective in achieving this goal.
- Ethiopia's non-traditional exports will remain uncompetitive as long as labour in India and China remains cheap (35). The government needs to adopt a more focused approach in directing incoming FDI to strategic sectors such as manufacturing.

Opportunities abound as Ethiopia continues to develop its economy with the assistance of foreign investment. Some of them are:

- Ethiopia has huge reserves of uncultivated agricultural land, which with patiently negotiated terms can be productively utilized both for export and domestic purposes.

The tenacity of Chinese state-funded capital can be especially instrumental for undertaking such long-term, late-return bearing projects.

- Government should encourage workforce to take maximum advantage from training programmes offered by Indian and Chinese firms as well as governments (e.g., Indian Technical & Economic Cooperation).
- While Ethiopia's excessive reliance on Djibouti is a potential problem, it also opens up an opportunity for further investment in roadways and railways construction to make regional trade frictionless. Geographical limitation can thus be utilized to generate further opportunities for investment by Chinese companies.
- There are some sectors in which Indian and Chinese involvement has spurred the attention of other investors which intend to export to India and China from Ethiopia. For example, China and India are world's largest consumers of potash and there are several firms mining potash in Ethiopia. This has piqued Canada-based Allana Potash's attention which plans to mine potash in Ethiopia and then export to these countries. More such inspired investment can improve competitiveness amongst foreign investors, giving Ethiopia greater leverage and negotiating power in other sectors as well.

CASE STUDIES

Case study 1: Tata International, India

Tata's engagement with Ethiopia began in 2008, shortly after the export of raw leather was banned by the Ethiopian government. Tata values Ethiopian leather both in terms of its quality and quantity, which prompted it to open Tata International Leather office in Addis Ababa. However, this association has been less than ideal. While the fickleness of capital is a fact that does not require to be reiterated, the Operations Manager at Tata unequivocally stated that the current association with Ethiopia is solely profit-driven. Beyond the obvious advantages, conducting business in Ethiopia is marred by several systemic factors. Government monopoly on banking and telecom leads to exorbitant transaction charges, communication costs, and overall low efficiency. In contrast, Tata Operations in Kenya enjoys ease of funding provided by the government while Zambia 'takes care of management and supply of equipment to copper mines and supplies trucks.'

Tata Ethiopia Operations asserts TIL's continued engagement with Ethiopia is because of strong keenness on the Ethiopian government's part and the highly approachable nature of higher officials. There is, however, a noticeable difference between government's proactive stance and morale of labour force. There are complaints about lax work ethic, lack of motivation, and an 'easy-going' attitude. The need to overcome this hindrance, combined with a Tata Group's sense of corporate social responsibility, has resulted in TIL running training programmes for graduate students.

TIL's understanding is that the Ethiopian government is reaping the benefits of its foreign economic engagements in a short-term, ill-planned manner. Frequent policy changes without prior intimation creates disruptions in the business cycle and is considered to be a major impediment in further investment in the country (8).

Case study 2: Huajian Group, China

The shoemaking enterprise from China opened its office in Eastern Industrial Zone (established on a US\$700 million investment by Chinese Qiyuan group) in 2012. Huajian's former Vice President and General Manager for overseas investment Helen

Hai recounted her experience of being personally invited for a site visit by former PM Zenawi. Impressed by Ethiopian government's enthusiasm and the favourable conditions of cheap, abundant labour supply, Huajian started manufacturing two thousand pairs of shoes for brands like Guess, Naturalizer, and Toms in EU and American markets.

Huajian's shift from Guangdong to Ethiopia was primarily motivated by the wage difference which is a factor of ten between China and Ethiopia. However, the ground reality turned out to be less than ideal. Huajian now spends 8% of total manufacturing cost in logistics as compared to only 2% as it used to spend in China. There are also issues of labour indiscipline, poorer quality, power outages, and shipment delays which extend the standard lead time of 45-60 days to 100 days. In a time-sensitive industry where style goes out of fashion every couple of months, Huajian is finding it difficult to maintain its competitive edge.

Despite of all the odds, Huajian is resolute on making its Africa foray a success. It sent 86 Ethiopian graduates for two-month training in China and states with proper training, the Ethiopian personnel can perform as well as their Chinese counterparts. It also intends to initiate a shoemaking diploma course in cooperation with a local institute which will be open to all Ethiopian nationals with no conditionality of working for Huajian. Hai, now CEO at China Africa Consulting Ltd. has been invited by leaders of neighbouring countries to repeat the Huajian success story. Hai believes that 'clearly there is a future for Africa', the sole question being, 'which country is going to grasp that opportunity' (6).

Case study 3: Souriiish Marbles, India

The Delhi-based marble mining group made foray into Ethiopia in 2012 after learning of vast untapped marble reserves in Ethiopia from another friendly Indian business operating there. Being a smaller investment (US\$2.5 million), Souriiish did not enjoy the same attention from high-level diplomats, but faced no bureaucratic hassles or discrimination either. While the Ethiopian system falls on the lower end of efficiency spectrum, Souriiish ascribes it to insufficient international exposure and experience. Ethiopia is sincere about attracting and retaining FDI, and it is proactively learning from its experiences with investors of all sizes and kinds.

Souriiish Marbles conducts marble mining in Benshagol region, western Ethiopia. Lack of labour with technical know-how was one of the foremost obstacles, which was gradually overcome by bringing in experts from India for training. It hires Indian nationals for mining jobs along with locals, but aims to eventually keep Indians only in managerial positions. Poor infrastructure is another challenge and creates a huge problem as the mining site is 1400 km away from Djibouti port. Lack of cellular coverage and unreliable transport vendors further complicate the situation. Its operations in Rwanda are much more efficient and profitable.

However, Souriiish is determined to continue business in Ethiopia. It claims bureaucratic and local support as one of the biggest facilitators in conducting business. The nature of mining industry is challenging and not one with immediate profits. As its Managing Director puts it, '(mining in Ethiopia is) long-term gamble, with too many short-term problems' (7).

CONCLUSION

Ethiopian economy is developing fast, and Indian and Chinese investment is playing both direct and indirect roles in this process. It is generating employment, helping in market expansion, creating backward and forward linkages in economy by procuring inputs and selling outputs within Ethiopia. Its indirect contribution is the large-scale infrastructure development which in turn is expanding the geographical reach of investors, improving efficiency by providing better logistics, and inviting newer players in Ethiopian economy.

Despite being a resource-poor nation, Ethiopia's location in Africa, its stable political environment, and top leadership's keenness and responsiveness are the most important reasons which have attracted foreign investment. Ethiopia's inclination towards Indian and Chinese investors is also natural, considering how these two nations impose no condition of political or structural reform as a pre-condition to economic assistance. However, there are factors of low labour productivity, poor existing infrastructure, and systemic problems like corruption, credit monopoly, and trade restrictions which discourage foreign investment.

Ethiopia faces equal opportunities and challenges ahead. Ethiopian manufacturing sector is currently in infancy and the nation's cheap labour can be effectively utilized to boost growth. Both Indian and Chinese state and non-state sectors offer ample opportunities for skill training which should be utilized. The government must take sincere steps to increase transparency, improve labour efficiency through training programmes, and adopt policies to guide investment in strategic sectors while at the same time encouraging joint ventures.

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