

CHINA'S ENGAGEMENT IN GLOBAL ASSISTANCE FOR DEVELOPMENT: A CASE STUDY FROM ETHIOPIA, EAST AFRICA

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ABSTRACT

This research assessed China's status in global economic development assistance with special focus on Ethiopia. The study disclosed that though the contribution of China, as a re-emerging donor, is not new to Ethiopia's economy, unprecedentedly strong economic ties have been developed between the two countries in the span of the last two decades. China is providing Ethiopia both monetary and non-monetary assistance based on the principles of mutual benefits with no conditions on internal political issues. Hence, China is making valuable contributions towards Ethiopia's development in the spirit of South-South cooperation, which needs to be understood in the context of the changing global development assistance architecture. The present study indicates that the development assistances from China to Ethiopia do have both opportunities and risks that call for policy interventions to minimize the risks and maximize the benefits of the development cooperation. As such, Ethiopia is recommended to have proactive policies and transformative, capable, accountable and versatile leadership so as to properly harness the emerging aid assistance from China for its overall sustainable socioeconomic development.

Keywords: Development assistance, development cooperation, investment, trade, aid, loan, Ethiopia, China

INTRODUCTION AND THE RATIONALE

A significant number of literature (Gedion, 2014; Geoff, 2014; Muna, 2015; Gebregeorgis, 2016) indicate that Chinese relations with Africa, particularly, the Horn of Africa including Ethiopia, has started since ancient times. According to Dent (2011), records of Africa-China bilateral trade date back to the 10th century BC, when the Egyptian city of Alexandria started trading with the people settling in the present-day China. Evidences also indicate that trade relationship between China and Africa took place at some point during the first major period of the Silk Roads Trade (about 50BC-250AD). Gebregeorgis (2016) cited historical sources indicating the indirect contact of Chinese merchants with Aksumite Kingdom of Ethiopia since the Chinese Qin Dynasty (3rd century BC) and Han Dynasty (3rd century BC – 3rd century AD) through the Balkh in Eurasia and Parthia in the Persian Plateau. Yet the Sino-Ethiopian economic cooperation, including aid, officially began in the early 1970's and remained low until 1995. However, a strong cooperation between Ethiopia and China had to wait until the 1990s when Ethiopian People's Revolutionary Democratic Front (EPRDF), the incumbent ruling party, came to power in Ethiopia. Especially after 1995, the bilateral economic cooperation between Ethiopia and China witnessed marked progress and rapid development in different areas (Gedion. 2014). To date (2017/18), the data from Ethiopian Investment Commission (EIC) shows that trade between the two countries reached over 3 billion USD (United States Dollar); while Chinese investment in Ethiopia is approaching 3.5 billion USD.

Foreign aid, as a subject matter of political economy, has been debated in global development discourses and international politics (Pankaj, 2005). One of the major points of argument has been whether international aid leads to growth and development of the underdeveloped countries, such as Ethiopia, or not. Another major point of argument is whether international aid is an instrument used by donor countries to promote their domestic and foreign policy interests or otherwise. With regard to China's assistance to the economic development of countries such as Ethiopia, Butler and Wheeler (2012) indicated that China has a clear stand regarding its aid to other countries in that it adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development when providing foreign assistance.

The Chinese economic boom particularly starting from the second half of the 1970s (Csanadi, 2017; Yuan, *et. al.*, 2014) and the subsequent Chinese aspiration in overseas trade and investment; the accession of China to the World Trade Organization (WTO) in 2001; and Ethiopia's relative peace/security after 1991 and the determination for economic development have paved the way for strong Ethiopia-China ties. Currently, China is one of the most important development partners to Ethiopia. Correspondingly, Ethiopia is one of the top 10 recipients of official Chinese development aid. According to Tierney *et. al.* (2017), China committed 3.7 billion USD to Ethiopia between 2000 and 2014, that makes Ethiopia the 3rd ranking recipient of China's direct aid, next to Cuba and Cote d'Ivoire. Similarly, the data obtained from Ministry of Finance and Economic Development of Ethiopia (MoFEC) indicates that China is currently providing loans for the development of multiple sectors in Ethiopia. These include, but not limited to, railway and road development projects, urban sewage and sanitation, sugar manufacturing and refining projects, power networking and rehabilitation, wind power project, health infrastructure, and industrial parks development.

However, the situation of Chinese assistance in the form of loans and aid to Ethiopia has not been methodologically and empirically documented and researched particularly in view of the existing theories and empirical evidences. The prime objective of this research was, therefore, to methodologically and empirically assess the status and contributions of China's loans and aid to Ethiopia's overall development and emergency relief.

METHODOLOGY

Intensive desk review and key informant interview (KII) were the two vital approaches of data collection techniques employed for the research. First and foremost, the desk review was carried out to look back to the historical relationship between China and Ethiopia as well as the contemporary China's assistance to Ethiopia's socioeconomic development and emergency relief. Documents from relevant organizations such as Ministry of Finance and Economic Cooperation, Ethiopian Investment Agency, Ministry of Foreign Affairs and Embassy of the People's Republic of China in Ethiopia were used to get valuable data for the intended purpose. Secondly, key Ethiopian and Chinese informants (such as academicians, researchers, experts, historians and diplomats) were purposively selected and interviewed face-to-face to solicit relevant information for the study. Included are also ideas obtained from the frequent discussion with Fudan Development Institute (FDDI) visiting professors. The data were analyzed descriptively and interpretively. The descriptive technique involved describing key quantitative circumstances uncovered from the numerical data to look into the quantitative facts and trends related to Chinese economic performance and assistance to Ethiopia. Interpretive analysis focused on providing explanations to qualitative data obtained through desk review and key informant interviews.

THEORETICAL FOUNDATIONS AND IMPORTANCE OF FOREIGN AID FOR THE GROWTH OF DEVELOPING COUNTRIES

An appropriate theoretical orientation for this research seems to be *Foreign Aid Theory*. According to Guixia (2011) foreign aid is the aid given by governments and other agencies to support the economic, environmental, social and political development of developing countries. As a means of international cooperation, foreign aid constituted an important component of the global development dialogue and international economic order. It made a significant contribution to the development experiences of the developing countries and formed the core of North-South relations largely till 1980s. Foreign aid was also favored for these countries as it was capable of removing their three major deficiencies: capital, foreign exchange and technical knowledge. However, with the progress of neo-liberal political and economic thought over development discourse and the phasing out of the old international (political and economic) order, foreign aid seems no longer be that important either in development theory or in international relations. More importantly, with the shift in development views and with the International Monetary Fund (IMF)-World Bank led universal drive towards globalization, liberalization and privatization; it appears that foreign trade and foreign direct investment (FDI) have pushed foreign aid from the centre stage of the global development dialogue and the international economic order (Nayak, *et.al*, 2014; Brautigam, 2009; Pankaj, 2005; Todaro and Smith, 2009)

Growth and development theoreticians (such as Adam Smith, David Ricardo, Alfred Marshall, John Maynard Keynes, R.F. Harrod, E.D. Domar and W.W. Rostow) do not recognize the independent existence of foreign aid theories (Todaro and Smith, 2009). In most classical and neo-classical development economic literatures, foreign aid theories are taken to be a part of the general theory of growth and development. Therefore, most of the aid theories which are employed today are variants of the various theories of growth and development and are not considered independently.

Pankaj (2005) argues that the fundamental principles of foreign aid and the general theory of growth and development are matching. Therefore, a brief survey of the general theory of growth and development would be helpful in understanding the foundation and importance of foreign aid theory. Classical economists have invariably identified capital as a key factor of growth and development, even though they have simultaneously recognized the importance of other variables like land, labor, trade and specialization. For Adam Smith (1723-1790), for example, specialization and trade, capital accumulation and increased productivity through technical advancements were major factors in growth. For David Ricardo (1772-1823), capital accumulation is the key to growth. As growth picks up, profits tend to decline because of a rise in wages resulting from higher prices as a consequence of an expanding population, scarcity of arable land and the operation of the law of diminishing returns. Hence, growth stops with the decline in capital accumulation, decline in population growth and subsistence wages.

Among the neo-classicists, Alfred Marshall (1842-1924) is notable for underlining the importance of capital and free trade as a promoter of growth and development. For Marshall, there are a number of factors, both economic and non-economic, that affect economic growth. The willingness and ability to save, improved transport, external economies, increasing returns and the existence of extensive markets, apart from natural resources, climate condition, human character and political freedom, are major determinants of growth and development.

Savings and investment were identified as the most important variables of growth by John Maynard Keynes (1883-1946). For Keynes, savings and capital formation are two primary movers of a national economy. R.F. Harrod (1970) and E.D. Domar (1957) took the lead by formulating an econometric growth model that identified capital as the most critical factor for enhancing the growth rate in the economy. Some argue that the legitimacy of foreign aid, as a promoter of growth and development of the developing countries, was derived from the theory of Harrod-Domar growth model that identified capital as the single most important factor of growth. W.W. Rostow (1916-2003) has propounded the historical stage theory that has outlined a five-stage development history. These are: (a) the traditional society; (b) preconditions for take-off; (c) take off; (d) drive to maturity; and (e) the stage of high mass consumption. From the point of view of foreign aid and its impact upon the developing countries, the Rostowian concepts of take-off and preconditions for take-off are important. There are three conditions for a country to move on to the take-off stage including a rise in the rate of productive investment; the development of manufacturing sectors; and rapid emergence of a political, social and institutional framework conducive to the transmission of impulse to expansion throughout the economy, including the capacity to mobilize capital from domestic sources. The justification of foreign aid lies in these conditions. According to the critical rate of growth and minimum effort thesis, as propounded by Nelson (1956/64/68), there is a minimum level of per capita income, which must be obtained for

sustained growth to take place. However, this can be achieved only by escaping the low-level equilibrium trap with the help of additional investment either in terms of foreign aid or otherwise (Kabete, 2008; Pankaj, 2005; Todaro and Smith, 2009).

Ragnar Nurkse also argues for massive capital investment in underdeveloped countries to break the vicious circle of poverty (Nurkse, 1953). Nurks explains that these countries are inexorably trapped in a vicious circle of poverty, low income, low savings, low investment and low productivity. However, this circle can be broken by a big push of heavy capital investment. Foreign aid will be useful in giving that big push. Arthur Lewis has propounded a theory, which argues for draining out of surplus agricultural labor to the industrial sector (Lewis, 1954). However, this cannot be achieved unless and until the industrial sector expands suitably. But as the underdeveloped/developing countries face the problem of low savings and low capital formation; their own capital resources are insufficient for the purpose. Hence, capital imports either in terms of foreign aid or otherwise helps in moving surplus labor from the primary to the secondary sector. Raul Prebisch added external dimensions to the development theory by identifying foreign trade and capital imports as principal determinants (or deterrents) of growth. Prebisch in his study of the causes of underdevelopment in Latin America points out that a combination of external factors such as volume of exports, terms of trade and net capital imports are major causative factors (Prebisch, 1950). He argues for a development strategy in which external factors are given prime attention.

This survey of the development theory illustrates that from the era of classical economics till today, capital formation has occupied a prominent position in development discourse. Since foreign aid is treated as a kind of capital formation, its advocates argue that it is a source of growth and development for the developing countries, which are invariably capital deficit. All the above-mentioned theoreticians have argued for massive transfer of resources from the developed to the developing countries either through foreign aid or investment. They have also argued that the low level of capital formation was a major constraint in achieving a high growth rate in the developing countries such as Ethiopia. In the perspective of foreign aid, the pro-aid views argue that foreign aid promotes growth and development of the developing countries in addition to its role in promoting friendship and goodwill between the developed and developing countries.

In fact, the anti-aid advocates argue that growth and development comes through indigenous efforts not through exogenous efforts. Kabete (2008), for instance argues that aid may distort spending patterns as aid recipient governments are supposed to cover the recurrent costs of the projects. Also proliferation of aid-funded numerous projects create pressure to the already constrained capacity in developing countries. In addition, aid may lead to the exploitation of recipient countries if it is obliged to procure items from the donor country. It may also result in an appreciation of the real exchange rate of the recipient country resulting in rising domestic inflation. This is referred to as the Dutch disease effects, whereby an inflow of foreign exchange (in form of export earnings, private capital inflows or foreign aid) puts upward pressure on the real exchange rate of the recipient country. Foreign aid may result in the appreciation of the exchange rate of the recipient country thus reducing the competitiveness of its export sector. Debt overhang has remained as a major obstacle to development in most of the developing countries. The Highly Indebted Poor Countries (HIPC)s tend to face debt burden. This may be attributed to high interest rates on loans for which these countries have to use a large share of their budget for repayment.

The pro-aid views try to support their case through a three-model approach to validate the proposition that foreign aid makes a positive impact on the growth and development of the recipient country. These are: (a) savings-investment gap approach; (b) foreign exchange earning expenditure gap approach; and (c) capital absorptive capacity approach. The proponents of the savings-investment gap approach have explained that the major constraint to development of the less developed countries is poor savings and investment rate and their inability to increase this in the short run due to institutional and non-institutional bottlenecks that keep their growth rate at a low level. However, if extra savings in terms of foreign aid are injected into these economies, they can achieve a higher growth rate than what is warranted by their own savings and investment rate. In case of foreign exchange earning expenditure gap approach, advocators have argued that foreign aid can have a larger favorable impact on growth and development of the underdeveloped countries if it is used to finance the purchase of goods and services not produced domestically but which are of strategic importance to growth and development. This is all the more important as the economies of these countries are unable to operate at the optimum level due to the unavailability of these goods and services and their foreign exchange reserves are insufficient to import them. In case of capital absorptive capacity approach, it has been argued that the underdeveloped countries have a low level of capital absorptive capacity, which affects the optimum utilization of domestic and external resources. However, with the help of foreign aid, specifically targeted towards programme like skill development, human capital formation, specific area development, establishment of technical institutions and training of managerial and technical personnel, the underdeveloped countries can improve their growth rate provided other conditions are appropriate.

A GLANCE AT ETHIOPIA-CHINA RELATIONS

Chinese relations with Africa, particularly, the Horn of Africa including Ethiopia, has started since ancient times. However, the modern era of Afro-Asian (specifically, Afro-China) relation was thought to have started in 1955, when the Bandung Conference (Indonesia) brought together 29 African and Asian countries in Bandung, Indonesia. Trade and investment between Africa and China increasingly grew in 1990s, a process principally motivated by China's rapid industrialization and economic development. The relationship was officially inaugurated in a meeting of Forum on China-Africa Co-operation (FOCAC) in 2000 at Beijing (Dent, 2011; Gedion, 2014 Geoff, 2014; Muna, 2015; Gebregeorgis, 2016). According to the information from Ministry of Foreign Affairs (MoFA) of Ethiopia, the first Ethiopian Cultural Delegation was sent to China in 1956. This delegation served as a gateway to the socioeconomic and political relationships between Ethiopia and China. In 1964, Premier Zhai Enlai of China visited Ethiopia. Consequently, Formal diplomatic relations between Ethiopia and China was established in 1970s between Emperor Haile Selassie and Mao Zedong (Walsh, 2009).

Next to the formal diplomatic relations, various bilateral agreements have been signed between Ethiopia and China (Damtew and Tsegay, 2017). Ethiopia is also one of the countries that has participated/shown interest in the Belt and Road Initiative (BRI), a Chinese development initiative proposed by the paramount leader Xi Jinping that focuses on connectivity and cooperation between Eurasian countries to develop China-centered continental and maritime infrastructure networks in order to expand China's economic and political influence in global affairs, particularly Asia, Europe and Africa (Chin and He, 2016; Csizmadia, 2017; Klose, *et. al.* 2017).

Even if the cooperation between Ethiopia and China seems to have started with the signing of trade agreement in 1971 (Venkataraman and Solomon, 2015), the economic and political relationships between them was not remarkable until the coming to power of the Ethiopian People's Revolutionary Democratic Front (EPRDF) in 1991 and the accession of China to the World Trade Organization (WTO) in 2001. Trade between the two countries, for example, started to boom in 2006, the time when China has become Ethiopia's largest trading partner. Yet in the span of about two decades, the economic nexus between the two countries increased unprecedentedly. The bilateral trade between the two countries, for example, increased to over 3 billion USD in 2015 (Venkataraman and Solomon, 2015) which was almost inexistence before 2005 (Alemayehu and Atnafu, 2009). This signifies the very close and high level of bilateral relations that Ethiopia has built up with China over the past decade compared to any other country in Africa.

The visit of the Chinese Premier Li Keqiang to Ethiopia (May 2014) can be regarded as another turning point to broaden the economic ties between Ethiopia and China. In May 2017, Ethiopian Prime Minister attended the Belt and Road Summit Forum for International Cooperation held in Beijing, China. On the occasion, leaders of the two countries announced to upgrade their bilateral relations to Comprehensive Strategic Cooperative Partnership. The official statement related to the enhanced cooperation said 'Looking into the future, the Chinese government, partnering with the Ethiopian government, will spare no effort to be of help whenever Ethiopian people are in need, jointly charting the course for the further enhancement of their enduring friendship.' (<http://www.xinhuanet.com>).

CHINA'S ECONOMIC PERFORMANCES IN ETHIOPIA

China has achieved rapid economic growth in the past three decades (Yuan, *et. al.*, 2014) which branded it as '*China's Economic Miracle*'. Various sources (Walsh, 2009; Dent, 2011; OECD, 2011; Yuan, *et. al.*, 2014; CSanadi, 2017; Losoncz, 2017; Morrison, 2017; Rippel, 2017) also documented that the tremendous economic development over a short period (only since the second half of 1970s) has lifted China to the second largest economic power in the world. China's economy is the largest and most powerful among the new global economic powers: Brazil, Russia, India, China and South Africa (BRICS).

China started massive investment in Ethiopia in 1998 (Figure 1). Currently, China is the leading in number of projects, employees and foreign capital inflow in Ethiopia. According to the data obtained from EIC, the total number of investment projects licensed between August 1998 and September 2017 is 1,206. From the total licensed projects, about 60.3% (728 projects) are operational with increasing trend over the years mentioned above. Of the projects, about 24.46% (295 projects) and 15.17% (183 projects) are found to be at pre-implementation and implementation status, respectively.

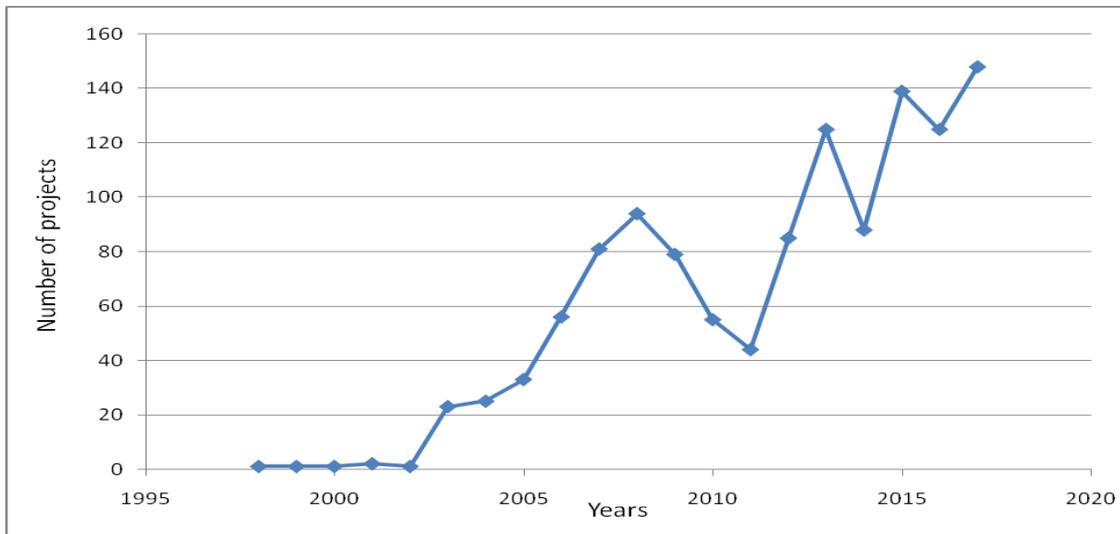


Figure 1: Trend of Chinese investment projects in Ethiopia (Source: Computed based on unprocessed data obtained from EIC)

A glance at the trend of Chinese investment gives an idea that it has been rising over years, particularly between 2006 and 2017. China and China-joint projects owners invested over 585 million USD in 2009 alone and about 766 million USD in 2017. In fact, it went down in 2011 and 2012 may be because it was this time that the government of Ethiopia set a minimum financial requirement for foreign investors to initiate investment project in Ethiopia. Yet again it started to accelerate from 2013 and has been continuing with remarkable pace thenceforth.

The import-export trade between Ethiopia and China started shooting up in 2006, the time when Ethiopia’s import FOB (Free on Board) value was 663,570,000 USD while the export FOB value was 71,688,000 USD showing a negative balance of 591,882,000 USD. Ethiopia’s import from China tremendously increased and hit a record in 2015 when the FOB’s value mounted to over 6 billion USD. It seems that Ethiopia’s export to China is not only lower but it is also slower in progress (with coefficient of variation /CV/ of FOB values over years = 0.51) as compared to the more accelerating importation from China (with the CV = 0.62). This can be an important economic implication for Ethiopia in that it is expected to work hard towards enhancing its export trade and make the best out of its current encouraging relationships with China.

In view of these realities, the high and rising import-export trade between Ethiopia and China certainly contributes hugely to achieve overall economic development both for Ethiopia and China. It is said to be contributing significantly to the economy in both countries by allowing them to access new markets for their raw materials and/or finished/semi-finished goods which opens up new production possibilities and technologies for both countries. Though the trade balance is positively skewed to China, the vast market in China for Ethiopian raw materials and/or semi-processed goods certainly encourages export diversification for Ethiopia which, in turn, contributes greatly to job creation and improvements in balance of payment of the Ethiopian economy. In the same way, the ever progressing Ethiopia-China trade has an immense role in enhancing the financial capacity of the local enterprises and producers in Ethiopia and again enables the Ethiopian people to consume cheaper Chinese products in comparison with overpriced/costly import items from Europe and North America.

NATURE OF CHINA'S OFFICIAL DEVELOPMENT ASSISTANCE TO ETHIOPIA

Conceptually, official development assistance (ODA) is a term coined in 1969 by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) to measure international aid. It is extensively used as an indicator of international aid flow given to developing countries and/or territories. ODA is the key measure used in practically all aid targets and assessments of aid performance. DAC has continuously refined the definition and detailed ODA reporting rules to ensure trustworthiness to the definition and the greatest possible consistency among donors. No military equipment or services, for example, are considered to be ODA while anti-terrorism activities are also excluded. However, the cost of using donors' armed forces to deliver humanitarian aid is eligible to be considered as a component of ODA. Most peacekeeping expenditures are excluded in line with the exclusion of military costs. However, some closely-defined developmentally relevant activities within peacekeeping operations are included in ODA. Nuclear energy is considered to be ODA, provided it is for civilian purposes. Cultural programs are eligible as ODA if they build the cultural capacities of recipient countries, but one-off tours by donor country artists or sportsmen, and activities to promote the donors' image, are excluded (Gulrajani, 2016).

China is the world's largest developing country with great implications for the developing world, (in fact with new opportunities and challenges), impacting on import demand, and moving up the value chain together as a new competitor in the global market (Schellekens, 2013). China believes that in its development, it has endeavored to integrate the interests of the Chinese people with people of other countries, providing assistance to the best of its ability to other developing countries within the framework of South-South cooperation to support and help other developing countries to reduce poverty and improve livelihoods. China has proactively promoted international development and cooperation and played a constructive role in this aspect (Butler and Wheeler, 2012). When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development. China provided foreign assistance mainly in undertaking complete projects, providing goods and materials, conducting technical cooperation and human resources development cooperation, dispatching medical teams and volunteers, offering emergency humanitarian aid, and reducing or exempting the debts of the recipient countries (<http://www.scio.gov.cn>).

In the past, most development aid came from western industrialized countries especially from the OECD countries. However, China and other non-OCED countries have emerged as donors over the past three decades (Brautigam, 2009; www.oecd.org; Guixia, 2011). The increasing importance of non-traditional donors has meant that the economic and political stronghold of western countries in sub-Saharan Africa has gradually decreasing and being substituted by non-OCED countries of which China is now the largest contributors of aid to sub-Saharan African countries. Hence, China has evolved a net aid donor in recent decades. Between 2000 and 2014, China committed 354.3 billion USD total official financial aids to 140 countries. In comparison, US total official financial stood at 394.6 billion USD during the same period (<https://www.cnbc.com>; <http://aiddata.org/china>). Similarly, China's Export-Import Bank (Eximbank), for example, committed 20 billion USD over

three-year period (2006 to 2008) to finance Chinese exports and business in Africa (including North Africa) by the time when the World Bank loan commitment to countries in Africa over a similar period totaled about 17 billion USD (Brautigam, 2009).

China's aid policy is established on the basis of equality between partners, mutual benefit, respect for sovereignty, respect for obligations and enhancing the self-reliance of Chinese aid recipients. The main areas of support for China has been in projects in agriculture, industry, economic infrastructure, public facilities, education and medical and health care, with the intent on improving recipient countries' industrial and agricultural productivity, laying a solid foundation for their economic and social development, and improving basic education and health care (IOSC, 2011; Guixia, 2011). China's aid policy in Africa underwent major reforms in 1994/5 which has been implemented in three main ways: new instruments that linked aid, trade and investment between China and Africa were introduced and implemented; programs that combined foreign aid with economic cooperation were developed and financed; and China refined its portfolio of tools to aid domestic restructuring. The restructuring also saw the creation of three policy banks. These were China's Development Bank, China Export-Import Bank and China Agricultural Development Bank.

Ethiopia is a locus of international attention in the Horn of Africa due to both its high rates of economic growth and for its continued problems with widespread food insecurity and poverty. The nation is also significant for being among the most dependent on foreign aid. Ethiopia topped the worldwide list of countries receiving aid from the US, UK, China and the World Bank. It has been receiving 3.5 billion USD on average from international donors in recent years. Currently, Ethiopia is turning its face to Eastern emerging countries such as China to finance its development projects, while offering market, and diplomatic support in exchange. China's economic assistances to Ethiopia have shifted from holding a strong ideological alignment of the Cold War period to being led by market and resource and political consideration by providing huge aid packages in the form of grants and soft loans. The Beijing Consensus (also known as Chinese Economic Model) promoted value free; no strings attached approach to aid than the Washington consensus. China's definitions, principles and mechanisms pertaining to aid differ slightly from those of the more established donor community in the Western World, which is partly attributed to its distinct economy and socio-political fabric (Gedion, 2014).

The development assistance of China has its own specific development cooperation dimension that combines monetary and non-monetary forms of aid. It also typically combines aid with investment and trade and enhanced market access opportunities known as the '*Asian Mode of Development Assistance*' (Gedion, 2014; Stallings and Kim, 2016). This type of development assistance attaches no political strings, but it ties aid to labor and/or material inputs from the donor, relies on projects rather than program aid, and target different sectors of the economy known as development investment than development assistance of the West. Such type of development cooperation comes based on requests from the recipient country and has a long time horizon with profit orientation. Aid in this sense is geared to promote trade and investment, and serves as market entry for companies by providing the necessary infrastructure to reduce operational cost.

CHINA'S DIRECT ASSISTANCE TO ETHIOPIA

Chinese development assistance to Ethiopia during the period of 1970s and 1980s was minimal and mostly in the form of emergency relief (food aid during the Ethiopian drought of 1984 for instance) and manpower development. Following the collapse of the *Dergue* regime in 1991, China significantly increased its aid, trade and investment activities in Ethiopia. The contribution of Chinese development assistance remained relatively small compared to other major donors but gradually, it gained a much higher profile in the Ethiopian economy from the mid 1990s onwards (AFRODAD, 2011). To date, in addition to the existing strong economic/investment and diplomatic relationship between the two countries, China is assisting Ethiopia in providing direct development aids. Chinese aid to Ethiopia includes supply of loans, emergency food aid, dispatch of medical teams and teachers, and scholarships for Ethiopian students studying in China. China's aid program funded the construction of vocational schools in Ethiopia that has positive contributions with students learning skills including engineering, automotive, architecture and construction (Brautigam, 2009; Thankur, 2009). In 1995, for example, the Chinese government allocated 24 million USD to the Ethiopian government in the form of grants to help the construction of low-cost housing; rural school construction; rehabilitation of roads and bridges; and vocational, agricultural and management training. Ethiopia is one of the beneficiaries of the cancellation of debt in the form of all the interest-free government loans that matured at the end of 2005 owed by 33 heavily indebted poor African countries that have diplomatic relations with China. Ethiopia has received numerous Chinese medical teams; and in the education sector, China has helped build the largest TVET College in Ethiopia, which was opened in 2008. China's government scholarship programme was expanded after the Beijing Summit, and to date (2018), thousands of Ethiopian students went to China.

The Chinese government has long committed itself to consolidating bilateral cooperation with and expanding support for Ethiopia. Currently, Ethiopia is one of the top 10 recipients of official Chinese development aid. According to www.cnbc.com, China committed 3.7 billion USD to Ethiopia between 2000 and 2014, ranking Ethiopia the 3rd largest recipient of China's direct aid, next to Cuba and Cote d'Ivoire. In 2017 the government of China has pledged humanitarian relief assistance worth 15 million USD to Ethiopia to support the 2016 *El Nino*-induced drought affected people.

With the newly offered food aid to Ethiopia, the Chinese government is determined to help tackle food insecurity threats to the nation that have emerged in 2017, and is ready to extend further helping hands when necessary. Reiterating China's long-standing friendship with Ethiopia, the Chinese government has been by the side of the Ethiopian government and people ever since the onset of this round of climate disasters. In November 2015, Qian Keming, Vice Minister of Commerce of China, expressed profound concern over the situation in Ethiopia during his visit to Ethiopia and signed a food aid agreement, under which 10,535 tons of wheat was delivered in April 2016. In the same year, in a bid to further help relief efforts, the Chinese government donated 8 million USD to World Food Program (WFP), providing emergency humanitarian food assistance to Ethiopian people (<http://www.xinhuanet.com>; <https://reliefweb.int>).

CHINA'S INFRASTRUCTURE DEVELOPMENT LOANS AND ITS APPARENT RISKS TO ETHIOPIA

It was in 2007 that Ethiopia was selected as one of the four countries (others being Nigeria, Angola, and Democratic Republic of Congo/ DRC) to receive soft loans for developing Africa's infrastructure from China's state financial institutions such as Exim Bank (Thankur, 2009). Consequently, the data obtained from Ministry of Finance and Economic Development of Ethiopia (MoFEC) shows that China is currently providing loans to multiple sectors in Ethiopia. These include, but not limited to, electric power infrastructure development, railway and road development projects, urban sewage and sanitation, sugar manufacturing and refining projects, power network construction and rehabilitation, wind power project, health infrastructure, and industrial parks development. According to the interview data obtained from MoFEC, in 2002, for example, the Sino Hydro Corporation started working on the estimated 224 million USD Tekeze Hydroelectric Project on Tekeze River, northern Ethiopia. After delays, the project was completed for a final cost of 365 million USD in July 2009. In July 2009, Ethiopia signed further agreements with China's Sino Hydro Corporation to build 2,150 megawatts of hydroelectric capacity from Gibe IV on Ghibe River and Halele Werabesa dams, in a deal worth of 2.67 billion USD; China covering 85% of the project costs through preferential buyer's credit and concessionary loans.

The Addis Ababa ring road was built partly with Chinese funding, with the China's Road and Bridge Corporation (CRBC) being the main contractor. China also constructed the Gotera intersection Flyover Bridge in Addis Ababa in a cost of 12.7 million USD. China provided a loan to two large-scale projects, specifically Mughher Cement Factory and Fan Hydroelectric Power Station, both valued at over 100 million USD (Thakur, 2009).

In June 2009, the Chinese ambassador laid the foundation stone for the Tirunesh-Beijing Hospital, planned as a modern hospital on 6,000 square meters in size with 100 beds. It was built by the Chinese government at a cost of 12.7 million USD, completed in 2011 and handed over to the Ethiopian government. The Chinese government provided medical instruments and equipment. The hospital is named after Ethiopian runner Tirunesh Dibaba, who won two gold medals at the 2008 Beijing Olympics.

The 34.4-kilometers Addis Ababa Light Railway, first of its kind in sub-Saharan Africa, and the Addis Ababa-Djibouti railway, connecting Ethiopia to the maritime trade routes of the Gulf of Aden and the Red Sea were also built by the Chinese support. The final cost of the railway was 475 million USD. According to www.xinhuanet.com, the 756-km electrified Addis Ababa-Djibouti railway project was carried out with an investment of 4 billion USD. The China's Exim Bank has provided a loan for both railway construction projects.

Another China's key infrastructure loan to Ethiopia is related to the expansion of Ethiopian Airports Enterprise (EAE) launched in January 2015. The project includes the expansion of the terminals and the construction of a new VIP terminal. The expansion project aimed at building a new terminal with a floor area of 74,000sqm, as compared to the existing 30,000sqm terminal floor area. A bridge and modern car parking is also part of the giant expansion project under way at a

cost of 345 million dollars, a loan funneled by the Exim Bank of China; while the Chinese construction firm, China Communications Construction Company Ltd (CCCC), is the contractor (<https://addisbiz.com/ethiopian-business-news>).

China's contribution in ICT infrastructure development is another key sector in Ethiopia. Zhong Xing Telecommunications Equipment Company Limited (ZTE), China's major telecommunications company, with financial support from the Exim Bank, for example, contracted to upgrade Ethiopia's telecommunications system over the period 2006 to 2009 in 822 million USD. In 2006 the Ethiopian Telecommunication Corporation signed a memorandum of understanding with ZTE, Huawei Technologies and the Chinese International Telecommunication Construction Corporation to undertake three major telecommunications service expansion projects (fiber optic transmission, mobile telephone services and wireless telephone services) nationwide to cover 14 major cities in Ethiopia, including Addis Ababa (Thakur, 2009).

China is also providing loans in oil exploration and agricultural investments in Ethiopia. Sinopec, the state-owned parent company of Zhongyuan Petroleum Exploration Bureau, had been exploring for oil in Eastern Ethiopia. China, under a subcontract with the Malaysian oil giant Petronas, announced in 2003 the signing of an exclusive 25-year exploration and production-sharing agreement with the Ethiopian government to explore the Ogaden basin, located in eastern Ethiopia, and the Gambella region in western Ethiopia. An interview data from Ministry of Agriculture of Ethiopia (MoA) indicates that China provided Ethiopia with agricultural technical and vocational education and training (TVET), and between 2001 and 2008 China sent eight groups of 280 professionals to Ethiopia. These experts and professionals actively promoted agricultural techniques and aimed to assist Ethiopia to increase its agricultural productivity. In addition, in mid-2008 China announced it plans to build an agricultural technology demonstration centre in Ethiopia and provide animal health laboratory equipment.

Most recently, as per the data from the Embassy of PRC in Ethiopia (<http://et.china-embassy.org>) indicates that Ethiopia's parliament on 06/02/2018 approved a 250-million USD loan agreement made with China's Exim Bank to finance the supply and construction of 400-kv power transmission projects of Genale Dawa III-Yirgalem II-Wolayita Sodo II-Hawassa II in the southern part of Ethiopia.

The abovementioned China's loans for infrastructure development are not without risks to Ethiopia. The specific risks could be related to debt sustainability and shortage of foreign exchange for repayment of loans. The current foreign currency position of Ethiopia is not good owing to various adverse factors such as the declining exports, voracious imports, widening trade deficit, huge foreign debt, illicit currency outflows and the low international commodity prices for other important exports such as gold and oil seeds. Several sources indicate that foreign exchange reserves in general have been heavily depleted in Ethiopia and remained at low levels putting the country at risk of repaying loans.

CONCLUSIONS AND THE WAY FORWARD

This manuscript assessed China's position and engagements in global economic development assistance with special reference to China's assistance to Ethiopia in terms of foreign investment, financial loans, technical support and emergency relief. The study indicates that Chinese development assistance to Ethiopia goes back to the period of 1970s/80s the time

when China was ordinarily assisting Ethiopia mostly in the form of emergency relief (food aid) and manpower development. China significantly increased its aid, trade and investment activities in Ethiopia following the collapse of the *Dergue* regime in 1991. Unprecedentedly strong economic ties have been developed between Ethiopia and China in the span of the last two and half decades. To date, China is providing Ethiopia with monetary and non-monetary forms of assistance based on the principles of mutual benefits with no conditions on governance, democracy and human rights. Hence, China has valuable contributions to make towards Ethiopia's development in the spirit of South-South cooperation, which needs to be understood in the context of the changing global development assistance architecture.

Chinese aid to Ethiopia is found to be very constructive for the socioeconomic development of Ethiopia particularly because Ethiopia is found at its initial stage of development, the juncture at which lack of capital, unemployment, income inequality and skill deficiency could be critical challenges to push the development ahead. Though sustainable development comes through indigenous efforts, foreign assistance is crucial at this initial phase of the development ladder. In fact, Ethiopia, as a recipient country, is recommended to take care of the risks of a foreign-aid-led growth model and the long-term socioeconomic dependency syndrome. The current hugely incoming aid from China is desirable for the economic growth of Ethiopia if properly controlled and made the best out of it. In fact, unlike the case from the Western world, the aid from China seems free of political motives and its own national policy interests provided that China is obedient to its foreign policy Principles of Peaceful Coexistence.

By and large, Ethiopia needs to obtain not only financial aid but the technological-know-how to make use of the Chinese assistance to its fullest potentials, unlike what had happened in case of the conditional aid from the western world. In this context, to effectively leverage Chinese assistance as a means to achieve its satiable goals, Ethiopia need to establish an effective national innovation system which provides an interface for technology-related activity, supports the development of the absorptive capacities of domestic enterprises and their linkages with Chinese assistance and provides an appropriate regulatory framework. The proper coherence and integration between the aid and other development endeavors (especially in areas of education policy, international trade and/or export-import, agricultural development, industry, technical and vocational education, innovation and technology) is vital in this regard. Most importantly, Ethiopia is required to enhance its policies and leadership so as to cope with the high-tech development course of action and to harness the incoming assistance utmost. To bring to a close, development assistances from China to Ethiopia do have more opportunities, than risks, for which the researchers are recommending paramount policy interventions to minimize the risks and maximize the benefits of the development cooperation. The existing situations indicate the will-be unabated ties between the two countries for which Ethiopia is recommended to strengthen proactive policies and transformative, capable, accountable and versatile leadership so as to properly harness the current enthusiastic assistance from China.

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