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

- Increasing technical dependency

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

- Threat to local business

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

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**<u>INVESTORS' GRIEVANCES</u>**

- Lack of skilled local labour

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

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

- Logistical and infrastructural challenges

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

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

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

- Obstacles created by trade regulations and customs

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

- Difficulty in accessing finance

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

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

- Security concerns

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

## OPPORTUNITIES AND CHALLENGES

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

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

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

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

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

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

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

## CASE STUDIES

### Case study 1: Tata International, India

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

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

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

### Case study 2: Huajian Group, China

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

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

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

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

Case study 3: Souriish Marbles, India

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

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

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

## CONCLUSION

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

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

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


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