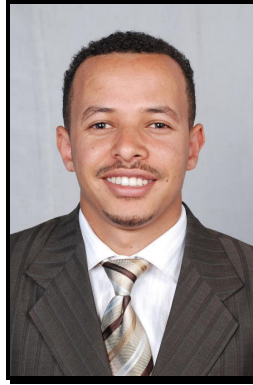


Ethiopia and China Political and Economic Relations: Challenges and prospects after 1991



Gedion Gamora^{*}

Abstract

This article analyzes post 1991 Ethio-China political and economic relations as well as challenges and prospects by raising the following questions: What is the nature of the bilateral political and economic relations? What are the factors which enhanced the bilateral political and economic relations between Ethiopia and China? What are the challenges and prospects of the bilateral political and economic relations? There are a number of factors that contributed for the growth of the bilateral relations. Ethiopia needs China for economic assistance; as an alternative source to the west and China's development is generally considered as a role model for Ethiopia to follow. China also supports Ethiopia on different international issues. On the part of China, there are also several factors egging China to look towards Ethiopia especially in terms of Ethiopia's strategic importance and market potential. Ethiopia could be a commercial launch pad for Chinese companies and China is also getting diplomatic support from Ethiopia for its policy on Taiwan among others. There are also common factors both from Ethiopia and China's side which have enhanced the bilateral relations. However, there are many challenges that have been visible in the bilateral relationship between the two countries: on the economic front the bilateral relations are imbalanced; dumping of low price export; underbidding local companies and ideological differences among others. The researcher also provide the following practical policy recommendations such as: preferential treatment to be fully exploited by Ethiopia; leveraging China's investment in Special Economic Zones; encouraging joint venture between Chinese and Ethiopian firms among others.

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1. Background

China's first contact with Africa could be traced back to ancient times in spite of the two regions being separated by vast distance. The first contact between China and Africa was on the parts of the Red Sea borders of the continent around the first Millennium A.D. (Filesi, 1972:10). However, their relations were not official as in the second half of the 20th century. Some scholars attribute the early contacts of China with the Horn and especially with Ethiopia to two factors: first, that the Chinese were importing rhinoceros from Abyssinia; second, that there was a degree of phonetic similarity between Hough Chih (the then Chinese language) and Ge-eze (the then literary language of Ethiopia) (Addis Dilnesa, 2005:241).

In the near past, the Asian - African Bandung conference of April 18-25, 1955 had great effect on the establishment of modern diplomatic relations between China and the African countries. At the conference, there were representatives from Liberia, South Africa, Libya, Egypt, Sudan and Ethiopia (Fraser, 1956:1418 and Gaye, 2007: 5). Subsequently, Chinese delegations visited Ethiopia, Sudan and other African countries in 1956 and 1957. The then Chinese premier, Chon En Lai also visited a number of African countries in 1963 and 1964 including Ethiopia from January 30 to February 1, 1964 (Larking, 1971: 29, 69).

However, Ethiopia did not establish diplomatic relations for the following reasons: first, Ethiopia then was under the conservative feudal emperor, Haile Sellassie who feared the possible dissemination of the communist ideology if diplomats from China were to come to Ethiopia. Second, Haile Sellassie's regime was west-oriented and closely tied to the US which was then strongly opposed to China (Abir, 1974:131). Third; China was supporting the subversive activities of the EPLF (Eritrean Peoples Liberation Front) morally and materially. Later, however, Ethiopia and China established diplomatic relations on December 1, 1970. Although Ethiopia and China had comparatively good relations for a short period after the 1974 Ethiopian popular revolution, their relations considerably deteriorated since 1977 because of the military government's close relations with the USSR (Addis Dilnesa, 2005:245).

After the Western coalition defeated Iraq's aggression against Kuwait in 1990-1991, President George Bush spoke of a "new world order" that could bring about the end of competing ideological divisions in the world. The new world order has been characterized by promotion of human rights, good governance, democratization and expanding the world economy through free trade (*Hendorson, 1998:51*). The aforementioned features of new world order have affected the relations between western countries and the other parts of the world.

The Ethiopian Peoples Revolutionary Democratic Front (EPRDF) government led by Melese Zenawi that took power in 1991 and set out to deliver democracy, and transform the Ethiopian political system based on ethnic federalism. Its foreign policy called for peaceful co-existence and free market economy (except the ownership of land). The West



and the United States supported the EPRDF government. For the US, it was an opportunity to get Ethiopia back, which it had lost in the wake of the 1974 revolution. At a conference in London, the EPRDF leadership was called upon to establish a democratic government in return for assistance. Secretary for African Countries, Mr. Cohen, said “no democracy no assistance” (*Ochalla, 2005:6*).

After the Cold War, China has directed its attention more to economic and to some extent political aspects and developed bilateral relations with Ethiopia and many African countries in an all round way without encouraging the features of new world order such as democracy, good governance, human rights and political transparency. Accordingly, Chinese activity in Africa has increased very fast from year to year. To day, China can get most African countries’ attention easily, because of its principles and policies.

The relations, during and after the transitional government of Ethiopia, have been strengthened as Prime Minister Meles Zenawi visited China in 1995. The visit was reciprocated by the president of China who visited Ethiopia in 1997. Other high-level visits were also exchanged. Exchange of high-level visits consolidated the momentum. As stated in the foreign affairs and national security policy and strategy of the Federal Democratic Republic of Ethiopia, “currently China has very good relation with Ethiopia.” The document adds, “We should pay special attention to the strengthening of relations with China” (*Ethiopian Foreign Policy Document, 2002:27*).

Ever since the dawn of the new millennium, bilateral ties have registered new progress within the context of China-African Cooperation Forum, October 2000, which adopted a program towards the creation of anew type long-term and stable strategic partnership between China and Ethiopia. The two sides mutually consulted on a series of prominent international issues, cooperated closely, and supported each other. Ethiopia, in collaboration with China, hosted the second ministerial conference of the Forum on Sino-African Cooperation (FOCAC) in December 2003. This was the first time the Ministerial Conference was held on the African continent. The year 2006 was unequivocally declared by the Chinese leadership to be the year for China-Africa relations. January 2006 heralded the third China-Africa Forum which was held in Beijing in which 48 African heads of state and government participated. The Beijing Summit released a new ‘China’s African Policy Paper’, which reiterated China’s declared policy of respect for national sovereignty and non-interference in the internal affairs of other states. The paper confirms former president Jian Zemin’s declaration in 1996 that the five cornerstones of China’s Africa Policy are “sincere friendship, equality .unity and co-operation, common development, and looking to the future”.

2. Growth and prospect of the relationship

A number of factors from Ethiopian and Chinese side, explained below, have strengthened the current bilateral political and economic relations between Ethiopia and China, and make the bilateral relations indeed bright and promising. On the Ethiopian side a number of factors enhanced the bilateral relations with China. To categorize them:

economic assistance, alternative partner to the West, Role model, diplomatic ally. First, Ethiopia's made effort to seek foreign aid, loans, investment and arms supply from China. Interestingly, in all of Ethiopian effort at economic development, China has rendered help in areas such as aid, debt reduction, loan and technical assistances without any political strings attached except for the one China Policy. Currently, Ethiopia's quest for development has led it to forge closer relations with China. As Meles Zenawi said at the 2006 forum on China–Africa cooperation: “Our challenge now is not to fight colonialism, but fighting poverty and backwardness and achieving economic independence. Africa needs the support of its friends to overcome these challenges” (African Business, 2006: 39). This statement clearly explains Ethiopia's disposition towards China.

Ethiopia has received over US \$ 500 million in concessional loans from the Chinese government and a further US \$ 1.5 billion of investments in telecoms infrastructure, as well as US \$ 1.5 billion in short-term trade credits. In 2003, the second phase of the Addis Ababa Ring Road was opened. Zero–tariff export items to China increased from 130 to over 440. China has financed a number of development projects in Ethiopia, including the Gotera flyover project in Addis Ababa which is under construction with 60 million RMBY and construction of Maganagna-Kebeba-Menelik Hospital and Kebeba Bridge-Arat Killo Road Project with 40 million RMBY. Some Chinese enterprises have also involved in Ethiopia's construction sector.

During the two days official visit of Chinese Foreign Minister, Yang Jiechi, Prime Minister Meles called upon the Chinese government to extend development assistance to Ethiopia (Ethiopian Herald Friday 11 January 2008: 1). Seyoum Mesfin, Ethiopian Foreign Minister, said “China is an important partner for us. It is involving in the area of our priorities such as agriculture, infrastructure including roads and rural hospital and Schools” (The Daily Monitor, 2008:1). Chinese Foreign Minister on his part underlined his country's interest further strengthen the existing good relations with Ethiopia (Ibid: 3).

Secondly, Ethiopia also sees China as an alternative to the West. For example, China has offered to make good any shortfall in assistance following the suspension of European Union aid due to the alleged human rights violations during and after the 2005 Ethiopian election. Hence, China's foreign policy of non-interference has helped Africans and Ethiopian leaders to act freely in their dealings with China. As one official from Ministry of Foreign Affairs of Ethiopia said, “China has fewer lectures than...and more practical help much of the time.” In his briefings on HR 2003[†] to the parliament Meles Zanawi said that he didn't think the bill, HR 2003, could be adopted as a law but if it could be adopted there were alternative sources of aid... (Ethiopian Herald, 28 November, 2007).

[†] *HR 2003 is a bill introduced the house since 2005 have declared an interest to “encourage and facilitate the consolidation of peace and security, respect for human rights, democracy, and economic freedom in Ethiopia”, for further information sees [http:// www.ethiomedia.com/ace/united_we_stand.html](http://www.ethiomedia.com/ace/united_we_stand.html), if approved, the bill would cut off security related support to Ethiopia until such time that US Executive certifies that Ethiopia's government is adhering to the 11 ascribed conditions*



The strength of this argument is enhanced by Robert Mugabe's speech at the 25th anniversary of Zimbabwean independence in May 2005; "We have turned east where the sun rises, and given our backs to the west, where the sun sets" (Vines, 2007:14).

Ethio-China trade relation reveals that China was the first top trade partner of Ethiopia in the year 2006 and coupled with the 2005 election crisis, Ethiopia called China its "most reliable trading partner" (Ibid: 214). It was interesting to note that one of the first governments to congratulate the EPRDF on its 'electoral' victory was China. Like Savimbi in Angola who was supported by Mao in the 1960s and then Reagan in the 1980s, Meles and the EPRDF are supported by both China and George Bush and Jimmy Carter of the US.

Third, China's development is also considered as a role model for Ethiopia. In the past two decades, China has helped millions of its people out of poverty and transformed itself from a backward agricultural country into a country with the highest growth rate in the world (Gaye, 2008:15-19 and Ndubisi, 2006:16). Moreover, there is a very practical yet profound reason for the appeal of China's model to Ethiopia: its historic achievements in economic reform and national construction and its successful leap from a backward to developing nation (Ibid). Fourth, China is also a diplomatic ally of Ethiopia on different issues such as democratization process and human rights at international forums like the United Nations and G-77.

On the part of China also there are several factors that emanate making China to tilt towards Ethiopia. In the first place, Ethiopia plays important role in African politics because of its strategic location in the region as the seat of the African Union, Economic Commission for Africa and other specialized organs of the UN. Hence, Ethiopia has become a reflection of China's wider ambitions in Africa and the changes it portends for the region. A poor, landlocked nation, Ethiopia lacks the vast natural resources that have drawn China's interest in other countries. But it has something else. Ethiopia is the source of the Blue Nile, the river that slacks Egypt's thirst. It is the meeting ground between largely Muslim North Africa and largely Christian south.

The second important factor which strengthened the post 1991 bilateral relations is the Chinese need for markets. Decades of industrially-led command economy have resulted in gross oversupply in many sectors in China's domestic market, driving down prices (Ming and Williamson, 2003: 12). In addition, regional competition between companies is consequently so fierce that products sold but not made in any given province are heavily taxed. Expansion into international markets provides greater scope for a product to attain bigger market distribution with fewer tax obligations (Ibid). It also stimulates foreign demand for products substantially cheaper than the global average, due to Chinese domestic market saturation. The need to find new markets for products that are in oversupply has become a matter of survival for many Chinese companies.

Ethiopia with a population of about 81.5 million people according to a UN publication and even more is potentially a very lucrative market for Chinese products, trading and investment opportunities. China is a major global power in geo-political and economic competition with the US, EU and other major and emerging powers such as India.



Therefore it is in China's interest to gain access to the markets and resources of Africa including Ethiopia.

A third reason, closely related to the second from China's side is using Ethiopia and Africa in general as a commercial launch pad. Market hungry Chinese Companies which are not yet confident enough to attempt penetration into developed countries have adopted the approach of entering less competitive developing countries' markets. In the wake of increased diplomatic and commercial traffic between China and Ethiopia, the latter has become a favored "testing ground" in which Chinese companies can test their strength.

Fourth, while certainly not the only reason, one of the most important motives for Chinese commercial forays into Africa and Ethiopia is the growing need for raw materials and oil to feed China's burgeoning economy. China became a net oil importer in 1993. It was ranked as the second largest oil importer after the US in 2004 (Luft, 2004:1). Particularly due to its strategic importance for economic growth, the procurement of secure oil supplies is a principal national interest and forms a fundamental part of China's foreign policy. Ethiopia is one of the largest countries on the African continent and is believed to have significant natural resources although yet to be identified. Chinese companies clearly recognize the resource and market potential and attach considerable importance to Ethiopia. This is evident in Chinese company Zhonguan Petroleum Exploration Bureau (ZPEB) exploring oil around Gambella and Ogaden areas before Abole incidence. In April 2007, rebels from Ogaden National Liberation Front (ONLF) attacked the site in Northern Ogaden particular place called Abole where the ZPEB workers were camped, killing 65 Ethiopians and 9 Chinese workers.

Finally, there is also one further variable in China's policy in Africa that has become increasingly important in China's policy formulation and relations with other states including Ethiopia. That is competition for diplomatic recognition with the Republic of China on Taiwan (ROC). In terms of China's political and security interests, curbing Taiwanese independence has been the predominant focus of China and Ethiopia and other African countries from the late 1980s. A strong relationship played an important role in responding to Taiwan's 'flexible diplomacy' and in opposing their drive for "One China, one Taiwan" policy. Some scholars believe that China's main interest in Africa is to prevent Taiwan authorities from making trouble for China, by taking advantage of the small countries there (Tubilewicz, 2002 : 20). This policy has been firmly followed by Ethiopia since the Haille Selassie regime. It is noteworthy here that Prime Minister Meles Zenawi, in his three visits to Beijing, consistently confirmed his government's adherence to 'one China policy' and its firm support to China on Taiwan and human right issues.

There are also general historical factors which contributed towards enhancing bilateral relations. China and Ethiopia have cooperated closely and supported each other in international affairs. During the rule of Haile Selassie Ethiopia and China had suffered from the fascist aggression, especially Ethiopia as a first victim of fascism despite the

fact that the two countries were members of the League of Nations. At that time, China strongly opposed the Italian aggression over Ethiopia and in quid pro quo Ethiopia supported China's claim to become a member of the United Nations Security Council even if Ethiopia had not established diplomatic relation with China then (Fraser, 1969:24331). Moreover, when China regained its legitimate seat at the United Nations (UN) in 1971, among the 76 favorable votes, 26 were from African countries including Ethiopia, accounting for more than one third. Since the 1990s, with strong support from Ethiopia and many African countries, China has foiled 10 times consecutively Taiwan's scheme of "returning to" UN and 10 times successively western countries' anti China proposal at the UN conference on Human Rights.

In return, as the only fastest developing country among the five permanent members of the UN Security Council, China has a duty to speak on behalf of African countries, including Ethiopia, on major issues such as human rights, safeguarding the legitimate rights of developing countries and making efforts to promote the establishment of a new, just and rational international political and economic order. Prime Minister Li Peng's comment in 1990 shed light on this point and is worth quoting:

[The] new order of international politics means that all countries are equal, and must mutually respect each other...regardless of their differences in political systems and ideology. No county is allowed to impose its will on other countries. They are not be allowed to interfere in the internal affairs of the developing countries, or pursue power politics in the name of 'Human rights, Freedom and Democracy' (Xinhua, 1990:1).

Second, at continental level to support the AU's effort to strengthen unity and integration, the PRC has committed to building new headquarters for the AU in Addis Ababa. By constructing a new conference center at the head quarters of the African Union at a cost of \$ 150 million in Addis Ababa, China has demonstrated a commitment to strengthen its bilateral relations with Ethiopia and, more broadly, with Africa as a whole. In addition, Ethiopia and China also commenced cooperation under FOCAC since 2000.

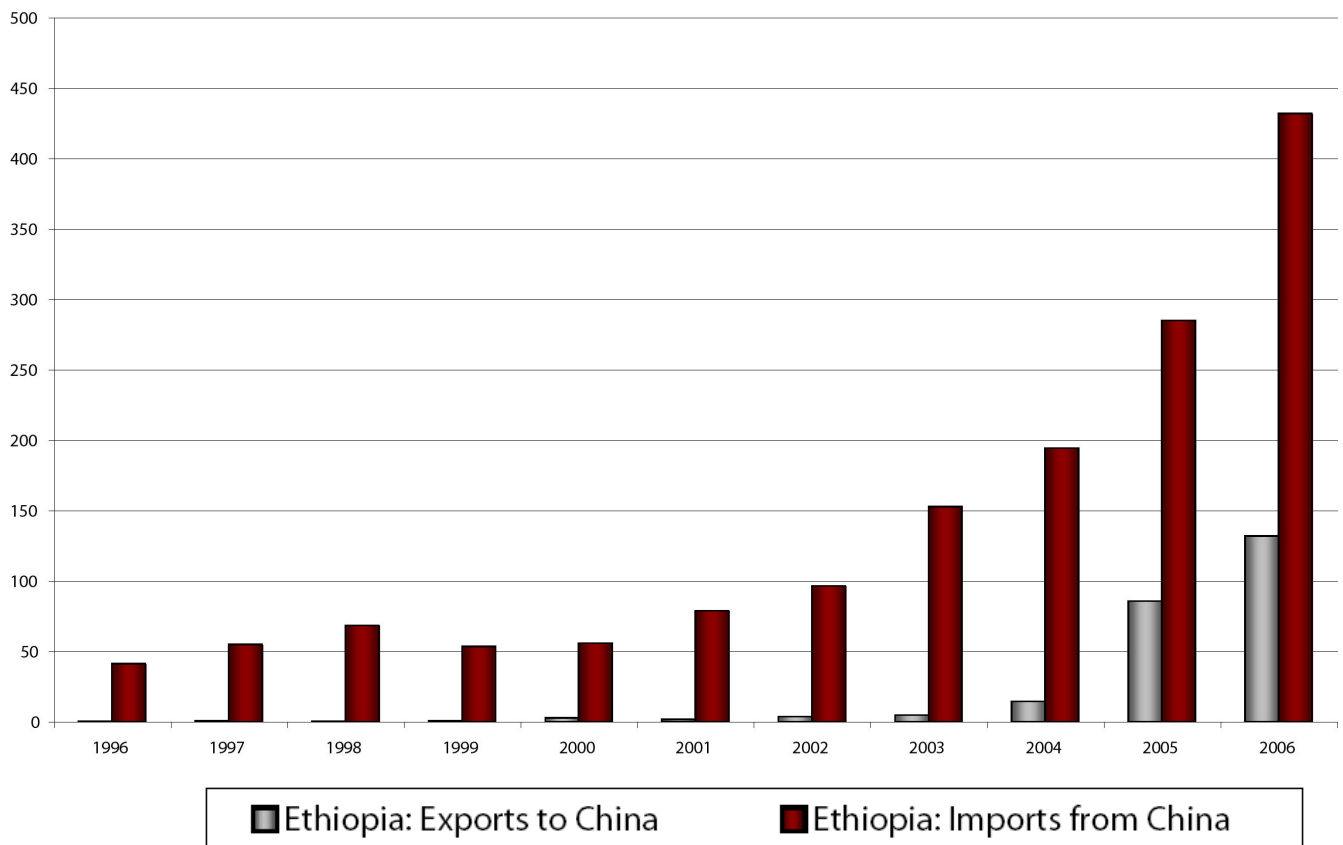
Third, convergence on human rights: putting economic rights over political rights and assigning the highest priority to the right to development is one of the common factors which enhanced the bilateral relations between the two states.

3. Challenges

The bilateral relations between Ethiopia and China have been greatly developed especially in political and economic fields since coming into power of Ethiopian People's Revolutionary Democratic Front in 1991. However, there have been many challenges to the bilateral relationship between the two countries. First, on the economic front the bilateral relations remain imbalanced and tend to replicate Ethiopia's asymmetrical relationships with the West which makes China-a 'west Beijing' while so vividly claims

to be different from the West. Despite the fact that the value of imports and exports have been significantly increasing from time to time, the balance of trade is heavily skewed towards China. Ethiopia's exports to China reached \$ 132mln in 2006, a figure dwarfed by the value of Chinese exports to Ethiopia, \$ 432mln. For more information on the bilateral trade relations see figure I below

Figure I: Ethiopia's Trade with China, in US \$ millions (1995-2006)



Source: World Trade Atlas Data

Consequently, Ethiopia suffers a significant trade deficit with China due to the flood of Chinese products. Moreover, Ethiopia's heavy reliance on the primary sector as the dominant component in its export to China is compounded by a distorted international system that facilitates the export of raw materials but inhibits and restricts the trade in processed goods from Ethiopia. Hence, China doesn't show any meaningful deviation from this well entrenched international practice.

Second, one of its most pernicious side effects has manifested itself in the form of dumping of low price export goods such as textiles and clothing, industrial products, electronic devices and machines, which find a huge demand in the Ethiopian market. The

competition from China in the emerging plastic and textile manufacturing industries is a particularly acute problem for Ethiopia. Consumers may rejoice briefly over falling prices, but in the end it results in domestic Ethiopian producers being forced out of business because they cannot compete with such low price. Moreover, the low priced Chinese goods can undermine Ethiopian goods and services.

Thirdly, China has become a major player in the field of infrastructure (roads, dams and power plants etc) and over 60% of all construction (roads ,dams etc) are undertaken by Chinese companies which have won tenders. Strictly speaking though, most of these projects are not commercial; some are financed through ‘tied’ Chinese aid. Others are not profitable because the Chinese tend to set costs below market rates. However, it has the effect that the Chinese companies are underbidding local companies. This enables China to gain political influence, which often opens the doors to commercially or strategically more attractive business in other sectors.

Politically, one of the set of incompatible national interests in the relations between Ethiopia and China is the ideological variable. Ideology, in spite of its seemingly declining significance in the post–cold war world, still continues to play a role in affecting each side’s interpretation of world events as well as the nature of bilateral interactions between states. The issue of ideology is at a cross roads in Ethiopia; however, it seems that Ethiopia and China are following different ideologies. The preamble of the Ethiopian constitution provides for “.... building a political community founded on the rule of law, capable of ensuring a lasting peace, guaranteeing a democratic order, and advancing their economic and social development (Constitution of the FDRE)”. On the contrary, the Peoples Republic of China (PRC) is one of the world’s few remaining Communist party states. According to the country’s (Chinese) constitution of 1982, China is a “socialist state under the people’s democratic dictatorship led by the working class and an alliance of workers and peasants.”

However, currently both countries do not adhere to socialism as their ideological anchor in a manner they did in the past. Accordingly ideology is not a challenge as such unless the democratization processes in Ethiopia is flourished and give rise to a new government which could align ideologically with the West. Currently, mutual interest in terms of development concerns is at the forefront. It appears that both Ethiopia and China seem to be following the principle that economic development is a necessary condition that needs to be achieved before real democratic political development is possible. More over, unlike Western States the promotion of democracy is not an objective of China’s foreign policy. This view has negative spin off effect on the democratization process in Ethiopia.

4. What Ethiopia has benefited out of the bilateral relations

What is clear is that Ethio-Chinese political and economic linkages will continue to strengthen *ceteris paribus* and Ethiopia has also benefited out the specific bilateral relations in the following manner.



China is helping Ethiopia to build its infrastructure. Chinese construction firms dominate the road construction industry. Moreover, it was Chinese construction companies that spear headed China's engagement with Ethiopia. They are among the primary actors in relations between the two countries and have made a clear contribution to the countries' development. Chinese companies have also contributed to a reduction of cost. This is especially the case in construction, where Chinese companies charge reportedly 20-25 % less than their competitors. Since pushing out foreign competition in road construction they are operating on healthy profits and have begun to move into other sector of construction, such as government buildings and housing. And the infrastructure improvements help Ethiopia to secure other loans and investment opportunities, contributing to an atmosphere of development that may one day change the country.

Second, China is using the UN'S five-point proposal to assist developing countries to accelerate development including 'granting zero-tariff treatments for some exports from the least developed countries, increasing aid to the heavily indebted poor countries and least developed countries and canceling debts contracted by them, providing concessional loans and effective human security agenda such as medicine for treating malaria, and training professionals. Consequently, Ethiopia is one of the beneficiaries as China is helping Ethiopia to reduce poverty and foster development endeavor.

Third, China has emerged as the major donor to Ethiopia. Ethiopia has been granted over US \$500 million in *concessional* loans by the PRC government and a further US \$1.5 billion on investment in telecoms infrastructure as well as US \$1.5 billion in short-term trade credits. In 2003, the second phase of the Addis Ababa Ring Road was opened. Zero-tariff export items to China increased from 130 to over 440. China has financed a number of development projects in Ethiopia including the big Gotera flyover project, which is under way, with 60million RMBY and construction of Maganagna-Kebena-Menelik Hospital and Kebena Bridge-Arat Killo Road project with 40 million RMBY. Some Chinese enterprises have also involved in Ethiopia's construction sector.

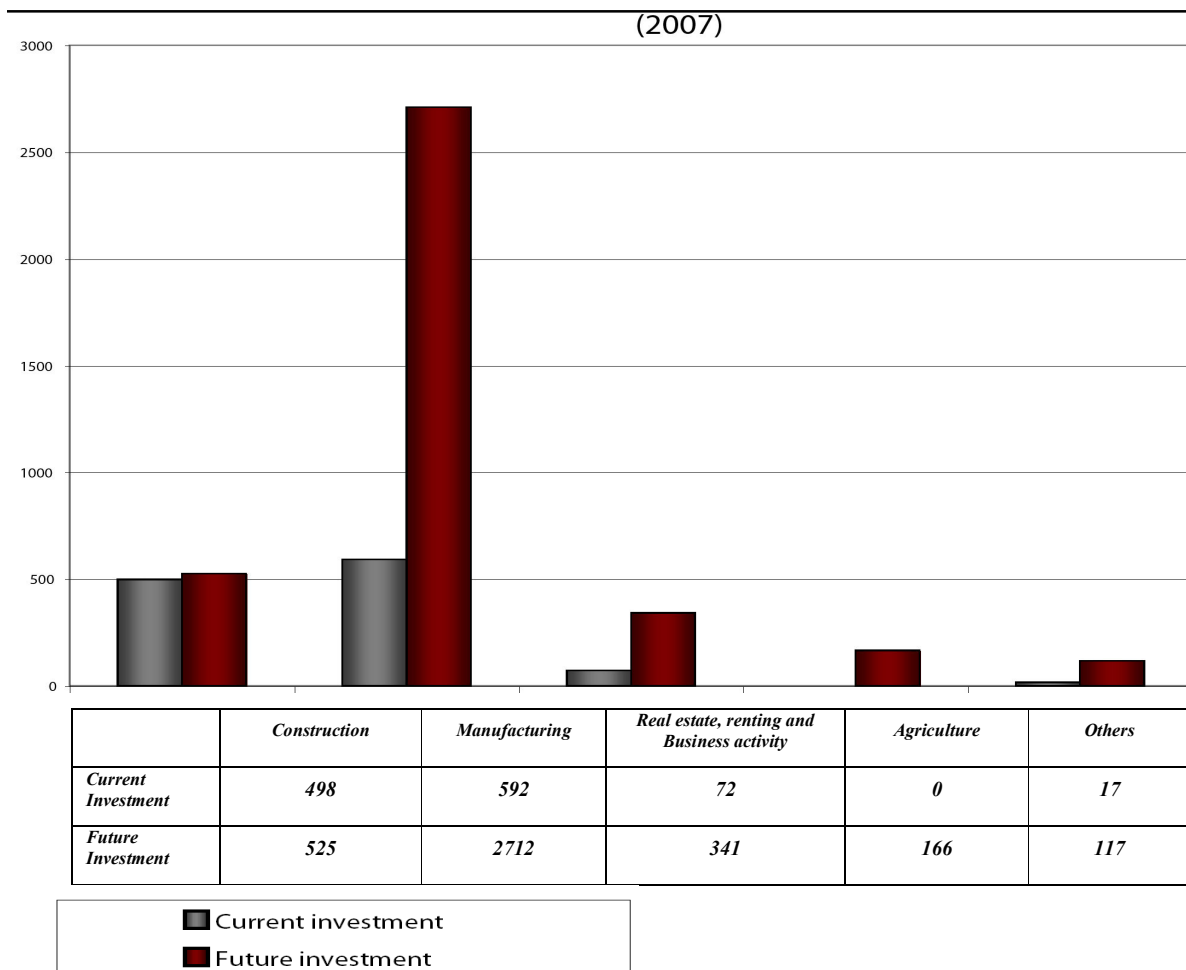
These are note-worthy developments in Ethio-China relations as it reflects a further gesture of China's intention to play a major role in Ethiopia's development. It is interesting that China has chosen to establish its own method for assistance, rather than work within the existing frame work of international institutions. Nevertheless, it is possible that China feels that this structure will be more effective and easier to manage as a bilateral partnership between China and Ethiopia. By exploring this, especially if China succeeds in turning into an important development agent by proving successful where western countries have failed for decades, China has become in recent years a very important player in Ethiopia.

Fourthly, China regularly reaffirms its commitment to the delivery of bilateral assistance compatible with the means at its disposal. Focused on mutual prosperity China proclaims to have no interest in the domestic affairs of Ethiopia and this can be very attractive.

Finally, China is a source of investment for Ethiopia. It is in Ethiopia's interest to have diver's investors in Ethiopia in order to avoid having its sovereignty undermined by any kind of economic, political or military strategic dependence on one power such as the US. Currently (2008) more than 250 Chinese companies have registered in Ethiopia with

investment of 3.1 billion RMB in different sector such as manufacturing, construction, mining and other service sector. Manufacturing is the largest component of current and pledged Chinese investment in Ethiopia and is continuing to show significant growth. While the impact of such investment in Ethiopia is not as yet felt by local industry, there will be significant potential for growth if the local industry can be restructured to supply Chinese–invested factories. The following figure, II, summarizes the current and future Chinese investment trend in Ethiopia by sector.

Figure II: Current (1992-July 2007) and Future Chinese Investment (expected in the next 15 years) by Sector (Investment in mill. \$)



Source: Ethiopian Ministry of Investment Authority - July 2007

Therefore, the existing friendly relationship between the two countries reflects that the relationship could be further promoted and consolidated in the future so long as the two

countries reap benefits out of the bilateral political and economic relations in spite of the fact that many challenges exist in the bilateral relationship as discussed earlier.

5. Concluding remarks

This article has shown that there are many Challenges but also bright prospects for the bilateral relations. Bilateral political and economic cooperation remain sound. Nevertheless, as earlier noted the bilateral relation is not bereft of challenges: First, the relationship is supposedly based on equal partnership. But when it comes to economy, the bilateral relationship is unbalanced and it is impossible to engage on an equal footing as long as the parties are not on the same level. The balance of trade is highly slanted in favor of China. Moreover, China is coming in as a donor and Ethiopia as a recipient much as it has been with the west. The scales are thus already tipped in China's favor making it difficult for Ethiopia to bargain a genuine partnership. While this might be slightly different from the traditional western domination, it is still a form of domination. China's stance on Ethiopia is likely to harden in the long run, with more manipulation and exploitation and less benefit for the country. The soft stance remains as long as China is settling in.

Second, dumping of low priced export goods such as textiles and clothing, industrial products, electronic devices and machines, which find a huge demand, is particularly an acute problem for Ethiopia. It has forced domestic Ethiopian producers out of business because they cannot compete on price. Third, China has become a major player in the field of infrastructure (roads, dams and power plants etc) and over 60% of all construction (roads ,dams etc) are undertaken by Chinese Companies who have won tenders. It has the effect that the Chinese companies are underbidding local companies. This enables China to gain political influence, which often opens the doors to commercially or strategically more attractive business in other sectors too. Fourth, politically, one of the set of incompatible national interests in the relations between Ethiopia and China is the ideological variable. However, in the current Ethio-China relations ideology is not a big deal unless there will be any new change in the future.

In the same way, the bright prospect of the relationship could be explained by different explanatory factors from Ethiopia; China and both sides. On the Ethiopian side: Whenever Ethiopia sought Chinese aid, loan, investment and arms, the latter has responded positively by providing debt reduction and technical assistance to Ethiopia with no political strings attached. Second, Ethiopia considers China as an alternative trade partner to the West. China became the first trade partner for Ethiopia in the year 2006 and hence Ethiopia called China its most reliable trading partner. Third, Ethiopia takes China's development as a role model. A very practical yet profound reason for the appeal of China's model to Ethiopia is its historic achievements in economic reform and national reconstruction and its successful leap from a backward country to an economic power house. Moreover, all of these have been accomplished at an unprecedented pace.

Fourth, Diplomatically China has always sided with Ethiopia at international forums like the UN and other economic forums.

China has also important interests in Ethiopia and hence attached importance to developing its bilateral relations with Ethiopia for many reasons: Firstly, as the source of the Blue Nile, the seat of the African Union and the meeting ground between predominantly Muslim North Africa and the Christian South, Ethiopia's is situated at a strategic location and plays important role in African politics. Therefore a number of exchange and visits by high level delegations have been successively conducted between the two since 1991. Secondly, the need for market: with a population of 81.5 million (according to UN publications), Ethiopia offers potentially a very lucrative market for Chinese products, trading and investment opportunities. Thirdly, China's interests in Africa and Ethiopia are guided primarily by economic imperatives using the two in general as a commercial launch pad. In this respect Chinese engagement is little different from western multinationals. In the wake of increased diplomatic and commercial traffic between China and Ethiopia, the latter has become a favored testing ground in which aspirant Chinese multinationals can cut their teeth. Fourthly, the growing need for raw materials and oil to feed its double-digit economic growth: Ethiopia is one of the largest countries on the African continent of area and population and is believed to have significant natural resources although very few have been identified.

Common factors also enhanced the bilateral relations between Ethiopia and China, post 1991: China and Ethiopia have cooperated closely and supported each other in international affairs. Second, to support the African Union's effort to strengthen unity and integration on the continent, the PRC has demonstrated a commitment to strengthen its bilateral relations with Ethiopia and, more broadly, in Africa. China-Africa cooperation is another forum which has strengthened the bilateral relations between Ethiopia and China. Third, Convergence on human rights: putting economic rights over political rights and assigning the highest priority to the right to development is one of the common factors which enhanced the bilateral relation. Consequently, it can be argued that the relations between Ethiopia and China have progressed well since 1991, after EPRDF came to power, in various fields.

Based on the aforementioned findings the researcher would like to recommend the following policy recommendation which could be implemented unilaterally by Ethiopia and bilaterally through the joint effort of the two countries. Implementation of these recommendations may enhance the positive prospect and minimize the challenges of the bilateral relationship:

- The preferential treatment for Ethiopia must be fully exploited and maximized to reduce the negative balance of trade payment.

As stated in the trade relationship between Ethiopia and China, both terms and balance of trade have always been against Ethiopia. Ethiopia's external trade is characterized, among other things, by narrow export base of very few agricultural commodities that are vulnerable to natural and market fluctuations; a partnership that is in most cases

in favor of the others. Further more, the expenditure on imports are predominantly for consumption, and not for extended industrial reproduction. Accordingly, to reduce the negative balance of trade exploiting the preferential treatment to Ethiopian products entering China is commendable.

- Leveraging China's investment in Special Economic Zones and Special Development initiatives for greater local development. This is apparently China's move from infrastructure to other sectors in Ethiopia. The PRC government committed itself, at the FOCAC summit in November 2006, to the establishment of three to five trade/industrial zones in the African continent. It has already been announced by Chinese Ambassador in Ethiopia and Ethiopian Investment Agency.

The major desired intervention from Ethiopian Government is the leveraging of China's Investment in special Economic Zones for maximum developmental impact of the poor and vulnerable in the designed geographical areas i.e., the inclusion of local populaces into the developmental agenda set by Ethiopian and the PRC Government.

- Ethiopian Government should encourage more Joint venture of Ethiopian firms with the Chinese counter parts. As can be seen in the economic relationship especially in the investment sector the Chinese do have future plan to invest in the manufacturing and other sectors of the economy. The government should also encourage joint ventures to protect the domestic firms and companies.
- At the continental level: there should be clear regional or continental strategy to deal effectively with the myriad of actors. This is resulting in a fragmented approach which weakens Africa's bargaining position. In stark contrast, China and all the other actors are coming in to Africa with well thought out and packaged proposals that enable them to maximize the benefits from any relationship with African countries. China, in particular, seems to have a purposeful strategy and is successfully delivering on all its objectives vis-à-vis Africa.

One way out would be the development of a comprehensive African policy on China. This would result in more structured, secure and beneficial enjoyment and potentially create the platform for a true 'win-win' situation. A continental African policy on China would have to be developed through a continental body such as the African Union with multi-stakeholder collaboration at all levels, beginning at grassroots and feeding blocks like IGAD, SADC, ECOWAS etc. Such a policy would increase African countries' security and make it easier for them to deal with super powers rather than making individual approaches that are easily susceptible to manipulation.

- To facilitate government interaction between Africa and China, it is proposed that a dedicated institute be established to facilitate, support and promote this process of building China-Africa relations. This institute would facilitate and support African government relations with the PRC through the policy of research and support.



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