

MAPPING CHINESE DEVELOPMENT
ASSISTANCE IN **AFRICA**



AN ANALYSIS OF THE EXPERIENCES OF
ETHIOPIA



MAPPING CHINESE DEVELOPMENT ASSISTANCE IN AFRICA
An Analysis of the Experiences of Ethiopia

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About AFRODAD

Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

Objectives include the following:

- 1 To enhance efficient and effective management and use of resources by Africa governments.
- 2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of people in the world.
- 3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being apolitical, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

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PREFACE

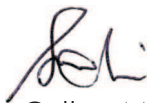
In November 2008 AFRODAD published a report “Mapping Chinese Development Assistance in Africa – An analysis of the experiences of Angola, Mozambique, Zambia, and Zimbabwe.” This report specifically looking at Ethiopia is a follow up to that report.

China is one of the fastest-growing countries in the world, and is expanding its presence in Africa. According to the Economist (19/02/2011) China officially passed Japan to become the world’s second biggest economy. China’s GDP amounted to \$5.9 trillion against Japan’s \$5.5 trillion. In addition, China has been more than willing to play the role of key development aid partner and investor in Africa.

Development assistance continues to be one of main instruments of international cooperation. In effect, development assistance has become an important ingredient in financing national budgets in many African countries. Governments are increasingly allocating a big portion of development assistance towards key sectors of development. Some African countries, are increasingly following a more “look East” policy, hence China is steadily becoming an alternative to the traditional western donors.

This report maps the history of Sino-Ethiopian aid and investment relations and analyses the linkages between China’s involvement in Ethiopia and development in Ethiopia. The report describes in detail the nature and sectoral distribution of Chinese Development Assistance at the same time listing the major projects that China is involved in Ethiopia by economic sector. More critically, the report describes plausible mechanisms on how Ethiopia can negotiate and administer Chinese aid and investments and how Chinese Development Assistance can, if properly managed, lead to Ethiopia’s Debt Sustainability. The report concludes by giving actionable policy recommendations to both government and civil society as to how best Cameroon can equitably benefit and sustain its relationship with China in the future.

AFRODAD hopes that the Ethiopian government and other stakeholders will take the findings and recommendations of this report seriously and address the issues raised there-in.



Collins Magalasi
Executive Director
AFRODAD

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ACRONYMS

ADLI	Agriculture Development Led Industrialization
AfDB	African Development Bank
AfDF	African Development Fund
AU	African Union
BADEA	Arab Bank for Economic Development in Africa
CAD	Canadian Dollar
CBRC	Road and Bridge Construction
CHF	Swiss Franc
CNY	Chinese Yuan
DAC	Development Assistance Committee
DKK	Danish Kroner
ECPC	Ethio-China Polytechnic College
EIB	European Investment Bank
ETC	Ethiopian Telecommunications Corporation
EUR	European Dollar
EXIM	China Export and Import Bank
FDI	Foreign Direct Investments
FOCAC	Forum for China-Africa Cooperation Forum
GDP	Gross Domestic Product
GBR	Pound sterling
HIPC	Highly Indebted Poor Countries Initiative
ICBC	Industrial and Commercial Bank of China
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INR	Indian Rupees
JECC	Joint Ethiopia China Commission
JPY	Japanese Yen
KWD	Kuwaiti Dinar
MOFED	Ministry of Finance and Economic Development, Ethiopia
MDGs	Millennium Development Goals
NEPAD	The New Partnership for Africa's Development
NOK	Norwegian Krone
OECD's	Organization of Economic Cooperation and Development
OFID	OPEC fund for International Development
OPEC	Organisation for the Petroleum Exporting Countries
PASDEP	A Plan for Accelerated and Sustained Development to End Poverty
SAPs	Structural Adjustment Programs.
SAR	Saudi Riyal

SDR	Special Drawing Rights
SDPRP	Sustainable Development and Poverty Reduction Strategy
SEK	Sweden Krona
SOEs	Chinese State-owned Enterprises
UN	United Nations
UNDP	United Nations Development Programme
USD	United States Dollars



EXECUTIVE SUMMARY

Chinese development assistance has become a distinctive and integral part of the global aid and development architecture. China has been increasing both the volume and geographical scope or reach of its foreign aid since the mid 1990s. This expansion has been particularly evident in Africa where it is viewed either as a welcome alternative to Western foreign aid that is increasingly conditionality-laden, in-effectual and less generous or as a risky adventure exposing African countries to re-indebtedness and undermining hard fought gains in governance, environmental, health and safety standards through lack of policy conditionality and lower regulatory standards. The emergence of China as a major player in the global aid and development architecture and the indistinctiveness of Chinese aid policy poses a fundamental question: Is Chinese foreign aid a boon or a bane for Africa's development?

This report sheds light on this question by critically examining the political economy of Chinese development assistance in Ethiopia, with reference to the following:

- The historical relationship between Ethiopia and China
- Convergences or divergences between Chinese aid and Ethiopia's development strategy
- The nature and scope of Chinese development assistance Ethiopia
- Chinese foreign aid and Ethiopia's Indebtedness
- Chinese foreign aid and internal processes of Ethiopia, including the role of the civil society

Chinese development cooperation to Ethiopia takes a variety of forms: grant aid, aid in kind, zero-interest loans, subsidized loans, special trade concessions, commercial loans and direct foreign investment. While Sino-Ethiopian relations date back to the early 1970s, for much of the 1970s and 1980s, Chinese development assistance to Ethiopia – whether in the form of aid, trade or investment was minimal and peripatetic. Chinese foreign aid during this period mostly took the form of emergency relief aid and manpower training. Since the mid 1990s however, this relationship has broadened grown and taken a more commercial or corporatist orientation, whereby Chinese aid, trade and investments in Ethiopia are often inter-woven.

For this reason, it is difficult to disentangle much of Chinese aid from Chinese trade and investment projects in Ethiopia, a phenomenon which is not helped by the fact that both countries do not disclose official aid figures or when they do, the classification Chinese aid, trade and investments in Ethiopia often overlap. To the extent that a 'conventional view' of aid is used, Chinese aid to Ethiopia is relatively small, barely constituting one percent of the total development assistance to Ethiopia on average over the last 5 years. However, this 'conventional view' belies the significance of Chinese

aid related investments and the overall influence of Chinese development assistance (in the form of aid, trade and investments) in Ethiopia. While Western ‘donors’ remain the major suppliers of foreign aid to Ethiopia, Chinese investments constitute about a quarter of foreign owned enterprises in the country. This figure rises to over 50% in the construction and manufacturing sectors. Altogether, active Chinese aid, trade and investments commitments in Ethiopia currently stand at about USD 2.5 billion. Chinese development assistance is credited with a number of modern infrastructural, housing, electricity and construction projects in Ethiopia including:

- Rehabilitation of the Addis Ababa International Airport,
- The ultra modern Addis Ring Road,
- Gibe and Tekeze hydro-electric power dams,
- Ethiopia’s first industrial park,
- Renovation of the Africa Union Hall, and
- Ethio-China Polytechnic College in Addis Ababa, among others.

The Ethiopian government views Chinese aid as compatible with its national development strategies (due to its lack of conditionalities); relatively generous in terms of its zero, low or subsidized interests; relatively faster in disbursement and relatively more certain (again, due to its lack of conditionalities which makes detaches it from domestic political and economic dynamics).

While Chinese aid to Ethiopia comes with no ‘policy conditionality’ it is heavily ‘tied’ to the use of Chinese companies and contract workers – and hence the close integration of Chinese aid, trade and investments. The lack of ‘conditionality’ is a double edged sword: a) it is a welcome relief to Ethiopia in the sense that it has secured a regular flow of aid, particularly during times of political disturbances when Ethiopian traditional western aid partners have withheld or reduced their aid disbursements to the country but; b) for this very reason, it is seen as a potential obstacle to democracy, good governance and popular participation as it removes the leverage that civil society groups and other governments could use to enhance popular dialogue and democratization in Ethiopia. The ‘tying of the aid’ to use of Chinese companies and contract workers fosters monopoly induced inefficiencies and constrains learning by doing and lack of technology transfers and spillovers from Chinese aid and investment projects.

Ethiopia, ‘graduated’ from HIPC (Highly Indebted Poor Countries Initiative) in 2004 and there is no evidence that Chinese development assistance is re-indebting the country. This is due to a combination of interrelated factors. Firstly, Chinese aid to Ethiopia is as aforementioned, relatively small. Secondly, the component of this aid that is channeled through trade and investment projects comes in the form of grants, in-kind or interest free loans [some of which (about USD 20 million) have been written off].

However, this report finds anecdotal evidence of legitimate concerns regarding the environmental, health and safety impacts of Chinese aid, trade and investment projects in Ethiopia, particularly in big projects such as mining/oil prospecting, dams and hydro-electric power stations. China has either low or undeveloped environmental, health and safety standards in several sectors even within China (e.g. mining) and the use of Chinese companies and contract workers for a majority of Chinese aid, trade and investment projects in Ethiopia has the effect of transferring these weaknesses to Ethiopia because regulation is weak in Ethiopia. There is little evidence that many Chinese aid, trade and investment related projects undergo thorough and transparent ex-ante environmental impact assessments and/or auditing. Chinese involvement in oil prospecting in Western and Eastern Ethiopia and in the construction of Gibe and Tekeze dams raise particular concerns in these respects.

Predominantly, Chinese development assistance in Ethiopia is project rather than programme based. It is also concentrated in infrastructural, construction and manufacturing sectors. In contradiction, Western aid in Ethiopia tends to be programmatic rather than project aid and is hardly evident in infrastructural, construction or manufacturing sectors. For these reasons, there is little evidence that Chinese aid is competing with or seeking to displace Western aid in Ethiopia. However, it has increased Ethiopia's leverage in foreign aid negotiations as it can reject some conditionality-based aid packages in favour of un-conditional Chinese aid.

The administration of aid has always been a government centred process in Ethiopia and Chinese aid is no exception. Ethiopia remains a top down administrative country, under a de facto one party rule in which the state negotiates and approves foreign aid commitments, with virtually no civil society participation. To the extent that Chinese aid comes with no political conditionalities it is likely to entrench rather than challenge this practice.

This study makes the following recommendations:

1. The need for 'un-tying' of Chinese aid, particularly delinking it from automatic use of Chinese companies, equipment and contract workers in order to enhance the efficiency and competitiveness of development assistance to Ethiopia/Africa.
2. The need for 'de-coupling' Chinese aid, from Chinese trade and investment agreements. In particular, it would be helpful for Ethiopia to negotiate clear and separate (independently of the aid relationship) trade and investment agreements with China either bilaterally or regionally through specific Sino-Africa aid and FDI agreements. This would decrease the likelihood of China using its aid to leverage unfair or exploitative trade and investment concessions from Ethiopia.

3. The need for policies to encourage local sourcing of inputs, sub-contracting and partnerships between Chinese companies and Ethiopian/African enterprises in order to enhance technology transfer and spill-overs into the local economies.
4. The need for transparency and accountability in negotiation, administration and monitoring of Chinese development assistance to include openness and information on all aspects of the aid including size, purpose, repayment and other conditions etc.
5. The need for transparent and internationally recognized environmental, health and safety impact assessments of all Chinese related aid, trade and investment projects in Ethiopia particularly big infrastructural projects or mineral prospecting in sensitive ecosystems.
6. Greater alignment of Chinese aid, trade and investments with Ethiopia' national development strategies and priorities.
7. Using the 'policy space' provided by Chinese development assistance to pursue not just economic growth but also democratization, good governance, human rights, equity and popular participation of all sections of the Ethiopian society in all the cultural, economic and political spheres of the country.

1 INTRODUCTION

With about 80 million people Ethiopia is one of the largest countries in Africa. It is also among the poorest and one of the largest recipients of foreign aid on the continent with an annual average in excess of USD 1 billion in aid disbursements over the last 5 years (MOFED, 2007, 6). While its economy contracted during much of the socialist period (1974-1991), it has been growing at a significant pace since the mid 1990s, with an average GDP growth rate of 10% over the last 5 years. The country's human development indices remain among the lowest in Africa but recent economic growth and political stability has seen significant improvements in poverty-oriented sectors such as agriculture, education, health, water and sanitation, roads and housing.

Foreign aid, both multilateral and bilateral, has played and continues to play a significant but by no means dominant role in this economic recovery. Over half of all aid to Ethiopia is channelled through multilateral agencies primarily the Bretton Woods institutions, the UN system and the African Development Bank. A further quarter comes through multilateral groups such as the Paris Club and the rest from bilateral sources. Multilateral aid to Ethiopia is for the most part conditional upon the pursuit of policies consistent with the Millennium Development Goals (MDGs) or continental development initiatives such as NEPAD's sectoral investment targets. Bilateral aid conditionalities vary depending on given donors and their particular relationships with Ethiopia.

While Western financial flows to Ethiopia predominantly take the form of official development assistance (grants, subsidized loans, aid in kind (e.g. food aid), debt relief etc), Chinese finance in cooperation with Ethiopia is closely related to and strongly supported by Chinese trade and investments in the country. Accordingly, Chinese development cooperation to Ethiopia extends beyond the conventional grants, aid in kind and interest free loans to include cooperative and joint venture funds for aid projects, commercial loans and investments and special trade preferences. The examination of Chinese aid in Ethiopia is further complicated by the fact that; a) China does not report all its financial flows and does not distinguish aid from others and, b) when it does, the reporting does not follow the OECD's (organization of Economic Cooperation and Development) Development Assistance Committee (DAC) format, which limits comparability to other partners' financial engagements. For example, China does not report debt write-offs as foreign aid whereas it considers cooperative and joint venture funds for projects as foreign aid, which the OECD does not. This means that Chinese development assistance in Ethiopia takes the form of conventional aid, commercial investment projects and special trade projects or preferences.

China's increasing role in aid and development and its distinct nature of its foreign aid policy has occasioned a fundamental question: Is Chinese aid a boon or a bane for

development in Africa? This report examines this question with reference to the case study of Sino-Ethiopian aid relations.

1.1 Motivations of Chinese Aid

Although viewed as a 'new' or 'emerging' aid donor, China has had a cooperation programme to Africa since the 1950s although until the mid 1990s, its share of the global aid and development sphere was minimal in both absolute and relative terms. Chinese foreign aid policy in Africa since then has been framed in the guiding principles outlined by Prime Minister's Zhou Enlai's visit to Africa in 1964: sovereignty, equality and mutual respect. Consequently, non-interference in the domestic politics of African countries or a lack of policy conditionality has been highlighted as a distinctive feature – and appealing element - of Chinese aid in Africa. Coming out of colonialism at the end of the Second World War, China adopted a strongly anti-imperialist rhetoric in its foreign aid and policy, a rhetoric that resonated with a majority of African countries in the light of their struggles against colonialism and neo-colonialism.

As Western aid has increasingly become more conditionality laden, Chinese aid has become particularly appealing to those African countries confronted with policy conditionalities with which they disagree. Western aid was less conditional during the Cold War, was economically conditional in the late 1980s (SAPs), then became politically conditional in the 1990s – and is now also speaking of Partnership – and the 'promotion of values' at the same time. This has been particularly the case in Ethiopia following its disputed presidential elections of 2005, which led a number of Western nations to condition their development assistance to the country on a number of political reforms (e.g. good governance, observance of human rights, multi-party democracy etc). Since then, the country has sought to finance its 5-year national development plan – PASDEP (A Plan for Accelerated and Sustained Development to End Poverty) through Chinese development assistance even though western aid is still very substantive.

Ethiopia's central development declared objective since 2002 has been poverty reduction and the pursuit of the Millennium Development Goals (MDGs). It has sought to achieve this through two successive medium term development strategies: the SDPRP (Sustainable Development and Poverty Reduction Strategy, 2002-2005) and the PASDEP (2005-2010). The SDPRP was focused on four pillars – ADLI (Agriculture Development Led Industrialization) to enhance food security and reduce vulnerability to hunger and famines; judicial reforms to enhance governance, accountability and transparency; decentralization and empowerment and capacity building of both private and public sectors.

PASDEP builds on SDPRP and is the present medium term plan through which Ethiopia seeks to achieve the MDGs. It is based on an MDGs needs assessment with costed MDGs-based interventions in seven priority sectors: agriculture and rural development, education, health, water and sanitation, road, urban development, private sector and trade issues (MOFED, 2007, UN-ECOSOC, 2007).

An MDG status report for Ethiopia (UN-ECOSOC, 2007) finds that the implementation of both SDPRP and PASDEP has been associated with positive macro-economic and socio-economic indicators. *'At the macro-economic level, Ethiopia's per capita income growth has, over the past half-decade, exceeded the average for sub-Saharan Africa. Growth has been led by the agricultural sector but complemented by strong performance in the manufacturing, construction and service sectors. In particular, construction has been spurred by the much needed public sector investment in infrastructure. Ethiopia's socio-economic indicators have also improved. In particular, gross primary enrolment rates have improved markedly; immunization coverage has expanded; the nutritional status of the population has improved; and the absolute number of people living below the national poverty line declined between 1999/00 and 2004/05 with much of the decline occurring in rural areas. The decline in poverty has been associated with an improvement in food security in both the urban and rural areas'* (UN-ECOSOC, 2007, x1).

These gains are easily reversible and there is need for a faithful pursuit of the PASDEP targets if they are to be sustained. Towards this end, Ethiopia has shown remarkable determination in trying to align its development priorities with Chinese development assistance. However this is the exact opposite of the Paris agenda which expects China to align to Ethiopian policies. The extent to which it has succeeded in this – particularly in infrastructural development projects reflects more a confluence of interests rather than its negotiating capabilities. Chinese interests in opening up markets, sourcing raw materials for its industries and encouraging Chinese investments overseas dovetails with some of Ethiopian development priorities as outlined in PASDEP. Where such confluence of interests have not been quite strong (e.g. health, education, gender, empowerment) Chinese assistance has been relatively small if at all.

In spite of Ethiopia's top down administrative structure, both the SDPRP and PASDEP were developed through highly participatory processes and constitute a high degree of ownership and hence legitimacy among the Ethiopian population. Considering that foreign aid negotiations in Ethiopia entail not such participation and ownership, their legitimacy derives from their alignment with the national development priority strategies approved through participatory processes. In this respect, it is important for the legitimacy of Chinese development assistance in Ethiopia that it is seen to be broadly aligned with the country's development priorities.

1.2 History of Sino-Ethiopian aid and investment relations

In spite of Ethiopia's long history of independence, formal economic and political relations between Ethiopia and China were not established until the 24th of November 1970 when the two countries established diplomatic relations. Although the two countries signed two important economic and trade cooperation agreements in the early 1970s (*Sino-Ethiopian Agreement for Economic and Technological Cooperation (1971)* and *Sino-Ethiopian Trade Agreement, 1973*), diplomatic and economic engagement between the two countries remained minimal and somewhat unsteady throughout the 1970s and 1980s due principally to the geopolitics of the Cold War. As an ally of the US, Emperor Haile Sellasie refused to establish diplomatic relations with China until 1970. The Emperor was then overthrown (in 1974) by a socialist 'Derg' regime which aligned itself with the Soviet Union and suspended diplomatic relations with China between 1977 and 1982, after China supplied arms to Ethiopia's then regional enemies, Somalia and the Eritrean Liberation Front.

Chinese development assistance to Ethiopia during this period (1970s-1980s) was minimal and mostly in the form **of emergency relief (food aid) and manpower development**. There was a slight spike in this type of aid from the mid 1980s, following the Ethiopian drought of 1984. Much of this aid was multilateral in nature – either channelled through UN agencies or given as part of a general Chinese emergency relief package to sub-Saharan African countries as exemplified by the 1984 Chinese emergency relief which whilst coming in response to the infamous drought in Ethiopia that year, was also extended to several sub Saharan African countries.

Following the collapse of the Dergue regime in 1991 and the dismantling of the socialist state, 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 increasingly, it gained a much higher profile in the Ethiopian economy from the mid 1990s onwards. This could be primarily due to two reasons. Firstly, Ethiopia is one of the largest countries in Africa with a population of about 80 million people. It is also potentially rich in a variety of natural resources, including productive agricultural lands and possibility of oil deposits. It thus constitutes both a good market for Chinese goods and a source of raw materials for the booming Chinese economy. Ethiopia is also home to the African Union (AU) headquarters, making it a strategic location in terms of Chinese diplomacy which has long been rooted in South-South cooperation. Secondly, Ethiopian economic and political transition in the mid 1990s occurred at exactly the same time that China was ramping up its foreign aid, trade and investment activities (Woods, 2009). For Ethiopia, China provides a ready market for its primary agricultural products and a relatively more generous and attractive foreign aid (compared to Western aid) given its lack of aid conditionality, diverse and general terms of its development assistance – grants, interest free loans, subsidized loans, preferential trade agreements and commercial investments.

2 CHINESE AID IN CONTEXT: THE NATURE AND SECTORAL DISTRIBUTION OF CHINESE DEVELOPMENT ASSISTANCE

Since the mid 1990s, Chinese development assistance in general, and also to Ethiopia more specifically, has increasingly taken a **'commercial or corporatist orientation'** as opposed to its earlier emergency or humanitarian posture. Chinese foreign aid, trade and investment have become closely coordinated, with the Chinese using development assistance to promote their trade and investment activities in Ethiopia, particularly through cooperative and aid-based joint venture investment projects (see table 4). Chinese aid to Ethiopia, like in many other places is hardly reported, but cooperative joint venture aid projects (involving either government to government agreements or government with commercial enterprises (usually involving government guaranteed loans) is common. The close relationship between Chinese aid, trade and investment and the significant increases in Chinese trade and investment activities in Ethiopia has enhanced the profile of Chinese development assistance in the country perhaps more than is merited by size of Chinese aid compared to Ethiopia's other development partners. Based on a conventional view of foreign aid, (i.e. grants, interest free loans) Chinese development assistance to Ethiopia is **relatively small**. The US remains by far, Ethiopia's single largest supplier of foreign aid, followed by multilateral agencies and bodies such as the Paris Club.

Table 1 below shows that while multilateral development agencies remain the largest contributors of development assistance to Ethiopia, among non Paris Club bilateral donors, China is the most important although the size of its development assistance is small in absolute terms but increasing.

Table 1: Public sector external debt disbursement by lender category, creditor, country/(million usd)

	2005/06		2006/07		2007/08		2008/09		1/7/09-	31/12/
	USD	%	USD	%	USD	%	USD	%	USD	%
TOTAL	423.16	100.00	357.79	100.00	395.06	100.00	1,762.95	100.00	801.50	100.0
OFFICIAL CREDITORS	381.94	90.26	357.79	100.00	395.06	100.00	883.31	50.10	581.88	72.60
MULTILATERALS	242.19	57.23	277.77	77.64	281.43	71.24	592.86	33.63	488.95	61.00
AfDF	48.05	11.36	46.45	12.98	76.53	19.37	130.97	7.43	68.37	8.53
BADEA	1.92	0.45	11.55	3.22	8.38	2.12	7.79	0.44	3.47	0.43
EIB	19.24	4.55	30.05	8.40	28.10	7.11	31.88	1.81	10.97	1.37
IDA	145.75	34.44	158.18	44.21	144.41	36.55	358.27	20.32	284.41	35.48
IFAD	17.26	4.08	20.20	5.64	6.68	1.69	3.40	0.19	-	-
IMF	-	-	-	-	-	-	50.00	2.84	116.48	14.53
NDF	4.69	1.11	2.68	0.75	2.88	0.73	2.00	0.11	1.11	0.14
OFID	5.28	1.25	8.72	2.44	14.45	3.66	8.56	0.49	4.14	0.52
BILATERALS	139.75	33.03	80.02	22.36	113.62	290.45	290.45	16.48	92.93	11.59
Paris Club	133.19	31.47	56.18	15.70	60.79	39.21	39.21	2.22	2.15	0.27
Italy	133.19	31.47	56.18	15.70	60.79	39.21	39.21	2.22	2.15	0.27
Non-Paris Club	6.56	1.55	23.84	6.66	52.83	13.37	251.24	14.25	90.79	11.33
China	5.32	1.26	6.79	1.90	10.58	2.68	183.47	10.41	65.07	8.12
India	-	-	13.00	3.63	31.75	8.04	53.56	3.04	23.60	2.94
Kuwait Fund	1.24	0.29	1.56	0.44	6.10	1.54	8.32	0.47	0.52	0.07
Saudi Fund	-	-	2.50	0.70	4.40	1.11	5.89	0.33	1.60	0.20
PRIVATE CREDITORS	41.22	9.74	-	-	-	-	879.64	49.90	219.62	27.40
COMMERCIAL BANKS	41.22	9.74	-	-	-	-	-	-	-	-
Suppliers	-	-	-	-	-	-	879.64	49.90	219.62	27.40

MOFED, 2009, pp12: Public Sector Debt – Statistical Bulletin –No. 4 – 2005/06 - 2008/09 and 1/7/2009 - 31/12/2009)

However, Chinese development assistance in Ethiopia **should not be viewed in 'conventional' terms** as this can be misleading. Chinese foreign aid is an integral part of Chinese foreign policy and is used to further a diverse range of foreign policy objectives including: securing sources of raw materials for Chinese industries, establishing markets for Chinese goods and services and building political and diplomatic alliances for Chinese regional and international interests (especially at the UN). On a macro level, this means that Chinese aid and investments have gone to a diverse range of countries in Africa – whether they are resource rich like Nigeria, Angola and Sudan or relatively resource scarce but politically strategic (e.g. Senegal). Ethiopia seems to be a beneficiary of Chinese aid and investments on both counts: for example, a) Chinese petroleum company Zhongyuan Exploration Bureau is currently drilling in the Gambella Basin in Western Ethiopia and in the Ogaden region in Eastern Ethiopia and b) Ethiopia is home to the AU headquarters).

Owing to the deliberate policy of using aid to achieve a broad range of commercial, economic and political interests, China classifies its aid in a manner different from the Organisation for Economic Cooperation and Development (OECD) classification – some activities that would pass for direct foreign investments (FDI) under the OECD is sometimes classified as foreign aid by the Chinese (projects financed by concessionary financing from state-owned Chinese firms which might otherwise be considered private investors). Complicating things further, Ethiopia recently followed a somewhat similar approach to the definition and classification of foreign aid or development assistance. Starting from 2008/09 supplier's credit for public enterprises such as Ethiopian Telecommunications Corporation (ETC) has been classified under the foreign debt disbursement data (MOFED 2009). Sometimes, this makes the distinction between foreign aid and foreign investment a **distinction without much difference** especially in the context of Sino-Ethiopian relations. The nature of Chinese development assistance to Ethiopia therefore cannot be understood outside the context of the nature of Chinese investments in the country. Taken together, active Chinese aid, trade and investment commitments in Ethiopia stand at about USD 2.5. Billion (see Table 4 below).

Like in many other parts of Africa, Chinese investments in Ethiopia falls into 3 categories¹: **resource seeking FDI** (i.e. investments in major extractive industry sectors such as oil and gas) **market seeking FDI**, (mostly concentrated in manufacturing, construction and transport sectors to take advantage of AGOA (African Growth and Opportunity Act) opportunities among others) and **efficiency seeking FDI** (particularly in agriculture or sectors that produce inputs more efficiently for use by producers based in China). The close coordination between Chinese aid, trade and investments means that all three activities are concentrated in just a few sectors in Ethiopia. The importance of trade and investments in Chinese foreign aid policy in Ethiopia also means that virtually all Chinese development assistance in the country outside the multilateral frameworks is **project rather than programme based**.

Chinese bilateral aid to Ethiopia consists of **grants, soft loans (i.e. interest-free loans), concessional loans, technical cooperation and debt relief**. China also offers development assistance to Ethiopia multilaterally through agencies such as the African Development Bank or through partnerships with other development agencies such as the World Bank. Most of the concessional financing is provided by the China Export Import Bank (Exim Bank) while the China development Bank extends finances on commercial terms and a number of Chinese enterprises (e.g. China Road and Bridge Construction CBRC and Sino Hydro Corporation) operate in many of these sectors on 'concessionary terms' (i.e. often being the beneficiaries of single sourcing procurement procedures on the part of the Ethiopian government).

While foreign aid in Ethiopia overall is distributed across a wide spectrum of sectors based on Ethiopian development priorities (see Table 2) Chinese aid and investment

¹ Ajakaiye et al 2010

are concentrated in manufacturing, construction and infrastructure – sectors that advance the **resource seeking, market seeking and efficiency seeking nature of their FDI** (see Tables 3 and 4). Table 2 shows sectoral distribution of all foreign development assistance in the Ethiopian Economy. Consistent with Ethiopia’s national development priorities as articulated in the current national development Plan PASDEP (Plan for Accelerated and Sustained Development to End Poverty, 2005-2010). Much of this assistance goes to the priority sectors of agriculture, infrastructure, education and health.

Table 2: External Loan Disbursement by Economic Sector in Million USD

Economic Sectors	2008/09
Agriculture	171.1
Electricity, Gas & Stem	283.9
Transport & Communication	745.7
Health	5.1
Social Security, Welfare	16.5
Education & Capacity Building	49.8
Tourism & Industry	37.7
Financial Institution	72.6
Water Works and Supply	32.4
Highway Transport - infrastructure	134.4
Total	1,549.3

Source: MoFED, 2010

Unlike the general sectoral concentration of development assistance above (Table 2) Chinese foreign investment projects in Ethiopia, a significant component of which are considered foreign aid are concentrated in the construction and manufacturing sectors (Table 3).

**Table 3: China's share of Ethiopia's Foreign Direct Investment
(2000-2007, in Millions of US\$)**

		2000	2001	2002	2003	2004	2005	2006	2007
Agriculture	Under Implementation & in Operation	0	0	0	0.23	0	0	0	0
	Pre-Implementation	0	0	0	0	1.59	0	1.26	2.52
Manufacturing	Under Implementation & in Operation	1.46	5.56	0.79	15.04	55.32	6.49	1.81	0.09
	Pre-Implementation	0	0.9	0	3.07	4.03	20.34	16.36	122.08
Construction	Under Implementation & in Operation	0.53	0	0	1.31	39.89	6	0.26	0
	Pre-Implementation	0	0	0	0	0	0.4	34.24	15.36
Education and Health	Under Implementation & in Operation	0	0	0	0	0.05	0.2	0.09	0
	Pre-Implementation	0	0	0	0	0	0.3	0.49	0.7
Hotel and Restaurant	Under Implementation & in Operation	0	0	0	0.56	0.1	0.31	0.1	0
	Pre-Implementation	0	0	0	0	2.15	0.3	0.9	10.75
Mining	Under Implementation & in Operation	0	0	0	0	6	0.09	0	0
	Pre-Implementation	0	0	0	0	0	0	4.68	2.2
Real Estate Business Activities	Under Implementation & in Operation	0	0	0	0	6	1.98	2.84	0.09
	Pre-implementation	0	0	0	0.14	0	0.59	6.1	10.66
Total FDI from China	Under Implementation & in Operation	2	5.56	0.79	17.14	107.36	15.07	5.1	0.18
	Pre-implementation	0	0.9	0	3.2	7.77	21.92	64.03	164.26
Total FDI to Ethiopia	Under Implementation & in Operation	130.65	221.91	76.03	245.26	481.73	236.97	207.8	1.14
	Pre-Implementation	44.21	80.3	146.8	186.57	470.65	1731.89	4236.41	3875.59
China's share of Total FDI	Under Implementation & in Operation	1.5	2.5	1.0	7.0	22.3	6.4	2.5	15.7
	Pre-Implementation	0.0	1.1	0.0	1.7	1.7	1.3	1.5	4.2

Source: Geda, 2008, 6

Table 4: Some of the major Chinese aid and investment projects in Ethiopia²

Project	Chinese aid/ investments/ contribution in million USD)	Description	Status	Chinese companies involved
Industrial park	713	Ethiopia's first Industrial Park. Being built at Dukem, 37 km east of Addis Ababa. Expected to draw investments from up to 80 Chinese companies - in textiles, leather and manufacturing and construction	Scheduled for completion in 2013	Jiangsu Qiyaan Investment Group
Gibe Dam 111	500	Situated on the OMO river, has 1,870 MW capacity	Contract first awarded in 2006 but construction slowed by lack of funding (the total cost of the project is estimated at 1.5 billion USD), scheduled for completion in 2017	Industrial and Commercial Bank of China (ICBC); Dongfang Electric Corporation
Tekeze Dam	350	The tallest dam in Africa at 188 meters high, with a power generation capacity of 300 MW	Inaugurated 2009	of Sinohydro-CWHEC (49%), and China Gezhouba Water and Power Group (30
Addis-Nazaret Road	349	80km Modern highway linking Ethiopia's capital with its second largest city	Loan approved 2009, project scheduled for completion in 2014	China Road and Bridge Corporation
Addis Ababa Ring Road Construction	87	Ring road	Completed 2005	China Road and Bridge Corporation
Ethio-China Polytechnic College (ECPC);	14	Modern college, teaching Chinese languages, technical and vocational training	Inaugurated 2010	SOGECO
Light Railway Network Project in Addis Ababa	Unknown	Intended to ease congestion within Addis by transporting up to 20,000 people per day	Funding contract agreed between the Chinese Export and Import (EXIM) Bank and the Ethiopian Railway Corporation (2010) pending final approval of the Chinese government	The Export and Import (EXIM) Bank of China

(Source: Author's compilation).

² Note: these mostly represent cooperative joint venture aid projects involving at least the Chinese government, Chinese companies, Ethiopian government or state owned enterprises

The close coordination between aid, trade and investment, reflects the interplay between Ethiopian development priorities and Chinese political, economic and foreign policy objectives all of which it strives to achieve through its aid and investment policies in Africa. These multiple objectives are being sought through what Gill and Reilly (2007) call a 'corporate engagement' strategy encompassing several elements. *'Top Chinese leaders and diplomats create a favorable environment for Chinese investment in Africa through a mixture of prestige diplomacy, economic assistance, and diplomatic support for African leaders. At home, China's economic bureaucratic agencies encourage Chinese state-owned enterprises (SOEs) to increase their investment and trade with Africa. China's SOEs implement Beijing's aid projects, extract strategic natural resources for export back to China or for profit in the international marketplace, and expand their manufacturing bases in China. Chinese workers staff Chinese projects efficiently and at low cost, and Chinese migrants build trade networks and supply chains linking China and Africa'* (Gill and Reilly, 2007, 9). Gill and Reilly argue that strategy has enabled Chinese corporations to secure long-term access to key strategic resources. The Ethiopian experience supports this claim.

3 MECHANISMS FOR NEGOTIATING AND ADMINISTERING CHINESE AID AND INVESTMENTS

The establishment of a **Joint Ethiopia China Commission (JECC) in 1988** had introduced a bilateral framework for economic, technological and cultural cooperation between the two countries and the JECC increasingly became a major player in Sino-Ethiopian economic and aid relations from the early 1990s. It provided an avenue where matters of mutual interest could be explored, past projects reviewed and requests for development assistance initiated. However, it was not the only such avenue, as aid, trade and investment relations between China and Ethiopia continued to be explored through a number of bilateral and regional vehicles, including: Sino-Ethiopian Agreement for Mutual Promotion and Protection of Investment (1988); **Sino-Ethiopian Agreement for Trade, Economic and Technological Cooperation (1996)**; and – at the continental level – the **Forum for China-Africa Cooperation Forum, FOCAC (2000)**.

Chinese development assistance to Ethiopia remains characterized by this twin track framework – bilateral (Sino-Ethiopia) and regional (Sino-Africa, through the FOCAC). This is largely a reflection of China’s evolving economic and political interests in Africa and its own administrative structures for an increasingly significant foreign aid budget. The Ethiopian government would prefer to use the JECC and FOCAC as the formal vehicles for its Chinese aid and economic relations. There are a number of times when Ethiopia found it easier to negotiate development assistance directly with the Chinese Ministries of Foreign Affairs and Commerce outside the confines of both the JECC and FOCAC.

While the Ethiopian government has increasingly been using the JECC to align its national development strategies with the objectives and commitments of the FOCAC Summit of 2006³, the Chinese government has been using FOCAC, situated within the **Ministry of Foreign Affairs**, but encompassing the **Ministry of Commerce**, to coordinate Chinese foreign policy objectives in Africa. This has led to a situation where some of aid and investment negotiations between Ethiopia and China occur through the formal channels of JECC and FOCAC while others occur at different levels – sometimes directly between heads of governments or even opportunistically. The end result of this is that only some of Chinese aid and investments in Ethiopia are clearly aligned with Ethiopian national development strategies. Both the JECC and FOCAC are government to government policy forums with virtually no civil society or private sector participation from the Ethiopian side. Chinese state owned enterprises and the development banks that tend to administer Chinese concessionary financing

³ During this summit China pledged \$3 billion in preferential loans; \$2 billion in export credits to African states over 3 years and created a special fund of \$5 billion to encourage Chinese investment in Africa.

such as the Export and Import (EXIM) Bank of China do play some roles in these fora. Considering that the only other fora through which Chinese development assistance to Ethiopia are negotiated or discussed are either direct government to government summits between Ethiopia and China or multilateral through development agencies such as the UNDP and the African Development Bank, the civil society plays virtually no role in Sino-Ethiopian aid relations. This raises questions about the relevance and ownership of some the Chinese aid funded and/or investment projects in Ethiopia. In particular, the Ethiopian civil society has been vocal about two aspects of Chinese aid:

- a) The dominant use of Chinese companies and contract workers (discussed further below).
- b) Environmental, health and safety impacts of some of the Chinese aid and investment projects particularly large scale ones such as the Gibe 111 and Tekeze Dams and Chinese oil prospecting in Ethiopia. In general, civil society organizations within and outside Ethiopia have complained that China has low or underdeveloped environmental, health and safety standards in its own domestic sectors, particularly mining and that it 'exports' these low standards through its aid and investment projects in Ethiopia through the practice of tying its aid to the use of Chinese companies and contract workers. Specifically, these organizations have argued that the Chinese funded Gibe and Tekeze hydro-electric power projects were not properly environmentally audited and pose significant threats to water, forest and biodiversity ecosystems in their respective locations with potentially negative consequences for human health, welfare and rural livelihoods. Similar concerns have also been expressed about Chinese oil prospecting activities in Eastern and Western Ethiopia which is taking place under much secrecy with no public ex-ante environmental impact assessments. A common complaint against virtually all Chinese aid funded and/or investment projects in Ethiopia is that they often lack environmental auditors or auditing. This study was not in a position to determine the extent of this problem beyond the large infrastructural projects such as the dams.

In the absence of civil society participation in Sino-Ethiopian aid and investment relations, the task of aligning Ethiopia's development priorities with Chinese foreign aid policy therefore largely rests on the shoulders of government representatives in Ethiopia.

Ethiopian requests for development assistance coming out of the JECC have concentrated on infrastructure projects, particularly schools, hospitals and roads. This is consistent with its current 5-year (2005-2010) development plan **PASDEP – Plan for Accelerated and Sustained Development to End Poverty**. PASDEP emphasizes 9 priority areas in the pursuit of economic growth and poverty reduction:

agriculture, food security, water, education, roads, health, power, industry and construction. To the extent that the civil society has played a role in the evolution of national development strategies such as PASDEP, their role in aid alignment is indirect – via the government’s alignment of PASDEP priorities and its aid requests. While Chinese aid and investments can be identified in all of these sectors, a majority of it is concentrated in the construction and manufacturing sectors (Table 3).

The concentration of Chinese aid and investment projects in the construction and manufacturing sectors coupled with the use of Chinese contractors and contract workers suggest that market access considerations play a fundamental role in Chinese aid and investment policies toward Ethiopia.

A key consequence of this is that much of Chinese development assistance to Ethiopia is **tied aid – tied to the use of Chinese companies, equipment and contract workers.** This has been a key complaint associated with Chinese aid and related investment projects. For example, by the end of 2008, the value of Chinese contracted projects in Ethiopia – mainly in infrastructural projects such as roads, power, water and housing had doubled to USD 1.7 billion from USD 800 million two years earlier (Davies et al, 2008, 34). Chinese companies control up to 60% of the construction sector in Ethiopia, one of the fastest growing sectors in the country (Ibid.). Chinese companies are also heavily involved in the Ethiopian manufacturing sector - machinery, steel, chemicals, pharmaceuticals, glass and paper. By one estimate, by 2008, Ethiopia had 95 registered Chinese companies with investments valued at USD 117 million, 50% of which was concentrated in the manufacturing sector (Davies et al 2008, 34). The significance of Chinese involvement in manufacturing is often ‘hidden’ because Ethiopian law prevents foreign companies, including Chinese ones from engaging in retailing.

There are a number of problems with these Chinese companies besides the much documented use of Chinese contract workers and the ‘turn-key’ factory syndrome which constrains any ‘learning by doing’ effects that might accrue to Ethiopia through greater involvement of local citizens in most of the activities. To begin with, many of the Chinese companies are affiliates of state-owned enterprises in China. Many of them usually enjoy preferential treatment in China ranging from domestic tax breaks, cheap land, low-interests from state-owned banks etc (Gill and Reilly, 2007, 40). Secondly, many of these Chinese companies in Ethiopia often engage in very low bidding in order to break into the Ethiopian market which gives them unfair competitive advantage against Ethiopian and other firms, with significant risks of efficiency losses (Shinn 2005, 9). ‘In Ethiopia, for example, some Chinese construction firms have been instructed by their provincial governments to make unprofitable bids to get a foot in the door for future undertakings. Such practices may secure market access but can also lead to long-term financial dependency on the Chinese government’, (Gill and Reilly, 2007, 49).

While these are some of the limitations of Chinese development assistance in Ethiopia, one of its perceived advantages is a lack of policy or political conditionality beyond the 'One China policy'. Chinese aid and investments in Ethiopia are devoid of any political or policy conditionalities, unlike much of the Western aid. This enhances both its rates of disbursement and the regularity of its flow. Table 5 shows that while some Western countries suspended or limited their development assistance to Ethiopia following the disputed 2005 general elections and the political disturbances that followed Chinese development assistance to Ethiopia was un-interrupted and in fact increased.

**Table 5: Public sector external debt outstanding by currency composition
million usd: 2003/04-2007/08**

CURRENCY	2003/04		2004/05		2005/06		2006/07		2007/08	
	USD	%	USD	%	USD	%	USD	%	USD	%
TOTAL	7,317.84	100.00	5917.04	100.00	5,998.52	100.00	2314.56	100.00	2,766.15	100.00
CAD	9.78	0.13	10.50	0.18	11.45	0.19	-	-	-	-
CHF	35.51	0.49	25.73	0.43	26.26	0.44	0.37	0.02	0.19	0.01
CNY	16.64	0.23	18.51	0.31	22.59	0.38	11.81	0.51	25.39	0.92
DKK	8.93	0.12	8.78	0.15	9.01	0.15	-	-	-	-
EUR	736.56	10.07	465.48	7.87	551.38	9.19	395.52	17.09	572.69	20.70
GBR	31.14	0.43	7.69	0.13	7.54	0.13	0.02	0.00	-	-
INR	1.90	0.03	2.57	0.04	1.75	0.03	1.95	0.08	1.86	0.07
JPY	167.78	2.29	166.77	2.82	166.22	2.77	29.92	1.29	41.45	1.50
KWD	25.52	0.35	24.97	0.42	24.24	0.40	25.14	1.09	33.33	1.20
NOK	4.41	0.06	4.28	0.07	4.37	0.07	-	-	-	-
SAR	-	-	-	-	-	-	2.50	0.11	6.90	0.25
SDR	3,320.16	45.37	3,461.75	58.50	3454.79	57.59	776.56	33.55	985.97	35.64
SEK	12.60	0.17	9.96	0.17	8.66	0.14	2.37	0.10	0.40	0.01
USD	2,947.18	40.27	1,710.07	28.90	1,710.26	28.51	1,068.41	46.16	1097.98	39.69

Source: MOFED 2009

The lack of policy or political conditionality while perceived as a good thing by the government is not always deemed a good thing by the civil society especially democracy and human rights activists many of them based outside Ethiopia. These groups feel that by not conditioning its aid to be managed according to good practice elsewhere for example, China is possibly endangering Ethiopian standards and advancements in democracy.

Not all of Chinese development assistance in Ethiopian infrastructure is bilateral, although the prominent use of Chinese companies and Chinese workers might give that impression. For example, one of the landmarks associated with Chinese investments in the Ethiopia roads sector – the Addis Ababa ring road constructed between 1998 - whilst benefiting from a USD 12 million interest free Chinese road, actually cost USD 76 million, the remainder of which was met by the Government of Ethiopia and the World Bank. Chinese multilateral assistance to Ethiopia (occurring through UN agencies, AfDB, HIPC debt relief programme or through partnerships with the World Bank) differs from its bilateral aid in two key respect:

- a) much of this multilateral assistance is programmatic rather than project based
and
- b) some of it has elements of policy conditionality.

4 CHINESE DEVELOPMENT ASSISTANCE AND ETHIOPIAN DEBT SUSTAINABILITY

There have been concerns in some quarters that China's increasing foreign aid budget might lead some African countries into unsustainable debts just when some of them have made progress in this respect under the HIPC Initiative. There is, however, little or no evidence for this in Ethiopia. This is primarily due to three interrelated reasons. To begin with, as aforementioned China remains a relatively small player in the foreign aid business in Ethiopia. Most aid to Ethiopia is channelled through multilateral frameworks which have debt sustainability built into their programmes. Secondly, part of what constitutes Chinese development assistance in Ethiopia comes in the form of trade and investment rather than conventional aid. This diminishes the debt implications of Chinese aid to Ethiopia even further. Finally, China itself has been extending debt relief to Ethiopia although consistent with its relatively low development assistance; its debt relief has been equally small. Table 6 shows that during the fiscal year 2008/09, Ethiopia's total external debt outstanding was USD 4.15 billion of which approximately 49% was owed to multilateral creditors, 25 % bilateral creditors and 26% to commercial creditors.

Table 6: External Debt Outstanding Including Arrears by Source of Financing (million USD)

Fiscal year	Multilateral Organizations	Bilateral	Others (commercial)	Total Debt Outstanding	Percentage Change
2001/02	3,623.6	2,472.3	90.4	6,186.3	
2002/03	4,273.9	2,431.0	76.8	6,781.7	9.6
2003/04	4,679.9	2,447.8	72.6	7,200.3	6.2
2004/05	4,891.4	669.8	355.9	5,917.0	-17.8
2005/06	4,865.3	776.3	357.0	5,998.5	1.4
2006/07	1,193.1	806.9	314.6	2,314.6	-61.4
2007/08	1,540.5	951.5	275.0	2,767.1	19.6
2008/09	2,033.2	1,041.0	1,077.6	4,151.8	50.0

Source: MoFED, 2010

Table 7 provides a breakdown of debt relief by creditors between 2003 and 2008. China given its small development assistance to Ethiopia has been an equally small player in debt relief.

Table 7: External debt relief by creditor type & creditor (million USD)

	2003/04	2004/05	2005/06	2006/07	2007/08
TOTAL	94.69	1,837.39	339.16	4,090.40	43.85
FLOW RELIEF	78.63	84.32	108.69	124.30	32.28
MULTILATERALS	69.71	84.32	105.56	124.30	32.28
IDA	30.87	43.58	59.88	72.85	-
AfDB/AfDF	30.15	29.67	28.81	36.90	15.01
IMF	5.09	4.82	2.86	-	-
OTHER MULTILATERALS	3.60	6.25	14.01	14.55	17.27
BILATERAL	8.92	-	3.13	-	-
Paris Club	8.92	-	3.13	-	-
STOCK RELIEF/WRITE OFF	16.06	1,753.07	230.47	3,966.10	11.57
MULTILATERAL	-	-	201.75	3,912.80	-
IDA	-	-	-	3039.80	-
AfDB/AfDF	-	-	-	873.00	-
IMF	-	-	164.84	-	-
OTHER MULTILATERALS	-	-	36.91	-	-
BILATERAL	16.06	1753.07	28.72	53.30	11.57
Paris Club	-	1,674.07	19.72	32.96	11.57
Australia	-	2.94	-	-	-
Austria	-	-	-	8.41	-
Belgium	-	-	19.72	-	-
Canada	-	0.30	-	-	-
Finland	-	3.17	-	-	-
France	-	7.33	-	-	-
Germany	-	88.42	-	-	-
Italy	-	356.50	-	-	-
Japan	-	-	-	14.48	-
Netherlands	-	-	-	1.40	-
Russia	-	1,105.00	-	-	-
Spain	-	-	-	8.67	-
Sweden	-	17.43	-	-	-
UK	-	21.57	-	-	-
USA	-	71.41	-	-	-
Non-Paris Club	16.06	79.00	9.00	20.34	-
China	-	-	-	20.34	-
Hungary	7.43	-	-	-	-
Korea D.P.R	-	79.00	9.00	-	-
Poland	8.63	-	-	-	-

5 CONCLUSIONS AND RECOMMENDATIONS

China's emergence as a major player in the global aid, trade and investment sphere provides a number of opportunities and challenges to African countries like Ethiopia.

The opportunities include:

- Relative flexible **policy space** for African governments such as Ethiopia to chart out their own development pathways devoid of policy conditionality. This makes it relatively easier to align Chinese development assistance with national development priorities.
- A relatively less bureaucratic and fast disbursement aid regime. Several African countries, including Ethiopia have taken advantage of this and used it to rapidly construct major infrastructural projects within relatively short periods of time.
- A relatively attractive aid regime vide a diverse range of instruments: grants, aid in kind, interest free loans, subsidized loans, commercial loans and debt relief.
- The mere existence of China as a major source of aid and investments increases the leveraging power of African governments in respect of other aid donors (i.e. it makes the aid and investment market competitive to the advantage of African countries.

In spite of these opportunities, Chinese aid presents a number of challenges that undermine its effectiveness in Africa's development

- **It is often Tied** to use of Chinese companies and workers which creates inefficiencies associated with monopolistic practices besides alienating local people.
- It tends to have **turn-key project Syndrome** (everything from equipment to labour is all Chinese) which discourages 'learning by doing' or technological spill overs within African economies.
- The tendency to '**couple' aid, trade and investment** undermines the leverage of African countries towards China and skews the aid relationship in favour of the Chinese, enabling China to use fairly limited aid resources to leverage considerable trade and investment interests from African countries.
- It is often **project rather than programme based** which is not necessarily consistent with long term national development planning and policy making for African countries – e.g. can lead to adhoc and enclave development, potentially creating regional inequalities.
- Efficiency losses as a result of uncompetitive bidding practices by Chinese companies and use of Chinese contract labour, low quality of construction projects by Chinese companies as a result of sectoral dominance occasioned by these uncompetitive bidding practices.

- Lack of policy conditionality undermines democratic development and good governance in Ethiopia by undermining the leverage of the civil society and other policy conditionality based aid programmes.
- Lacks transparency and accountability due to excessive secrecy, lack of popular participation and lack of data on key information on all aspects of the aid – size, purpose, means of administration etc.
- Lacks robust environmental, health and safety regulations or standards.

Due to the opportunities and challenges posed by Chinese development assistance, African countries such as Ethiopia may reap short term benefits but whether Chinese development assistance favours African development in the long term will depend on measures to capitalize on the opportunities whilst resolving the challenges. This can and should be done without necessarily forcing the Chinese aid regime to conform to the established Western aid regimes. Principally, some of the limitations or challenges of Chinese aid are shared by many Western aid regimes (e.g. tied aid, close coordination between aid, trade and investments). Even in the area of environmental, health and safety standards where Western aid has supposed superior regulatory standards, not all the Western players often uphold these standards in their aid and investment projects in Africa – as the World Bank’s aid in dams and extractive industries in several parts of Africa attest. It would be misleading therefore to argue that all the limitations of Chinese aid are unique to China. They are not. However, there is no compelling reason why China must follow in the ‘bad footsteps’ of Western aid and there is scope for China, African countries and civil society to resolve these challenges in ways that are mutually beneficial. Some of these might include:

1. The **‘un-tying’** of Chinese aid by delinking it from automatic use of Chinese companies, equipment and contract workers in order to enhance the efficiency and competitiveness of development assistance to Ethiopia/Africa.
2. **‘De-coupling’** Chinese aid, from Chinese trade and investment agreements. In particular, it would be helpful for Ethiopia to negotiate clear and separate (independently of the aid relationship) trade and investment agreements with China either bilaterally or regionally through specific Sino-Africa aid and FDI agreements. This would decrease the likelihood of China using its aid to leverage unfair or exploitative trade and investment concessions from Ethiopia.
3. **Local sourcing of inputs**, sub-contracting and partnerships between Chinese companies and Ethiopian/African enterprises in order to enhance technology transfer and spill-overs into the local economies.
4. **Improved transparency and accountability** in negotiation, administration and monitoring of Chinese development assistance to include openness and information on all aspects of the aid including size, purpose, repayment and other conditions etc. This should include greater participation in aid negotiations, implementation and monitoring by multiple stakeholders including the civil society.

5. The need for transparent and internationally recognized **environmental, health and safety impact assessments** of all Chinese related aid, trade and investment projects in Ethiopia particularly big infrastructural projects or mineral prospecting in sensitive ecosystems.
6. **Greater alignment** of Chinese aid, trade and investments with Ethiopia' national development strategies and priorities.

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ANNEXES:

Annex 1: External Debt Service*

In Million Dollar

Description	2007/08	2008/09	Percent Change
	(a)	(b)	(c) = ((b)/(a)-1)*100
Principal	17.3	22.39	29.4
Interest & commission	18.28	19.42	6.2
Total	35.58	41.81	17.5

Source: MoFED, 2008

* After debt relief

Annex 2: HIPC Relief

In Million Birr

Description	2007/08	2008/09	Percent Change
	(a)	(b)	(c) = ((b)/(a)-1)*100
Principal	243.4	149.3	-38.6
Interest	44.9	31.3	-30.4
Total	288.2	180.6	-37.4

Source: MoFED, 2008

Annex 3: Number of Approved Projects and Investment Capital by Type of Investment (July 7, 2007 to July 8, 2008)

Description	Number off Approved Projects			Total Capital in Million Birr		
	2008/09	2007/08	Percentage Growth	2008/09	2007/08	Percentage Growth
Domestic	7218	7,357	-2	83804	78390	7
Foreign	1622	1632	-1	73156	94031	-22
Public	11	5	120	83833	784	100
Total	8851	8994	-2	239796	173205	38

Source: MOFED 2008

Annex 4: General Government Expenditure (2008/09 Annual)

Descriptions	Annual			Difference from		
	2008/09		2007/08	2007/08		
	Budget 2008/09	Actual	In % of the budget	Actual	In Birr	In percent
Expenditure	67448.1	57774.7	85.7	46915	10859.7	23.1
Current expenditure	30474.2	27176	89.2	22794	4382	19.2
Admin. & General Services	10226	11261	110.1	9128	2133	23.4
o/w Defense	4000	4000	100.0	3453	547	15.8
Economic Services	3731	3829	102.6	3111	718	23.1
Social Services	10584	10249	96.8	8662	1587	18.3
o/w Education	7817	8009	102.5	6621	1388	21.0
Health	2275	1737	76.4	1484	253	17.0
Interest payments	2207.2	1287	58.3	1133	154	13.6
Domestic	1777	1036	58.3	908	128	14.1
External	430.2	251	58.3	225	26	11.6
Others	3226	210	6.5	359	-149	-41.5
External Assistance	500	340	68.0	401	-61	-15.2
Capital expenditure	36973.9	30598.7	82.8	24121	6477.7	26.9
Economic Development	26751.4	21812.1	81.5	17728.9	4083.2	23.0
o/w Agriculture	5496.9	4788	87.1	1876	2912	155.2
Food security	2007	2004	99.9	2004	0	0.0
Natural Resource	3372.4	2272.2	67.4	2138.8	133.4	6.2
Road Constriction	11450	9634.8	84.1	8093.8	1541	19.0
Social Development	8641.5	7067.9	81.8	5426.1	1641.8	30.3
o/w Education	5791.1	4752.2	82.1	3390.8	1361.4	40.1
Health	2678.5	2136.3	79.8	1920.6	215.7	11.2
General Development	1581	1718.7	108.7	966	752.7	77.9
Out of capital Exp	36973.9	30598.7	82.8	24121	6477.7	26.9
Domestic source	26849.5	22712.6	84.6	18276.9	4435.7	24.3
External Assistance	6644.7	4518.4	68.0	4033.7	484.7	12.0
External Borrowing	3479.7	3367.7	96.8	1810.4	1557.3	86.0

MOFED 2008

Annex 5: External Debt Outstanding Including Arrears by Source of Financing (End of fiscal year)

In million USD

Fiscal year	Multilateral Organizations	Bilatéral	Others (commercial)	Total Debt Outstanding	Percentage Change
2001/02	3,623.6	2,472.3	90.4	6,186.3	
2002/03	4,273.9	2,431.0	76.8	6,781.7	9.6
2003/04	4,679.9	2,447.8	72.6	7,200.3	6.2
2004/05	4,891.4	669.8	355.9	5,917.0	-17.8
2005/06	4,865.3	776.3	357.0	5,998.5	1.4
2006/07	1,193.1	806.9	314.6	2,314.6	-61.4
2007/08	1,540.5	951.5	275.0	2,767.1	19.6
2008/09	2,033.2	1,041.0	1,077.6	4,151.8	50.0

Source: MoFED 2008

Annex 6: General Government Revenue

In million USD

Descriptions	Annual			Difference from		
	2008/09		2007/08	2007/08		
	Budget 2008/09	Actual	In % of the budget	Actual	In Birr	In percent
Total Revenue, PBS & CPF	63801	54627	85.6	39704	14923	37.6
Domestic Revenue	46858	40174	85.7	29793	10381	34.8
Tax Revenue	33382	28998	86.9	23800	5198	21.8
Direct Taxes	11592	9858	85.0	7015	2843	40.5
Indirect Taxes	21790	19139	87.8	16785	2354	14.0
<i>Domestic Indirect Taxes</i>	6560	7325	111.7	5092	2233	43.9
<i>Foreign Trade Tax</i>	15230	11814	77.6	11693	121	1.0
Non-Tax Revenue	13476	11176	82.9	5993	5183	86.5
External Grant	16943	14454	85.3	9911	4543	45.8
Grants in kind/ earmarked	7145	4858	68.0	4434	424	9.6
PBS/CPF grants	9798	9595	97.9	5477	4118	75.2

Source MoFED

Annex 7: General Government Deficit and Financing

In million USD

	Annual Budget 2008/09	Annual			Difference from	
		2008/09		2007/08	2007/08	
		Actual	In percent	Actual	Amount	In percent
Total Revenue, PBS & HIPC	63801	54627	86	39705	14922	38
Total Expenditure	67448	57774	86	46915	10859	23
Overall Surplus/Deficit	-3647	-3147		-7210	4063	-56
FINANCING	3647	3147	86	7210	-4063	-56
External net	3187	3176	100	2396	780	33
Domestic borrowing	0	-417		6580	-6997	-106
Privatization	460	472	103	1008	-536	-53
Others/residual	0	-84		-2774		
In percent of GDP at current market prices						
Overall Surplus/Deficit	-1.1	-1.0		-2.9		
FINANCING	1.1	1.0		2.9		
External net	1.0	1.0		1.0		
Domestic borrowing	0.0	-0.1		2.7		
Public Transfers (net)	750	866.2	1199.1	1306.1	1547.8	18.5
Non-monetary Capital	608.8	633.8	780.2	1102.7	1540.3	39.7
Net Errors & Omissions	66.1	509.9	161	121.1	180.7	49.2
Overall Balance	-96.5	-208.1	85.2	-263.3	376.9	-243.1

Source: - MOFED

Annex 9: Value of Major exports (value in Million USD)

Particulars	2006/07		2007/08		2008/09		Difference from Previous year	
	Value	% Share	Value	% Share	Value	% Share	In USD	In Percent
Coffee	424.2	35.8	524.2	35.8	375.9	26.0	-148.3	-28.3
Leather & Leather Products	89.6	7.6	99.2	6.8	75.3	5.2	-23.9	-24.1
Pulses	70.3	5.9	144.5	9.9	90.7	6.3	-53.8	-37.2
Oilseeds	187.4	15.8	219	14.9	356.1	24.6	137.1	62.6
Meat, Canned and Frozen	15.5	1.3	20.9	1.4	26.6	1.8	5.7	27.3
Fruits and Vegetables	16.2	1.4	12.8	0.9	12.1	0.8	-0.7	-5.5
Live Animals	36.8	3.1	40.8	2.8	52.7	3.6	11.9	29.2
Chat	92.8	7.8	108.2	7.4	138.7	9.6	30.5	28.2
Gold	97	8.2	78.8	5.4	97.8	6.8	19	24.1
Flowers	63.6	5.4	111.8	7.6	130.7	9.0	18.9	16.9
Others	91.7	7.7	105.7	7.2	91.3	6.3	-14.4	-13.6
Total	1185.1	100.0	1465.9	100.0	1447.9	100.0	-18	-1.2

Source: MOFED

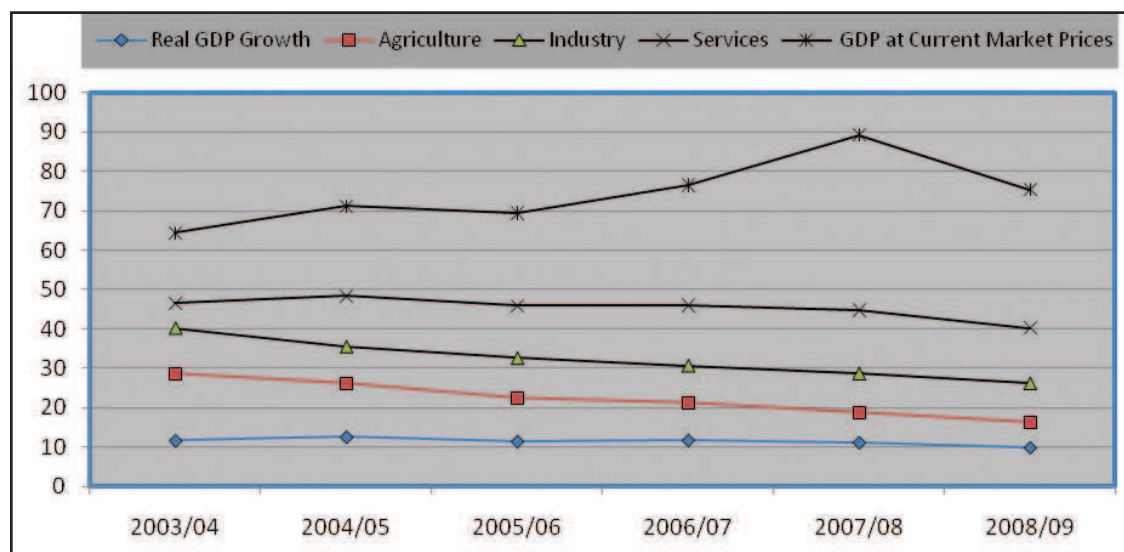
Annex 10: Value of major Import items

In Million USD

Particulars	2006/07	% Share 06/07	2007/08	% Share 07/08	2008/09	% Share 08/09	Difference from last year	
							In USD	In Percent
Raw Materials	148.6	2.9	257.8	3.8	354.2	4.6	96.4	37.4
Semi finished goods	765.6	14.9	1259.7	18.5	1140.1	14.8	-119.6	-9.5
Fuel	875.1	17.1	1621.4	23.8	1256.7	16.3	-364.7	-22.5
Capital goods	1868.5	36.4	1907.7	28.0	2474.4	32.0	566.7	29.7
Consumer goods	1317	25.7	1532.3	22.5	2344.3	30.3	811.95	53.0
Others	152	3.0	231.7	3.4	157.0	2.0	-74.75	-32.3
Total	5126.8	100.0	6810.6	100.0	7726.6	100.0	916	13.4

Source: MOFED 2008

Growth rate by main Industrial Classification (2003/04-2008/09)



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Main Chinese Companies operating in Ethiopia (often with Chinese Contract workers)

1. China Imports and Exports Corporation
2. China Road and Bridge Corporation
3. China Water Conservancy & Hydropower Engineering Corporation
4. China Aviation Technology Exports and Imports Corporation
5. China Wanbao Engineering Co.
6. China Construction Corporation
7. Zhongyuan Petroleum Prospecting Corporation
8. Jiangxi International Corporation
9. Dalian Jinzhou Textile Group
10. ZTE Telecommunications Corporation

