# China–Ethiopia Relations and Industrial Development: A Brief Evaluation

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Ethiopia aspired to become Africa's "light manufacturing hub" and a "lower middle-income country" by 2025 (National Planning Commission 2016, 143, 169). Successive Ethiopian governments launched long-term plans and pursued industrial policies in line with a declared "developmental state" approach inspired by Japanese, South Korean, and Chinese models (Aberg and Becker 2020; Cheru and Oqubay 2019; Clapham 2018; Fourie 2015; Gebreeyesus 2013; Oqubay 2018). The intention was to build on the country's comparative advantages of cheap land and labor to develop manufacturing with backward linkages to the domestic economy, focus on labor-intensive light manufacturing, build special economic zones (SEZs) to attract foreign direct investment (FDI), and promote exports for global markets to create jobs, enhance skills, expand the private sector, and kickstart wider industrialization.

China continues to serve as an important "exemplar" of development (Aberg and Becker 2020): China and Ethiopia have developed a deep political and economic relationship focused on modernization, national development, and industrialization. As former president Mulatu Teshome put it, "In a bid to feed our people, it must be internalized that the issue of transforming Ethiopia to an industry level is the issue that demands no time to waste" (interview in Abiye and Fikade 2013), and to this end, "Chinese investment plays an indispensable role" (paraphrased in Xinhua 2018). More specifically, the Ethiopian government drew considerable inspiration from a peculiar version of the "China model" espoused by Justin Lin, who worked closely with the Ethiopian political elite and crafted policy recommendations in line with his theory, new structural economics (NSE; Aberg and Becker 2020; 2021). According to Lin, the late Meles Zenawi was informed by "China's approach to industrialization" and by the "findings" in the *Light Manufacturing in Africa* report that Lin commissioned when he was chief economist of the World Bank (Lin 2012, xiv). Although couched in "south-south" and "win-win" rhetoric, it is clear that the relationality of Chinese–Ethiopian economic interactions reflects a "top-down approach" (Alves and Lee 2022, 54) or a "hierarchical teacher-student relationship" (Babones, Aberg, and Hodzi 2020, 327) in which Chinese experts are providing policy advice and instructions on how to develop the economy.

The assessments of Ethiopia's industrialization endeavors have been positive, with a diverse range of voices joining together in praise. For instance, in a UN Industrial Development Organization (UNIDO) report, Zhang and colleagues (2018, 1) argued that the industrial parks "have contributed significantly to the nation's industrial development." *The Economist* similarly expressed praise for Ethiopia: "The economic results of this state-led development model have been impressive, and proponents of the difficult-to-define Beijing Consensus have cited Ethiopia as a successful example" (cited in Oqubay 2015, 5). Justin Lin further claims that the viability of new structural economics is demonstrated by the "excellent example" of Ethiopia (UNIDO 2014, 13). China's development role (Duggan 2020) has also been commended for its positive effects on economic transformation in Africa, especially when it comes to manufacturing (Calabrese and Tang 2023). China's positive contribution and "Lin's guidance" for Ethiopia's industrialization were reiterated by Chinese state media during the latest iteration of FOCAC (CGTN 2024). Indeed, the consensus has been that China can potentially have a "significant and positive" impact on the development of East African economies like Ethiopia, but its involvement simultaneously raises questions about "exploitation, extraversion, and dependence" (Carmody and Murphy 2022, 25).

We question the veracity of Ethiopia's ostensibly successful industrial development and argue that Ethiopia is falling short on its stated ambitions. It is true that Ethiopia has experienced rapid economic growth. The economy grew by double digits from 2004 to 2017 and by a single digit since 2018, which is higher than the growth average of sub-Saharan Africa. However, in addition to the fact that economic growth does not say anything about dependency, ownership, and wealth distribution, we argue that this growth has not been transformative (see Taylor 2016). With a GDP per capita of 1,028 USD in 2022, Ethiopia is still among the poorest countries in the world and is plagued by conflict and underdevelopment. Ethiopia has not become Africa's light manufacturing hub nor is it a

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*Table 1*

**Ethiopia's Growth and Transformation Plan II: Macroeconomic and Sector Specific Targets**

| Indicators | Base Year 2014/2015 | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 | 2019/2020 |
|---|---|---|---|---|---|---|
| Export of goods and non-factor services (% share of GDP) | 9.7 | 13.7 | 15.5 | 15.7 | 18.1 | 20.6 |
| Manufacturing industry (% share of GDP) | 4.8 | 5.2 | 5.7 | 6.2 | 6.9 | 8 |
| Manufacturing exports (% share of total merchandise export) | 12.5 | 17.7 | 19.4 | 20.6 | 23 | 25.6 |
| Export of textile and garment (in million USD) | 98.9 | 184.0 | 270.5 | 397.9 | 556.7 | 778.8 |

Source: National Planning Commission (2016). Growth and Transformation Plan II, Federal Democratic Republic of Ethiopia.

middle-income country. The Ethiopian economy is still dominated by exports of primary commodities. Coffee, sesame seeds, other vegetables, fresh flowers, and roots and tubers make up the top five exports. Agriculture is the main contributor to GDP (37.6%)[1] and the main source of employment (63%).[2] Ethiopia's manufacturing exports as a share of total goods exports are only 9%, which can be compared to the sub-Saharan Africa average of 21%.[3] The manufacturing value added (MVA) as a percentage of GDP was increasing for some years, but it has been trending downward since 2017. The share of MVA in Ethiopia's GDP is a mere 4%, compared to the average of 11% in sub-Saharan Africa. In fact, in this measure Ethiopia is far behind several comparable African countries: Algeria (35%), Egypt (16%), Morocco (15%), Tunisia (15%), Senegal (15%), Nigeria (14 %), South Africa (12%), Cote d'Ivoire (12%), and Kenya (8%).[4] Manufacturing employment has consistently been below the SSA average and has not significantly improved since 2003.[5] Ethiopia has also failed to reach sector-specific targets for its textile and garment exports. The value of exports is 156 million USD (WITS 2020), much lower than the 779 million USD target for 2020 (see Table 1) and a far cry from the cited goal of 30 billion USD in exports by 2030 (Xinhua 2017). In the same vein, the leather industry has failed to meet its specific targets (Brautigam, Weis, and Tang 2018).

Without delving into a deeper critique of comparative advantage following industrial policies and the questionable ahistorical assumptions of new structural economics (for such analyses, see Aberg and Becker 2020; 2021; Chang 2002; Fine and Van Waeyenberge 2013), we briefly outline the key problems of Ethiopia's failed industrial development. We highlight the following: political allocation of industrial parks, few domestic backward linkages, underdeveloped infrastructure, overreliance on preferential trade regimes, limited knowledge transfer, high labor turnover, and war, civil strife, and instability.

## POLITICAL ALLOCATION OF INDUSTRIAL PARKS

At the core of Ethiopia's development problems is the contradiction between forces of centralization, connected to the government's national development plans, and forces of decentralization, nurtured by Ethiopia's federal constitutional structure that grants extensive regional autonomy. Although widely debated, the "developmental state" approach and the federal structure are often seen as "competitive, not complementary" (Gebresenbet 2014, S72). The government has worked within the bounds of the federal structure while also ignoring it: the allocation of industrial parks seems to follow a political rationale designed to please the regional governments by locating industrial zones within each administrative region (map 1). Yet, location decisions were characterized by a top-down approach, decided by the prime minister and a handful of political elites within the ruling party and involving key federal institutions with little to no participation from regional and municipal institutions (Kumera and Woldetensae 2023). The allocation of industrial parks thus suffered from a deficient "techno-economic rationale" (Kumera and Woldetensae 2023, 3996) or what Giannecchini and Taylor (2018, 31) term a "scattergun approach" without a clear economic logic regarding the type of manufacturing firms that would be in the parks.

Ethiopia's top-down developmental state approach does not fit well with the so-called China model of development, because China allowed for local-level experimentation, decentralized pragmatism, and gradual adaptation as it developed (Chen and Naughton 2017; Hodzi and Aberg 2020). Nor does it fit well with the "embedded autonomy" of the East Asian development model: this is because the Ethiopian ruling party, although displaying a degree of autonomy from special interests, "expands its *political* control over the bureaucracy" (Kelecha 2023, 301; emphasis added) in a way that does not align with the technocratic, informed, and skilled demands of a political

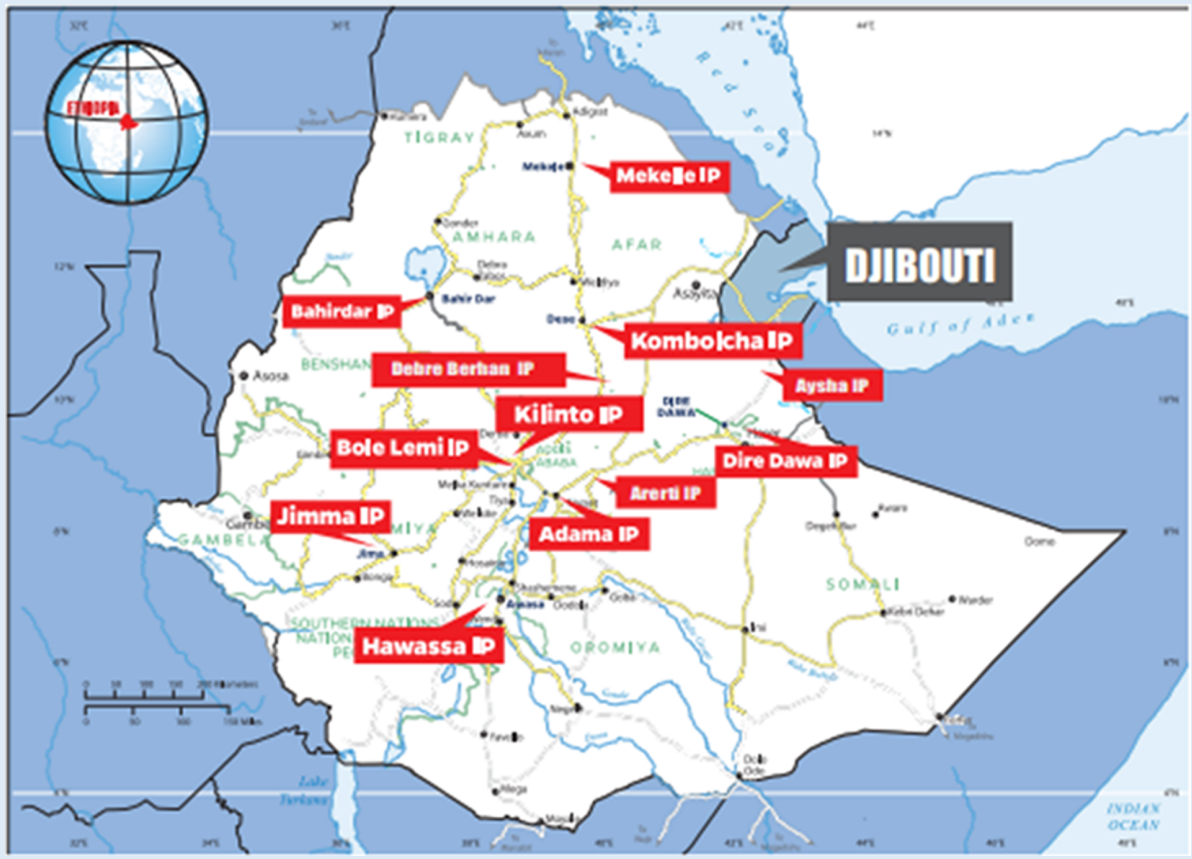
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*Map 1*

## Industrial Parks (IPs) in Ethiopia




Source: Ethiopian Investment Commission 2017 report on IPs incentive package. Available at https://www.unido.org/sites/default/files/files/2018-05/2.%20Industrial%20Parks%20Incentives.pdf.

elite embedded with the private sector. The predominance of foreign entities in the industrial parks (IPDC 2024) presents a structural obstacle, compounded by industrial policies that frequently fail to align with firms' needs, offering unnecessary assistance while neglecting necessary support (Vrolijk 2021, 261).

### FEW DOMESTIC BACKWARD LINKAGES AND DEPENDENCE ON FOREIGN SUPPLIERS

Ethiopia is naturally endowed with land and a pool of cheap labor but has scarce capital. Thus, according to the concept of comparative advantage, Ethiopia has a natural advantage in light manufacturing, which requires large amounts of labor, agricultural inputs, and smaller capital requirements. Therefore, in principle, the Ethiopian government's choice of light manufacturing over heavy industries is a reasonable one. Most of the firms that established factories in Ethiopia's industrial parks are textile, garment, or apparel companies that primarily are involved in low value-added, labor-intensive assembly manufacturing of cut, make, and trim (CMT).

Yet, the lack of backward linkages (Giannecchini and Taylor 2018) has resulted in a strong dependence on foreign suppliers and inputs, a situation exacerbated by exchange-rate fluctuations and foreign currency shortages. The sectoral composition of manufacturing can also be seen as geographically mismatched with Ethiopia's factor endowment. Textile and garment manufacturing does not align as well as one might think with Ethiopia's comparative advantage, because Ethiopia lacks high-quality cotton, processing plants, and adequate infrastructure near cotton cultivation sites (Kumera and Woldetensae 2023, 3997). This makes it difficult to establish backward linkages, forcing industries to import yarn and knit, woven, and other fabrics from abroad. Restricted imports due to foreign exchange shortages worsen the problem and threaten the viability of textile factories (Addis Fortune 2022). Even in leather production, where Ethiopia arguably has a comparative advantage, domestic linkages to the livestock sector are limited, which constrains industrial expansion (Brautigam, Weis, and Tang 2018). De facto ethnic discrimination of entrepreneurs is reported, and domestic firms face considerable structural hurdles for investment in the industrial parks (UNDP 2023, 12, 27–28, 47). Industrial park regulations also fail to include local-content requirements (Azmach 2019). The lack of attention to meso- and micro-level linkages has resulted in Chinese and other countries'


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firms importing virtually all raw materials or ready-made textiles for assembly. The industrial parks are thus not catalysts for wider industrialization; instead, they are spatial enclaves disconnected from the domestic and regional economy yet connected to global markets and dependent on external forces.

## OVERRELIANCE ON PREFERENTIAL TRADE REGIMES

The deepening of China-Africa industrial ties and the attractiveness of Ethiopia as an investment destination partly depend on incentives provided by core Western states through their institutional arrangements, such as the Africa Growth and Opportunity Act (AGOA) that grants beneficiaries duty-free and quota-free access to the US market (Aberg and Becker 2021). This dependence makes Ethiopia, as well as the firms who enjoy the preferential arrangements, vulnerable to changes in the institutional environment. When the Biden administration removed Ethiopia from AGOA due to human rights violations in the civil war in Tigray, manufacturing exports were directly affected. The production capacity of the Hawassa industrial park rapidly decreased, the Bahir-Dar industrial park closed, and thousands of workers were laid off. Firms have left due to disappearing customers, others operate at greatly reduced capacity, and some voluntarily shut down their operations to eliminate the risks of naming-and-shaming (Alves and Alden 2024, 281; UNDP 2023, 29–31). The Chinese-operated Eastern Industry Zone (EIZ) and the Chinese firm, the Huajian shoe company—long hailed as success stories in Ethiopia—were immediately affected. Hujian previously exported 100% of its production but now has to focus on the domestic market, mainly receiving orders from the military and the police (ENA 2023). Such narrow integration into a global supply chain and dependence on a single export market expose the fragility of Ethiopia's industrialization drive.

## UNDERDEVELOPED INFRASTRUCTURE

Ethiopia has spent nearly one billion US dollars on the construction of eight publicly owned industrial parks, financed by an expensive nonconcessional loan (World Bank 2022).[6] One of the advantages of clustering firms in industrial parks is the boost to firm competitiveness and operational efficiency that infrastructure and utilities in a designated special zone can provide. The ability of industrial parks to supply these infrastructures thus determines their attractiveness. In Ethiopia, the government is the dominant provider of services such as water, power, telecommunication and internet, and evidence shows that the provision of these infrastructures and services is inadequate and unreliable, which directly affects production (Guteta and Worku 2023; Zhang et al. 2018). The spatially dispersed locations of the industrial parks also make logistics challenging, costly, and inefficient (UNDP 2023, 29). To create an enabling environment conducive for productive industries requires an increase in the quality and quantity of infrastructure and related services. This is, of course, easier said than done, especially for a cash-strapped state like Ethiopia who recently became the third country in Africa to default on its debt in the ongoing debt crisis facing the continent.

## LIMITED KNOWLEDGE TRANSFER

Knowledge transfer is important for enhancing a firm's competitive advantage, as well as that of a country. It is a long process with several goals, including functional or product upgrading; it may also serve as a catalyst for the development of a more innovative economy (Osabutey and Jin 2016). If we look at the functionality and buyer–supplier relationship of Ethiopia's current industries, which are primarily textile and apparel industries, there appears to be limited room for knowledge transfer, with the exception of process upgrading. Some firms offer both formal and on-the-job training programs (Zhang et al. 2018), but most of the jobs demand low-skilled labor limited to cut, make, and trim (CMT) activities (Baldwin and Ito, 2022). There also exists a mismatch between the technical and vocational training (TVET) school curriculum and the needs of the firms in the industrial parks (Fei 2018). In fact, Ethiopia's industrialization efforts are in the hands of an external capitalist class, and the skills and technological spillovers needed for a self-sustainable industrialization process are missing (Alves and Alden 2024). The aim of Chinese firms "is to provide sufficient skills to increase productivity rather than ensure local empowerment, ownership, and self-sustainability" (Alves and Lee 2022, 54). In contrast to South Korea and Taiwan, the Ethiopian state has also been less willing to force firms to transfer technology, despite stipulations in several policy documents (Hauge 2019; Fei and Liao 2020).

## HIGH LABOR TURNOVER

One purpose of the industrial parks is to generate large-scale employment for Ethiopia's rapidly growing population and create an industrial working class. But so far that has not materialized. Manufacturing employment as a percentage of total employment has consistently been below the SSA average and has not significantly improved since 2003.[5] In addition to contributing 38% of GDP, agriculture employs 63% of all workers. The industrial sector's contribution, which is supposed to transform the economy, has been stagnant, indicating limited transformation in the economy. Ethiopian industrial parks also experience very high rates of labor turnover and low take-up of job offers (Abebe et al. 2019; Halvorsen 2021). A survey of female factory workers at the Bole Lemi Industrial Park indicates that 30% quit their job within one month and about 70% left within 15 months (Ajayi et al. 2021). Another study focusing on five light manufacturing firms shows that 10% of employees never showed up on their first day and that 20% of the workers quit the job in the first month (Blattman and Dercon 2018).

Key reasons influencing retention rates are low wages, the mismatch of expectations between workers and their employers, and poor working conditions (Abebe et al. 2019; Ajayi et al. 2021; Halvorsen 2021). Chinese firms are in Africa in search of profit, not to industrialize the host nation, and this profit is sought in sectors with low wages and precarious working conditions. Most firms operate in a global context


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of apparel value chains characterized by buyer consolidation and supplier squeeze (Whitfield, Staritz, and Morris 2020), which translates into a squeeze on working conditions and workers' rights (Anner 2020). As workers suffer from low "quality of life" in and around the industrial parks in Ethiopia (Kumera and Woldetensae 2023), they vote with their feet. Yet without collective action in the form of strong unions or community associations, it is "unclear how the micro-resistance of workers can translate into a sustained transformation of employment conditions" (Hardy and Hauge 2019, 22), especially when exploitation of cheap labor is an incentive for FDI in the lower ends of the value chain.

*As a famous philosopher once put it, in a state of war, "There is no place for industry, because the fruit thereof is uncertain."*

## WAR, CIVIL STRIFE, AND INSTABILITY

Stability has been regarded as a key reason for Ethiopia's investment attraction. As an official at the Ministry of Industry put it, "The Chinese choose Ethiopia because of the stable political situation" (cited in Giannecchini and Taylor 2018). Yet the dissolution of the ruling coalition EPRDF, the civil war in Tigray, state-based violence, communal conflicts, popular protests, and political tensions turn this view of Ethiopia radically on its head. Add to that the reoccurring geopolitical turmoil that plagues the region. Ethiopia's score on the Fragile States Index (FSI) has dropped to 100.4, the lowest since 2000. Ethiopia ranks 11 among 179 states as a country that is "in stage of alert." Given the strong association between the FSI score and FDI inflows, Ethiopia is not only receiving fewer foreign investments but also many firms are leaving the country. For example, net inflows of FDI have generally increased since 2000, but since 2016, the figure has been rapidly declining.[7] Because of the civil war, production has decreased, and the industrial park in Mekelle closed (UNDP 2023).

War, civil strife, political instability, and intolerance are fundamentally opposed to reflection, entrepreneurship, and pluralism – the enabling conditions for realizing economic development (Ringmar 2005). The conflicts in Ethiopia are protracted and profound, as they pertain to the very nature of the state itself: "The perennial contested issue involves what 'Ethiopia' is and should contain—in other words, how the state should be configured, and what an Ethiopian identity should comprise and invoke" (Tronvoll 2022, 164). As long as tensions and conflicts persist, the state capacity needed for industrialization to take off will not develop. As a famous philosopher once put it, in a state of war, "There is no place for industry, because the fruit thereof is uncertain."

## CONCLUSION

Ethiopian governments have made laudable attempts to industrialize the nation, taking on the perennial challenge of economic development. Even though Ethiopia has experienced rapid economic growth, it has failed to reach its stated ambitions and specific targets, and structural transformation remains elusive. Without delving into a deeper critique of the underlying economic development models, we identified seven problems that plague Ethiopia's industrialization: political allocation of industrial parks, few domestic backward linkages, overreliance on preferential trade regimes, underdeveloped infrastructure, limited knowledge transfer, high labor turnover, and war, civil strife, and instability. The facts on the ground are indeed disappointing, but let us hope that peace prevails, tolerance grows, and that leaders take heed so the Ethiopian people one day will be able to enjoy the fruits of their hard labor.

## CONFLICTS OF INTEREST

The authors declare no ethical issues or conflicts of interest in this research. ■

## NOTES

1. Agriculture, forestry, and fishing value added (% of GDP). World Bank, national account data & OECD national accounts data file, 2022.
2. Employment in agriculture (% of total employment) - Modeled ILO estimate, World Bank database, 2022.
3. Manufacturing exports (% of merchandise exports). World Bank, national accounts indicator.
4. Manufacturing, value added (% of GDP). World Bank, national accounts indicator.
5. https://data.worldbank.org/indicator/SL.IND.EMPL.ZS?end=2022&locations=ET-ZG&start=1991&view=chart.
6. These 8 industrial parks are Hawassa, Dire Dawa, Adama, Kombolcha, Mekelle, Jimma, Bahir Dar, and Debre Berhan
7. Foreign direct investment, net inflows - historical data for Ethiopia. (BoP, current US$) – Ethiopia. worldbank.org

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