

**Internationalisation of Chinese capital and
the transformation of state-society relations
in Ethiopia**

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ABSTRACT

This study contributes to the growing literature on China's growing economic relationship with Africa. Employing Ethiopia as a case study, the internationalisation of Chinese capital is interrogated with a view to determining how it is interacting with and reshaping the state and social forces within the Ethiopian state. This is achieved by using a theoretical framework that understands the state as a complex social relation. The social forces making up the Ethiopian state, especially those affected by and affecting Chinese capital, are examined through a comprehensive discussion of Ethiopia's political and economic organisation and enduring state-society relations. Through carefully selected case studies in the Ethiopian economy such as Special Economic Zones (SEZs), leather, agricultural and infrastructural development sectors, the thesis argues that the internationalisation of Chinese capital is having two major effects on Ethiopian state-society relations, namely, the intensification of party-oriented capitalism and the informalisation of politics. Scholarship on China-Africa relations had until now analysed this relationship through mainly state-state lenses. A key contribution of this thesis is that it offers a new way of understanding the relationship between China and Ethiopia through an 'inside out' perspective that explores the changing nature of internal politics as a result of Chinese investment and commercial links. In particular the thesis seeks to disaggregate the Ethiopian state and the defining roles being played by its constituent social forces. We argue that a combination of internal and external forces involved such as the Ethiopian People's Revolutionary Democratic Front (EPRDF) ruling party and Chinese State Owned Enterprises (SOEs), respectively, gives a basis for a better understanding of the direction, form and nature of state transformation in Ethiopia.

THESIS DECLARATION

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide and where applicable, any partner institution responsible for the joint-award of this degree.

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ACRONYMS AND ABBREVIATIONS

ADLI	Agricultural Development Led Industrialisation
AU	African Union
BC	Beijing Consensus
BPR	Business-Process-Reengineering
CADFund	China Africa Development Fund
CBE	Commercial Bank of Ethiopia
CDB	China Development Bank
CETU	Confederation of Ethiopian Trade Unions Companies
CPC	Communist Party OF China
CPOEs	Chinese Privately Owned Enterprises
CPP	Convention People's Party
CRBC	China Road and Bridge Corporation
CSCEC	China State Construction Engineering Corporation
CSOEs	Chinese State Owned Enterprises
DRC	Democratic Republic of Congo
ECA	Economic Commission for Africa
EFFORT	Endowment Fund for the Rehabilitation of Tigray
EIA	Ethiopian Investment Agency
EIC	Ethiopian Investment Commission
EIZ	Eastern Industrial Zone
EJA	Ethiopian Journalists Association
EPDM	Ethiopian People's Democratic Movement
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESAT	Ethiopian Satellite Television Service
ETA	Ethiopian Teachers Association
EXIM BANK	Chinese Export-Import (EXIM) Bank
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment

FDRE	Federal Democratic Republic of Ethiopia
FOCAC	Forum for China-Africa Cooperation Forum
GTP	Growth and Transformation Plan
IMF	International Monetary Fund
IR	International Relations
JECC	Joint Ethiopia China Commission
KANU	Kenya African National Union
MIDROC	Mohammed International Development Research and Organisation
UNITA	National Union for the Total Independence of Angola
MoFED	Ministry of Finance and Economic Development
FNLA	National Front for the Liberation of Angola
NGOs	Non Governmental Organisations
NPC	Standing Committee of China's National People's Congress
OPDO	Oromo People's Democratic Organization
PMAC	Provisional Military Administrative Council
PPESA	Privatization and Public Enterprises Supervising Agency
PRC	People's Republic of China (PRC)
RBC	Road and Bridge Construction Company
SDPRC	Sustainable Development and Poverty Reduction Program
SEPDF	Southern Ethiopian People's Democratic Front
SEZs	Special Economic Zones
SNNPR	Southern Nations Nationalities and People's Region
SOEs	State Owned Enterprises
TNS	Trans-National State
TPLF	Tigrayan People's Liberation Front
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNITA	National Union for the Total Independence of Angola
US	United States
WB	World Bank

WC	Western Consensus
ZANLA	Zimbabwe African National Liberation Army
ZANU	Zimbabwe African National Union
ZTE	Zhong Xing Telecommunications Equipment Company Limited

Chapter 1: INTRODUCTION

1.1 Introduction

The impact of Chinese investment in Africa has become one of the most central questions of international relations and international political economy. There is a multiplicity of views in the analysis of China's engagement with Africa. However, these views on contemporary China-Africa relations are guided more by what China is imagined to be than what Africa is. Mawdsley summarises how this image is reflected in the media: China is 'guzzling', 'aggressive', an 'economic juggernaut', 'insatiably thirsty' for oils and minerals, and 'voraciously' capitalist.¹ The central question in the literature is what drives Chinese economic and commercial diplomacy in Africa and what implications this process holds for the political institutions and economic growth of particular African countries. There have been – as discussed below – two broad answers to this question: one argues that Chinese economic relations with Africa are predatory and a new form of imperialism is resulting in reinforcing Africa's exploitation. Another answer sees in this investment a possibility of new forms of development and a more assertive developmental role for the state. Here China offers alternative developmental futures that are distinct from the neoliberal policies imposed by multilateral institutions. In this thesis, I argue that these are answers to the wrong problem or based around a wrong-headed problematic. It is a problematic that is based on a set of stereotypical assumptions about rising powers and the role of China that has become the staple of international relations literature.

At its core the thesis argues that we need an 'inside out' approach that looks at the constitutive relationship between the internal and external as it plays out within

¹ Emma Mawdsley, 'Fu Manchu versus Dr Livingstone in the Dark Continent? Representing China, Africa and the West in British broadsheet newspapers', *Political Geography* 27, 2008, p521

processes of state transformation both in Africa and in China. The central question for the study is: how are Chinese economic relationships - particularly the role of Chinese capital – internalised within the state? Ethiopia is taken as the case study. Hence the thesis focuses on the specific internal ways in which social forces have been impacted. Our present understanding of this issue remains scant at best and unknown at worst. This is where this study comes in, by focussing specifically on state-society relations. Thus the approach of this thesis challenges the view of the state as a black box that either acts autonomously in relation to China or as the instrument through which China pursues its strategic interests. Hughes and Floyd open their article with the question: ‘Is China good for Africa or bad? That seems to be the never-ending debate from international development and investment policy experts and organizations.’² This Eurocentric assumption has best been exposed by Tull. He notes that ‘there is indeed a growing awareness in Europe that China’s rise as a global superpower poses significant challenges in terms of its accommodation into a global order of things that hitherto was largely defined by Western countries.’³ Instead, the approach of this thesis regards the state in relational terms as an institutional complex through which different social forces act.

Using this approach, the study looks at the external implications of these changes and explores the new South-South interaction. This is because in Africa, broadly speaking, Chinese globalisation is viewed within the prism of this traditional South-South cooperation model. By definition,

South-South cooperation is a broad framework for collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it can take place on a bilateral, regional, sub regional or interregional basis. Developing countries share

² Dana Hughes and Kathryn H. Floyd, ‘Africa’s Love-Hate Relationship with China’, 31 July 2012, <http://www.diplomaticcourier.com/africa-s-love-hate-relationship-with-china/>, accessed on 6 May 2016

³ Denis M. Tull, ‘China in Africa: European Perceptions and Responses to the Chinese Challenge’, SAIS Working Papers in African Studies, February 2008, p7

knowledge, skills, expertise and resources to meet their development goals through concerted efforts. Recent developments in South-South cooperation have taken the form of increased volume of South-South trade, South-South flows of foreign direct investment, movements towards regional integration, technology transfers, sharing of solutions and experts, and other forms of exchanges.⁴

The proposed ‘inside out’ approach can illuminate discussion on state-society relations in Africa and how they are affected by Chinese investment. Informed by Gourevitch’s ‘second image reversed’⁵, which explores the links between domestic and international politics, the ‘inside out’ approach is crucial as the study is centred on the interaction of both domestic and external factors in shaping state-society relations in Ethiopia. Chinese investment in Ethiopia is the external variable and its form and behaviour is read as ‘globalisation with Chinese characteristics’.⁶

In explaining globalisation with Chinese characteristics, several key features that explain it stand out. Breslin notes that the form of capitalism that has materialised in China is one where state actors, often at the local level, remain central to the functioning of an economic system that has dysfunctionally emerged to suit their interests.⁷ China is not just an alternative economic partner — a new source of aid and investment and an increasingly important market — but an economic partner with a distinctive developmental model from that advocated by traditional institutions such as the World Bank (WB) and the International Monetary Fund (IMF). It is this distinctiveness of its neoliberal model and its mutual accommodation with Ethiopia’s own political economy that is at the core of this project.

⁴ United Nations Office for South-South Cooperation, ‘What Is South-South Cooperation?’, http://ssc.undp.org/content/ssc/about/what_is_ssc.html, accessed on 22 February 2016

⁵ Peter Gourevitch, ‘The second image reversed: the international sources of Domestic politics’, *International Organization*, 32, 1978, pp 881-912, p882

⁶ Jeffrey Henderson, Richard P. Appelbaum and Suet Ying Ho, ‘Globalization with Chinese Characteristics:

Externalization, Dynamics and Transformations’, *Development and Change* 44(6): pp 1221–1253

⁷ Shaun Breslin, ‘The Transition from Socialism: An Embedded Socialist Compromise?’, *China and the Global Political Economy*, Palgrave Macmillan UK, 2007, p40

At the same time, crucially, Ethiopia is a sub-Saharan Africa, firmly located in a region associated with numerous questions surrounding the very aspect of 'state'. According to Flanary, the African state 'is widely understood as existing as a hierarchically structured and centrally directed system of authority which is inherently a source of inequality, both in terms of power and the benefits which are attainable as a result'.⁸ In spite of all these, Ethiopia has its own set of distinctive circumstances and local challenges involving religion, ethnicity and underdevelopment. These factors shape the state transformation processes that are taking place as attributable to the presence of Chinese capital in the country. Therefore, whilst acknowledging the political roots of the relationship, the study goes further and extends frontiers by stressing that new South-South cooperation is now more organised in economic rather than political terms. The China-Ethiopia relationship is therefore a good example of South-South cooperation. Although it is a bilateral relationship, the study will also show that this relationship is also uniquely intertwined with regional and global factors.

China's current prominence is located firmly within its stature as an 'emerging' power. According to Alden, 'emerging powers' is a phrase coined to describe a new group of states which have through a combination of economic prowess, diplomatic acumen and military might have managed to move away from developing country status to challenge the dominance of traditional, mainly, Western powers.⁹ At the moment, China shares this label with Brazil, Russia, India and South Africa or 'BRICS' countries. The emergence of this wider 'BRICs-plus' group—or the new global 'middle'- is already giving rise to the reordering of actual global relations and highlighting the need to rethink definitions and practices of global governance.¹⁰ In

⁸ Rachel Flanary, 'The state in Africa: Implications for democratic reform', *Crime, Law and Social Change* 29, Kluwer Academic Publishers, 1998, p180

⁹ Chris Alden, 'Emerging Powers and Africa', p12, <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SU004/alden.pdf>, accessed on 12 May 2014

¹⁰ Timothy M. Shaw, Andrew F. Cooper and Gregory T. Chin, 'Emerging Powers and Africa: Implications for/from Global Governance?', *Politikon*, 2009, 36:1, p29

the past two decades, China has re-emerged as a global economic force as a result of decades of internal reform and its economic transition from socialism to capitalism, albeit a distinct form of capitalism: state-oriented capitalism.

Externally, China has spread its wings and its economic force continues to be felt across the world. However, this thesis argues from the point of view that China in Africa is better analysed in terms of bilateral relations with individual countries. As advanced by Aning and Lecoutre, this makes for good analysis as, ‘consequently, China adopts an individualised approach towards each country instead of a one-size-fits-all approach to the whole of Africa.’¹¹ This helps the study avoid the hazard of misleading overgeneralization because China is essentially engaging and impacting different countries differently. This study therefore exclusively analyses the China-Ethiopia relationship in a bilateral context, without necessarily negating the multilateral complex. Ethiopia is among the top few countries in Africa where Chinese capital, both state and private, is being extensively invested.

This introductory chapter will lay out the study’s research questions before explaining the aims in greater detail. Because the study is located within the broader China-Africa relations scholarship, the next section discusses the perspectives and approaches that have so far dominated academic analysis on China-Africa relations. By identifying the gaps therein, this lays the groundwork of this thesis’ argument as it explains how it aims to contribute to this body of literature whilst at the same time filling these gaps. To reinforce the uniqueness of the study, the section that follows then justifies Ethiopia as a case study, further explaining why the East African country’s political and economic relations with China provide the perfect laboratory to test the main arguments of the thesis. In the section that follows, a detailed

¹¹ Kwesi Aning and Delphine Lecoutre, ‘China’s ventures in Africa’, *African Security Review*, 17:1, 2008, 39-50, p44

discussion of the methodological approaches employed in the course of gathering and analysing all the necessary data used in the study is provided. Lastly, an overview of the structure of the thesis closes the chapter. Throughout the whole thesis, the United States dollar (\$US) is the currency of value.

1.2 China in Ethiopia

The broad research question upon which this thesis is premised is: In what ways is Chinese capital affecting state-society relations in Ethiopia? China has become a very important if not decisive component of Ethiopia's contemporary economic development. This is seen through various ways including trade, development finance, investment and technical cooperation. According to Geda, 'Chinese engagement in the Ethiopian economy is being intensified from time to time. The degree of this intensification differs across sectors, however.'¹² The trade and investment figures are huge. According to the China Global Investment Tracker which provides a comprehensive data set covering China's global investment and construction activity, Chinese investments and contracts in Ethiopia between 2004 and 2016 stand at \$17.62bn.¹³ This study contends that beyond the huge figures of trade and investment radar, the impact of Chinese capital in Ethiopia extends to state-society relations. This is happening as a result of the links that are developing between Chinese capital and local social forces in Ethiopia. This thesis seeks to analyse the impact of Chinese investment on state-society relations in Ethiopia, by, among other aims, uncovering the new alliances that are emerging within the state.

¹² Alemayehu Geda, 'Scoping Study on the Chinese Relation with Sub Saharan Africa: The Case of Ethiopia AERC Scoping Study', African Economic Research Consortium, March 2008, Nairobi, p5

¹³ American Enterprise Institute, China Global Investment Tracker, '<http://www.aei.org/china-global-investment-tracker/?gclid=CIHnse2S3MUCFQRwvAodDEMATg>, accessed on 29 March 2016

Second, the thesis focuses on finding the specific, salient aspects of Chinese investments that are affecting socio-economic and political dynamics in Ethiopia and the consequences thereof. Third, the thesis seeks to determine how Chinese engagements and investment in Ethiopia are shaping the way new and old social forces respond to these external imperatives within state institutions.

The study's central objective is to offer an alternative way of understanding the impact of Chinese capitalism in an African country by deploying a framework that understands the state as a complex relation rather than a black box. Brenner *et al* have criticised the view that conceives the state 'as a static, timeless territorial "container" that encloses economic and political processes'.¹⁴ To date, much of the China-Africa scholarship has used a geostrategic approach which black-boxes the state in such a way that it is unable to acknowledge or explain how Chinese engagements and investment in Ethiopia shape the way new and old social forces respond to external forces of capital within state institutions. This study addresses this deficiency in China-Africa International Relations (IR) by deploying the state-society perspective to best understand how international capital, specifically Chinese capital in Ethiopia, is influencing state-society relations in Ethiopia.

It applies the state-society perspective to understand how international capital, specifically Chinese capital in Ethiopia, is influencing state-society relations in Ethiopia. This is done by bringing out the expression of social forces within the Ethiopian state in the context of international capital, specifically of Chinese origin. The thesis concurs with Carmody and Owusu that 'States' are comprised of sets of practices and social relations, rather than unified actors.'¹⁵ By using this approach,

¹⁴ Neil Brenner *et al*, 'Introduction: State Space in Question', in Neil Brenner *et al* (Eds), *State/Space. A Reader*, Blackwell Publishing, Malden, 2004, p2

¹⁵ Pa'draig R. Carmody and Francis Y. Owusu, 'Competing hegemons?, Chinese versus American geo-economic strategies in Africa', *Political Geography* 26, 2007, p506

the thesis will add a distinct perspective to existing knowledge on the multifaceted nature of the impact of Chinese capital in Africa. The key, unique contribution of this thesis is its deployment of a hybrid approach comprising of a state-society framework, relational state theory and a second-image reversed perspective, which is able to account for the specific effects of Chinese capital on state-society relations in Africa.

The second aim is to bring forth some African insights to International Relations (IR) by analysing the role of new and social forces that have been transformed by Chinese investment. The study ties together the makeup of the Ethiopian state, the social groups organised through it, how social ties and alliances are negotiated and compromised, the dominant patterns of hegemony and the role of social forces in how state power is produced and reproduced formally and informally. This study may thus be a contribution to Third World studies in general, and African studies in particular with Ethiopia as the case study.

From the outset, it is important to note that much of Africa has a history that has continued to call into question the very idea of the 'state' in the region. Some authors, like Englebert even hold extreme views and boldly assert that the contemporary African state is 'neither African nor state.'¹⁶ Such views stem from the inability of the African state to live up to some of the core Weberian aspects of statehood. From pre-colonial forms of governance to long and brutal periods of colonialism and now contemporary globalisation and internationalisation, the process of state-building in Africa has been fraught with many practical bottlenecks including challenges of nation-building, post-colonial identity-based conflicts, border

¹⁶ Pierre Englebert, 'The contemporary African state: Neither African nor state', 'Feature review, Third World Quarterly, 18:4, 1997, pp 767-776

conflicts and civil wars.¹⁷ Today again, as the African state is under increasing internal and external stress, there is a logic to the conceptual exploration of the non-state sphere for possible alternatives or supports.

Now, when juxtaposed with external forces and, in the present case, international capital from China, the study hypothesizes that the encounter in and of itself must have the potential to uniquely contribute to the redefinition of state-society relations. Either Chinese capital is reinforcing existing values, norms and institutions or introducing new ones with state transformation ramifications. Further, like all other African countries, Ethiopia has over time adopted various economic approaches in pursuit of economic and social progress. It has had to rely on borrowed models, for example, pursuing market-based approaches under the Emperor and socialism under the Dergue.¹⁸ The Ethiopian People's Revolutionary Democratic Front (EPRDF) government began with a Western model-type of capitalism but with its recent engagement with China, it is important to analyse how, why, or if, it has been influenced by the Chinese model and in what ways various other social groups have played a part.

The past decade has seen a proliferation of literature focussed on explaining China's interests and actions in Africa. Much of it is guided by several perspectives including, but not limited to, extractive 'resource diplomacy'¹⁹, the 'developmental' or the 'internationalisation of the state' abroad²⁰, and China's 'Going global'²¹

¹⁷ Martin Doornbos, 'The African State in Academic Debate: Retrospect and Prospect', *The Journal of Modern African Studies*, 28, 1990, pp 179-198

¹⁸ Dergue in Amharic, the official language of Ethiopia, literally means a committee. The military junta that overthrew Haile Sellassie portrayed itself as governing collectively. This may have been the case till Mengistu Haile Mariam eliminated his competition and emerged as absolute dictator

¹⁹ Ian Taylor, 'Unpacking China's Resource Diplomacy in Africa', Center on China's Transnational Relations, Working Paper No. 19

²⁰ Ruben Gonzalez-Vicente, 'The internationalization of the Chinese state', *Political Geography* Volume 30, Issue 7, September 2011, pp 402-411

strategy, among others. This thesis aims to add to this literature but also go beyond it by finding out if Ethiopian society in its various forms has limited or affected the Ethiopian state's engagement with China. Answers to this question will be found by reflecting on interest articulation, policy implementation and attitudes to threats and opportunities occasioned by Chinese capital in Ethiopia. They will also be found by examining how the state has had to negotiate and compromise with some social forces inside the state in a way that would not antagonize its multi-faceted political, social, economic and diplomatic relationship with China.

Chinese aid does not attach liberalizing or 'good governance' strings to economic relations.²² This could explain the current expansion of Chinese capital in Africa. Estimates of China's foreign aid, development financing, and other economic activities in Africa give rise to varying sums. Estimates of China's foreign aid, development financing, and other economic activities in Africa give rise to varying sums. Some reports of China's annual aid to the continent suggest a range of \$1-2.7 billion.²³ The World Bank referred to People's Republic of China (PRC) 'infrastructure financing' in Africa (funding for roads, railways, and power projects) worth \$7 billion in 2006.²⁴ In 2007, the China Exim Bank stated that it had extended concessional loans to Africa with a total outstanding balance of approximately \$8-9 billion, while the China Development Bank reportedly set up a \$5 billion China-Africa Development Fund to finance infrastructure, industrial, and agricultural

²¹ Salidjanova, Nargiza. 'Going out: An overview of China's outward foreign direct investment', US-China Economic and Security Review Commission, 2011

²² Shaun Breslin, 'China and the South: Objectives, Actors and Interactions', *Development and Change* 44(6): pp 1273–1294

²³ Thomas Lum, 'China's Assistance and Government Sponsored Investment Activities in Africa, Latin America, and Southeast Asia', CRS Report for Congress, November 25, 2009

²⁴ Nick Tattersall, 'Chinese Firm to Build \$1 Bln Road in Nigeria Oil Hub,' Reuters News, July 13, 2008; China National Bureau of Statistics

projects.²⁵ China's involvement in Africa is therefore a huge and complex mixture involving trade, investment, debt cancellation, and aid and development assistance.

Hence, China is now heavily involved in Ethiopia's patterns of economic growth and accumulation. For example, 'the Chinese are involved nearly in all power generation projects'²⁶ and 'in the transport/road sector, Chinese companies have totally dominated the Ethiopian scene.'²⁷ China-Ethiopia expanded economic relations span more than a decade so it is now opportune to surmise how this is fundamentally reshaping the state and social forces that are organised through it. According to Adem, in general, three strands of thought inform the on-going debate about the long-term impact of China in Africa: 'Sino-optimism, Sino-pragmatism, and Sino-pessimism.'²⁸ Such analytical categories are of course extremely useful. However, they may also mask a significant amount of knowledge about other important changes occurring in Africa as they essentially also fall into the binary analysis trap of whether China is a 'good' or 'bad' economic partner for Africa. The impact on state-society relations in Africa as a result of Chinese globalisation is one such question that escapes analysis. As the next section argues, this facet of China's impact on Africa has, thus far, been neglected in the literature.

1.3 Perspectives and Approaches to China in Africa: Identifying the gaps

As already highlighted, there has been an expansion of literature and analysis on China's presence in Africa and this matches the significant economic activity taking

²⁵ Thomas Lum, 'China's Assistance and Government Sponsored Investment Activities in Africa, Latin America, and Southeast Asia', CRS Report for Congress, November 25, 2009

²⁶ Abebe Asamare, 'Understanding Chinese Investment in Ethiopia: A Critical Evaluation of the World Bank's 'Chinese FDI in Ethiopia' Survey', Ethiopian Business Review, <http://ethiopianbusinessreview.net/index.php/commentary/item/301-understanding-chinese-investment-in-ethiopia-a-critical-evaluation-of-the-world-bank%E2%80%99s-chinese-fdi-in-ethiopia-survey>, accessed on 29 March 2016

²⁷ *ibid*

²⁸ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', African Studies Review, Volume 55, Number 1, April 2012, pp. 143-160, p144

place both in terms of volume and depth. This is driven in part by the wider resurgence of China in world affairs, but is also the result of the recent visibility and interest in the growing presence, roles, and impacts of Chinese actors throughout the continent.²⁹ The scholarship on China in Africa can be broadly divided into various categories informed by different perspectives namely political geography, geopolitics, geoeconomics, as well as modernisation and underdevelopment theories. Views and opinions on China in Africa are therefore as numerous as the commentators. These perspectives are the subject of this section and, as will be discussed, they have made an immense contribution to China-Africa scholarship. The study argues, however, that because existing views are mainly guided by geostrategic analysis in particular, perspectives on China in Africa continue to concentrate on the ‘big’ issues like energy politics to the neglect of other unexplored aspects of Chinese investment such as the impact on state-society relations in individual African countries. Moreover, they neglect the way these changes have been internalised within the state and political institutions through its impact on patterns of class and state transformation.

Whilst energy politics, for example, remains one of the most critical avenues to understanding China’s overall motive in Africa, it is not the best prism through which state-society relations can be fully understood. In fact, little attention is paid to state-society relations where energy politics is discussed. It is therefore not surprising that those other aspects of Chinese expansion into Africa such as the impact on state-society relations are sidelined and sacrificed at the altar of geopolitics where the ‘state’ is the central player and not so much the ‘society’. This is one of the many compelling reasons why, according to Dunn, ‘Western IR ignores Africa: because of

²⁹ Daniel Large, ‘Beyond ‘Dragon in the bush’: The study of China-Africa relations’, *African Affairs*, 2008, 107/426, pp 45–61

its neo-realist insistence on placing the state at the centre of explanations.’³⁰ The black-boxing of the state in mainstream IR approaches blunts their analytical power as Boone,³¹ Bratton³² and Chazan³³ have argued and exemplified by some IR literature on Africa.

Apart from academics and scholarly researchers, ‘the scramble by Western governments, international organizations, and Non Governmental Organisations (NGOs) to assess the implications of China’s rise in Africa and how to ‘engage’ China over Africa, and Africa over China, continues.’³⁴ The attention on China’s multi-faceted relationship with Africa is quite understandable as besides trade and investment, the Asian country is also providing development assistance without many of the conditions Western countries apply in Africa. However, in most cases, China’s activities in Africa seem to be bound altogether. For example, by the end of the 1st quarter of 2009, China cancelled 150 mature debts of 32 African countries.³⁵ Similarly, President Hu Jintao’s promise to provide development assistance ‘within our power’ is part of Beijing’s repertoire to underline its support for Africa.³⁶ In 2002, some 44% of China’s widely spread overall assistance to developing countries of \$1.8 bn went to Africa.³⁷ This naturally raises a lot of questions for international

³⁰ Kevin C. Dunn, ‘Introduction: Africa and International Relations Theory’, in Kevin C. Dunn and Timothy M. Shaw (Eds), *Africa’s Challenge to International Relations Theory*, International Political Economy Series, Palgrave Macmillan, 2001, p4

³¹ Catherine Boone, ‘States and ruling classes in postcolonial Africa: the enduring contradictions of power’, in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, pp 108 -142

³² Michael Bratton, ‘Peasant-state relations in postcolonial Africa: patterns of engagement and disengagement’, in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, pp 231-254

³³ Naomi Chazan, ‘Engaging the state: associational life in sub-Saharan Africa’, in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, pp 255-292

³⁴ Daniel Large, ‘Beyond ‘Dragon in the bush’: The study of China-Africa relations’, p45

³⁵ FOCAC, ‘China has cancelled 150 mature debts of 32 African countries’, <http://www.focac.org/eng/ltda/dscbjhy/FA32009/t623384.htm>, accessed on 17 December 2015

³⁶ Denis M. Tull, ‘China’s engagement in Africa: scope, significance and consequences’, *The Journal of Modern African Studies*, 44, 2006, pp 459-479

³⁷ Denis M. Tull, ‘China’s engagement in Africa: scope, significance and consequences’, pp 459-479

relations and international political economy researchers with regard to what China's rise or re-emergence means to the prevailing global order. For example, Eisenmann and Kurlantzick assert that 'China's unwillingness to put any conditions on its assistance to Africa could undermine years of international efforts to link aid to better governance.'³⁸ Likewise, according to Taylor,

Driven by a desire to obtain sources of raw materials and energy for China's ongoing economic growth and for new export markets, Chinese expansion into Africa is more and more attracting the attention of policymakers in the West: 15 pages of a recent Council on Foreign Relations report entitled *More Than Humanitarianism: A Strategic US Approach Towards Africa*³⁹ was spent assessing the impact of China's increasing role in Africa.

From the foregoing, it is clear that enquiries of China's engagement with Africa are pre-occupied with China's role in Africa; in other words whether Africa is 'gaining' or 'losing'; what China's growth means for the global political and economic liberalism order and essentially how it affects the West, the United States (US) in particular. Where focus is on whether Africa is 'gaining' or 'losing', the concentration is often on economic indicators and statistics, such as how much China has invested or African countries trade deficits with China. There has been little in-depth enquiry as to the impact of Chinese capital on specific social forces, fractions of capital and institutions in particular African states.

If we take Adem's three strands analogy highlighted earlier, from the perspective of Sino-optimism, China's re-entry into Africa is to be celebrated because 'the new-type China-Africa strategic partnership features cooperation in the political, economic, cultural and security fields as well as in international affairs.'⁴⁰ As a result,

³⁸ Joshua Eisenman and Joshua Kurlantzick, 'China's Africa Strategy', *Current History*, May 2006, p223, <http://carnegieendowment.org/files/Africa.pdf>, accessed on 29 March 2016

³⁹ Ian Taylor, 'China's oil diplomacy in Africa', *International Affairs* 82:5, 2006, p937

⁴⁰ He Wenping, 'Moving Forward with the Time: the Evolution of China's African Policy', Paper Presented for: Workshop on China-Africa Relations: Engaging the International Discourse, Hong Kong University of Science and Technology, Center on China's Transnational Relations, 11-12 November 2006, p13

Africa stands to gain much from close cooperation with China. From the perspective of ‘Sino-pragmatism’, China’s greater involvement in Africa may be neocolonial in consequence, if not in intent, since the logic of capital is the same whether those in the driving seat are Europeans, Americans, or Chinese.⁴¹ According to the Sino-pessimist paradigm, Africa’s engagement with China will perpetuate the structure of dependency and underdevelopment that is already in place and, moreover, inhibit or block Africa’s efforts to overcome it.⁴² This study contends that while they give different answers, these lines of enquiry share a common ‘outside in’ problematic. The reliance on this problematic by the current literature justifies the need for the new, 'inside-out' perspective taken in this thesis.

‘Sino-optimists’ include such authors as Wenping who assert that China is assisting African economies to boost their capacity and capability after years of redundancy, and that China’s Africa policy is a ‘balancing act’.⁴³ Others like Sautman and Hairong argue that;

China possesses ‘distinctive links’ with Africa that makes it more attractive to Africa than Europe or the West and that now, for Africa, there exists a “Chinese model, now often labelled the “Beijing Consensus’ (BC), that stands in contrast to FDI/export-led rapid industrial expansion. It is an image of a developing state that does not fully implement Western Consensus (WC) prescriptions, does not impose onerous conditions on African states’ policies, and is more active than the West in promoting industrialism in the global South.⁴⁴

Sino-optimists celebrate China’s presence in Africa as an opportunity for Africa that would not only assist it to shed its ‘Third World’ status, but also an opportunity to extricate itself from over-dependency on the West.

⁴¹ Seifudein Adem, ‘China in Ethiopia: Diplomacy and Economics of Sino-optimism’, *African Studies Review*, Volume 55, Number 1, April 2012, pp. 143-160, p144

⁴² *ibid*

⁴³ He Wenping, ‘The Balancing Act of China’s Africa Policy’, *China Security*, Vol. 3 No. 3 Summer 2007, pp 23 - 40

⁴⁴ Barry Sautman and Yan Hairong, ‘Friends and Interests: China’s Distinctive Links with Africa’, *African Studies Review*, Vol. 50, No. 3, Dec., 2007, p81

On the other side are ‘Sino-pessimists’ who have concentrated their efforts on arguing that China’s presence in Africa is destructive and reversing many of the gains occasioned by Africa’s hitherto close relationship with the West, for example, in the contentious areas of good governance, rule of law, free markets and democracy promotion. Tull, for example, argues that China’s interest in Africa is based on strategic considerations, and doubts both that the relationship is a ‘win-win’ when it perpetuates Africa’s resource curse and that China will improve democracy in Africa.⁴⁵ Sino-pessimists largely view China’s presence in Africa as nothing other than resource expansionism. Mensah, for example, emphasizes the primacy of energy, especially oil, in explaining China’s geo-economic interest in Africa. For Mensah, ‘this oil-focused intrusion by China is one of comprehensive outreach on the African continent, with the Chinese government spearheading a drive to use its diplomatic sway to win contracts and concessions for its firms.’⁴⁶

A significant number of observers are convinced that China’s energy-hungry economy is driving the country’s ambitious Africa strategy.⁴⁷ Chintu and Wilson point out that ‘contrary to theories that depict Chinese interest in Africa as part of a grand political game or an emerging world power struggle, China’s drive into Africa is both more obvious and more mundane: China has an almost insatiable thirst for natural resources and energy, and Africa probably has the largest untapped reserves on earth.’⁴⁸ Some commentators, such as Broadman⁴⁹, Zhu⁵⁰ and Harris⁵¹ are more

⁴⁵ Denis M. Tull, ‘China’s engagement in Africa: Scope, significance and consequence’, *The Journal of Modern African Studies* 44.03, 2006, pp 459-479

⁴⁶ Chaldeans Mensah, ‘China’s foray into Africa: Ideational underpinnings and geo-economic interests’, *African Journal of Political Science and International Relations* Vol. 4(3), March 2010, pp. 096-108

⁴⁷ Chris Melville and Olly Owen, “China and Africa: A New era of ‘South-South cooperation’”, 08-07-2005

⁴⁸ Namukale Chintu and Peter J. Williamson, ‘Chinese State-Owned Enterprises in Africa: Myths and Realities’, *The Daily Sabbatical/Ivey Business School* 2, 2013, p2
<http://iveybusinessjournal.com/publication/chinese-state-owned-enterprises-in-africa-myths-and-realities/>, accessed on 23 November 2015

⁴⁹ Harry G. Broadman, ‘China and India Go to Africa: New Deals in the Developing World’, *Foreign Affairs*, New York, 87.2, 2008, p95

pragmatic and view this relationship as the consequence of a growing Chinese economy where capital by its very nature would hunt for more opportunities on and offshore. They are however keen to give this relationship a chance rather than roundly make bold, premature conclusions of success or failure. This thesis is not influenced by optimism, pragmatism or pessimism towards China's actions in Africa. Rather, it views the complex China-Africa relationship as not cast in concrete but one that is constantly changed and reinforced by the changing dynamics of Ethiopian and Chinese links.

In the political geography school, the major issue arising out of China's growing Africa presence is what this means to the global geopolitical and economic order. In the context of BRICS, Stephen argues that 'the liberal content of global governance is being challenged from within,'⁵² whilst for Mawdsley, 'Africa is one arena in which economic and diplomatic competition is being played out.'⁵³ Eisenmann *et al* focus on the 'implications of China's approach for African nations and the United States.'⁵⁴ Carmody and Owusu talk of 'competing hegemons', pitting 'Chinese and American geo-economic strategies in Africa.'⁵⁵ Mhandara *et al* consider the relationship as 'asymmetrical'.⁵⁶ Hence, the political geography perspective is too focused on the implications of China's presence in Africa on global politics to be

⁵⁰ Zhiqun Zhu, *China's New Diplomacy: Rationale, Strategies and Significance*, 2nd Edition, Surrey, Ashgate Publishing, 2013

⁵¹ Jerry Harris, 'Emerging Third World powers: China, India and Brazil', *Race and Class*, January 2005 46: pp 7-27

⁵² Matthew D. Stephen, 'Rising powers, global capitalism and liberal global governance: A historical materialist account of the BRICs challenge', *European Journal of International Relations* 20.4, 2014, pp 912-938

⁵³ Emma Mawdsley, 'China and Africa: Emerging Challenges to the Geographies of Power', *Geography Compass* 1/3, 2007, pp 405-421

⁵⁴ Joshua Eisenman, 'China's Post-Cold War Strategy in Africa: Examining Beijing's Methods and Objectives', in Joshua Eisenman *et al*, (eds), *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, KW Publishers Limited, New Delhi, 2007, p29

⁵⁵ Paidrag R. Carmody and Francis Y. Owusu, 'Competing hegemons? Chinese and American geo-economic strategies in Africa', *Political Geography* 26, 2007, pp 504 - 524

⁵⁶ Lawrence Mhandara *et al*, 'Debating China's New Role in Africa's Political Economy', *Africa East-Asian Affairs*, *The China Monitor*, Issue 2, June 2013, Centre for Chinese Studies, Stellenbosch University, pp 79-109

adequate as a framework for understanding the impact on state-society relations. While it does offer the ‘outside’ perspective of the role of ‘international political economy in shaping political development’⁵⁷ this thesis argues that an ‘inside’ perspective of the internal forces is also required to fully grasp the extent of this relationship and its impact. The thesis argues that international forces are linked with domestic forces in Ethiopia. To elaborate on this, the thesis will use Gourevitch’s second-image reversed framework to theorize Chinese investment in Ethiopia as well as Migdal’s ‘state-in-society’ relations perspective to better understand the role of internal social forces and their relationship with the state in this Ethiopian analysis.

It is worth emphasizing that among all of the perspectives on China-Africa relations, it is geostrategic perspectives that have dominated the contemporary China-Africa relations debate. Here, international relations and political economy scholars view the relationship variously in terms of ‘geopolitics’ (Mathews)⁵⁸; ‘geo-economics and geopolitics’ (Alden)⁵⁹; ‘geostrategy’ (Kaplinsky)⁶⁰ and ‘geo-economics’ (Mensah)⁶¹. Mohan and Power take this perspective a step further and propose a ‘critical geopolitics’ to critically explore ‘the geopolitics of China’s relations with African development’.⁶² According to Taylor, the China-Africa relationship is pivoted on China’s critical energy needs and therefore should be seen through the lenses of ‘oil diplomacy.’⁶³ Noting China’s continued influence, Hurrell asks what role can be

⁵⁷ Peter Gourevitch, ‘The second image reversed: the international sources of Domestic politics’, *International Organization*, 32, 1978, p888

⁵⁸ Kuruvilla Mathews, ‘Emerging Powers in Africa: an Overview’, *Africa Quarterly*, Indian Journal ,of African Affairs New Delhi, Vol. 51, No 3-4, . Aug. 2011- Jan. 2012, pp 18- 27

⁵⁹ Chris Alden, ‘China in Africa’, *Survival* ,47.3, 2005, pp 147-164

⁶⁰ Raphael Kaplinsky and Mike Morri, ‘Chinese FDI in Sub-Saharan Africa: engaging with large dragons’, *European Journal of Development Research*, 21.4, 2009, pp 551-569

⁶¹ Mensah, Chaldeans, ‘China's foray into Africa: Ideational underpinnings and geo-economic interests’, *African Journal of Political Science and International Relations* 4.3, 2010, 96

⁶² Marcus Power and Giles Mohan, ‘Towards a Critical Geopolitics of China's Engagement with African Development, *Geopolitics*’, 15:3, 2000, pp 462-495

⁶³ Ian Taylor, ‘China’s oil diplomacy in Africa’, *International Affairs* 82:5, 2006, pp 937-959

ascribed to would-be great powers in the context of the prevailing ‘hegemony, liberalism and global order.’⁶⁴

What also seems to be missing from the existing literature is a clear determination and disaggregation of the specific types of Chinese capital and its differential impact in respective investment destinations in Africa. This is another gap this study attempts to fill via the Ethiopian case study. Chinese capital comes in different forms and from various sources and is governed differently. It may originate from the Chinese central government, the provincial state, or the sub national state and may even be private capital. To this end, it is important to disaggregate Chinese investment in Africa since this has significant implications on different sections of society in destination countries. According to Breslin, ‘this includes thinking about the role of non-state actors, but perhaps most clearly, thinking about what we mean when we talk of the Chinese state – breaking it down and identifying different voices, interests and actors *within* the state system itself.’⁶⁵ The specific types of capital from China operating in Ethiopia therefore need to be identified with a view to ascertaining their differential impacts on state-society relations in Ethiopia.

This study also challenges enduring assertions that one of the key reasons African countries are deepening economic relations with China is because of the absence of political and economic conditionalities. Vibe-Christensen, argues that ‘China has a policy of non-interference with domestic policies. China also focuses on the profitability of each project’.⁶⁶ Moreover, using the concept of embeddedness, Gonzales has argued that China’s concept of non-intervention is quite narrow

⁶⁴ Andrew Hurrell, “Hegemony, liberalism and global order: what space for would be-be great powers?” *International Affairs* 82, 1, 2006 pp 1-19

⁶⁵ Shaun Breslin, ‘China and the South: Objectives, Actors and Interactions’, *Development and Change* 44 (6), p1274

⁶⁶ B. Vibe Christensen, ‘China in Africa: A Macroeconomic Perspective’, Centre for Global Development, Working Paper 230, Washington, D.C, November 2010
<http://www.cgdev.org/publications/detail/1424567>

because on closer examination, China does interfere with domestic politics of other states in practice. ‘Any economic or development-based encounter is, at a minimum, a political intervention in support of the prevailing institutions, norms and political elites.’⁶⁷ China has implicitly intervened in the domestic affairs of African sovereign states, for example, by ensuring that it only has relations with those countries that do not support Taiwan but support China’s ‘One China policy’.⁶⁸ Such unique features around China’s economic diplomacy are crucial in the final analysis of what this means for the process of state-society relations in a country like Ethiopia. Ethiopia faces various social, political and economic realities, which are embedded in a complex history of contests and struggles for domination between the state and various social forces.

In summary, the various frameworks that have been mainly used so far in analysing China-Africa relations have all made important contributions to the understanding of what China is doing in Africa. The main problem though, from the point of view of this study, is that though they come to different conclusions, they start off with the same problem: they ignore or downplay the role of society. They have some common themes namely state-centricity: a focus on state-state relations and the elevation of geostrategy as the overarching prism. Subsequently, because of their focus on inter-state relations, they have missed the fact that a new economic order is emerging in which new alliances are emerging within the state as a result of Chinese investment. This has contributed to their collective failure to incorporate domestic

⁶⁷ Ruben Gonzalez-Vicente, ‘The limits to China’s non-interference foreign policy: pro-state interventionism and the rescaling of economic governance’, *Australian Journal of International Affairs*, 69:2, 2015, p213

⁶⁸ The one-China policy holds that there is but one China and that Taiwan is part of China. The leaders of both countries have long subscribed to the one-China policy--each insisting on their own government’s legitimacy--but the Taiwanese position has eroded over the past few decades as the People’s Republic has gained international prominence. (What is the one China policy?, http://www.slate.com/articles/news_and_politics/explainer/2000/05/what_is_the_onechina_policy.html, accessed on 28 March 2016

influences and provide what I have termed an ‘inside-out’ perspective that focuses on the dynamics of state transformation.

1.4 China-Ethiopia relations: An ‘inside out’ perspective

The study’s point of departure is that to understand the state-society changes that underpin the thesis’ argument, both internal (social forces) and external (Chinese capital) factors operating in Ethiopia must be examined. To that end, the thesis’ argument is conceptualised using Gourevitch’s ‘second image reversed’ approach. This, therefore, inspires the ‘inside out’ perspective I propose. The internationalisation of Chinese capital has wide-ranging effects on Africa but a comprehensive understanding of these cannot be achieved by existing statist frameworks such as geopolitical, geoeconomic, dependency, underdevelopment, and predatory neocolonialism theories, among others. According to Glassman, the internationalization of capital is the internationalization of the classes in capitalist society.⁶⁹ Thinking with Bryan, this study concurs that the critical point to note is that while economic processes may be said to be (increasingly) internationalised, political processes remain much more nationally based. The nation remains the essential unit in which classes organise politically and class relations are played out.⁷⁰ Tubilewicz and Jayasuriya would add that ‘the internationalisation of state capital is not simply a market-driven process as it requires the active engagement of state institutions to secure the extra-economic conditions for the facilitation of the accumulation process.’⁷¹ The transnationalization of economic processes creates new kinds of economic groupings, that is, capital that is increasingly connected to post-national economic forces.

⁶⁹ Jim Glassman, ‘State power beyond the ‘territorial trap’: the internationalization of the state’, *Political Geography* 18, 1999, p673

⁷⁰ Richard Bryan, ‘The state and the internationalisation of capital: An approach to analysis’, *Journal of Contemporary Asia*, 17:3, 1987, pp 253-275

⁷¹ Czeslaw Tubilewicz and Kanishka Jayasuriya, ‘Internationalisation of the Chinese sub national state and capital: the case of Yunnan and the Greater Mekong Subregion’, *Australian Journal of International Affairs*, 69:2, 2015, p188

This study focusses specifically on understanding how the external imperatives are transmitted through domestic institutions and social forces. The study will determine the makeup of the Ethiopian state, the social groups organised through it, how social ties and alliances are negotiated and compromised, the dominant patterns of hegemony and the role of social forces in how state power is produced and reproduced formally and informally. The thesis takes Migdal's view that,

In the modern world, it is impossible to understand the term 'society' without the state. The formation of the state has created and activated society. If society is the outermost limits with which people identify, then it is the state that initially determines those limits or those boundaries. But that does not mean that the state simply moulds the groups that make up society.⁷²

Through the deployment of both primary and secondary methods, this study is an in-depth Ethiopia-specific work to help answer some very pertinent research questions arising in China-Africa relations.

A geopolitics approach which focusses on inter-state relations provides only a limited understanding of China-Africa relations. This study brings the society into the discussion about the state and its relations with the rest of the other social groups that are organised through it in the context of the internationalisation of Chinese capital in Ethiopia. The state therefore assumes the identity of struggles and contestations of the various, key social groups that are affected by policy choices and directions, reform or the maintenance of the status quo.⁷³ Chinese investment as the external variable illuminates the discussion about state-society relations in Ethiopia in the context of 'globalisation with Chinese characteristics'. To this end, it is a central theme of this study to examine whether the state (as is usually touted) is still

⁷² Joel S. Migdal, "The state in society: an approach to struggles for domination", in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p21

⁷³ Lee Jones, 'The Political Economy of Myanmar's Transition', *Journal of Contemporary Asia*, 44:1, 2014, pp 144-170

the only conduit through which processes of capital accumulation are occurring including class formation and development; or if new alliances are emerging in it.

In the context of Chinese investment and related processes, the study intends to explore ‘by whom and how state domination is fashioned (‘actors, resources, repertoires’), where these processes take place (‘negotiation arenas and tables’) and what the main outcomes and issues at stake are (‘objects of negotiation’)’.⁷⁴ Such questions would only be answered if an appropriate case study is used. Chinese capital now has a huge presence in Africa that it is being hosted in most African countries. This means that any African country could probably have been the case study for this study, yet Ethiopia has been selected for this study. The next section thus spells out why Ethiopia is the best placed sub-Saharan case study for this purpose.

1.5 Justification of Ethiopia as a case study: China’s special relationship with Ethiopia

The expansion of Chinese investment in Ethiopia is not happening in a vacuum, but is part of a wider, global internationalisation of this distinct Chinese capitalism and Africa is a prominent destination of Chinese Foreign Direct Investment (FDI). Chinese capital is distinctive and so is China’s distinctive mode of capitalism. It is therefore important to highlight the bigger African picture in times of Chinese investment first in order to locate and explain why Ethiopia deserves the special focus this thesis is giving it. To illustrate the extent to which Africa has steadily become a Chinese focus, by 2006, according to the China-Africa Business Council, China was Africa’s third most important trading partner, behind the United States

⁷⁴ Tobias Hagmann and Didier Peclard, ‘Negotiating Statehood: Dynamics of Power and Domination in Africa’, *Development and Change* 41(4), 2010, pp 539–562

and France, but ahead of the United Kingdom.⁷⁵ Today, China is Africa's largest trading partner, surpassing the United States in 2009.⁷⁶ The figures are even huge in terms of investment. Both China's state-owned enterprises (SOES) and private sector account for \$14.7 billion FDI as of 2012, a growth of more than 60 percent from 2009. Overall, China's investment in Africa has exceeded \$40 billion in FDI, through various kinds of investment.⁷⁷ Beijing, meanwhile, has overtaken the World Bank in lending to Africa. In 2005, for instance, China committed \$8 billion loans to Nigeria, Angola and Mozambique while the World Bank distributed just \$2.3 billion throughout the continent.⁷⁸

With China's rise as an influential global political and economic player, there has been an increased desire on the part of developing African countries to tap into this historical opportunity by increasing ties with China in the context of a historical South-South cooperation relationship. Countries such as Zimbabwe, Kenya, Tanzania and Namibia began to pursue a strategy of 'looking Eastward' in the hope of entering the Asian market and thereby the global economy by cooperating more with Asian countries such as China and India.⁷⁹ However, while region-wide terms and figures provide a good idea about the extent of Chinese capital at a glance, it hides the fact that this capital is not only differentiated, but unevenly distributed across the continent. Indeed, it does not provide the important detail that Chinese capital is more concentrated in some countries such as Ethiopia for very important economic, political, diplomatic and geostrategic reasons. China and Ethiopia have

⁷⁵ Ian Taylor, 'China's oil diplomacy in Africa', *International Affairs* 82:5, 2006, pp 937-959

⁷⁶ '8 Facts about China's Investments in Africa',
<http://www.brookings.edu/blogs/brookings-now/posts/2014/05/8-facts-about-china-investment-in-africa>

⁷⁷ Thompson Ayodele and Olusegun Sotola, "China in Africa: An Evaluation of Chinese Investment", IPPA Working Paper Series, 2014

⁷⁸ Karen Foerstel, 'China in Africa: Is China Gaining control of Africa's resources', *CQ Global Researcher*, Vol. 2 No. 1, January 2008, pp 1-26

⁷⁹ Yao Guimei, 'Economic Considerations in Africa's Looking Eastward', in Zhang Hongming (Ed), *China-Africa Relations: Review and Analysis (Volume 1)*, Paths International, 2013, p114

developed multi-dimensional relations, with people-to-people, business-to-business, government-to-government and party-to-party relations as the cornerstones of the relationship.⁸⁰ Ethiopia is a very crucial case study in the discussion of the internationalisation of Chinese capital in sub-Saharan Africa.

A snap survey of exactly where Chinese capital seems to be concentrated in Africa shows that it is mainly in those oil producing as well as resource-endowed countries such as Nigeria, Angola, South Africa, Sudan and Egypt. The mineral output including bauxite, copper, iron, and gold is positively and significantly correlated with FDI.⁸¹ However, Ethiopia is the odd one out. Chinese investment in Ethiopia, a country without significant natural resources, suggests that resources are not the only driver of China-Africa investment relations. For China, Ethiopia is a potentially large market and an important investment destination; for Ethiopia, China is a major source for the transfer of industrial capacity and technology.⁸² The study identifies China's special interest in Ethiopia as well as the arrangements and the relationships that are developing with a view to analysing their respective effects on Ethiopia's state-society relations. For example, Chinese state-owned firms in Ethiopia are known 'to submit bids below cost in an effort to break into the market besides poor standards of corporate governance, including a lack of transparency. Examples include Asmara's Oratta Hospital in Eritrea and a \$300m hydroelectric dam and power plant on Ethiopia's Tekeze River'.⁸³ Rarely have studies confronted the

⁸⁰ Embassy of the People's Republic of China in the Federal, 'China-Ethiopia relations: an excellent model for South-South cooperation', <http://et.china-embassy.org/eng/zagx/t1216177.htm>, 2 December 2014, accessed on 29 March 2016

⁸¹ Yin-Wong Cheung and Jakob de Haan, *The evolving role of China in the global economy*. Cambridge, Mass. [u.a.], MIT Press, 2013, p431

⁸² Embassy of the People's Republic of China in the Federal, 'Democratic Republic of Ethiopia, 'China-Ethiopia relations: an excellent model for South-South cooperation', 2 December 2014, <http://et.china-embassy.org/eng/zagx/t1216177.htm>, accessed on 29 March 2016

⁸³ Joshua Eisenman and Joshua Kurlantzick, 'China's Africa strategy', *Current History* 105.691, 2006, pp 219-224.

question of how Chinese business approaches are impacting on Ethiopian society including its approach to commerce.

Ethiopia is a hub of Chinese diplomatic and economic activity in sub-Saharan Africa. Diplomatically, Ethiopia has become the conduit through which China is accessing Africa especially via its status as the host of the continent's premier multilateral institution the African Union (AU). China's bilateral trade with Ethiopia has been growing rapidly, largely due to China's promotional measures, jumping from just \$32 million in 1992 to \$100 million in 2002 and to \$1.46 billion in 2009.⁸⁴ China needs the goodwill of the AU in order to fulfil its foreign policy designs in the continent especially in such flashpoints as South Sudan where it has controversial oil interests. China constructed the state-of-the-art-complex AU building in Addis Ababa and commissioned it in 2012 effectively entrenching itself, in the words of Ighobor, in 'the heart of Africa'.⁸⁵

At a time when China seeks a 'peaceful rise'⁸⁶, it requires Africa's support for China's "One China" policy and for its foreign policy agendas in multilateral forums such as the United Nations (UN).⁸⁷ Addis Ababa's status as a diplomatic hub means it attracts more foreign representation than other African capitals of a similar size, including another vast international organisation: the United Nations Economic Commission for Africa (UNECA).⁸⁸ Politically, Muekalia would add that another

⁸⁴ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', *African Studies Review*, Volume 55, Number 1, April 2012, pp. 143-160

⁸⁵ Kingsley Ighobor, "China in the heart of Africa: Opportunities and pitfalls in a rapidly expanding relationship", <http://www.un.org/africarenewal/magazine/january-2013/china-heart-africa>, January 2013

⁸⁶ Sujian Guo (ed.), *China's 'peaceful rise' in the 21st century: domestic and international conditions*, Ashgate Publishing Ltd., Hampshire, 2006

⁸⁷ Yun Sun, 'Africa in China's Foreign Policy', *SERIES: Africa Growth Initiative Publications*, Number 24 of 40, 14 April 2014, <http://www.brookings.edu/research/papers/2014/04/10-africa-china-foreign-policy-sun>, accessed on 20 March 2016

⁸⁸ Simon Allison, 'Ethiopia: The influence of hosting AU', *The Herald*, February 2, 2016, <http://www.herald.co.zw/ethiopia-the-influence-of-hosting-au/>, adapted on 2 February 2016

benefit for China from this geopolitical relationship is increased support for its world vision of multi-polarity and the ability to compete for markets, alternative energy sources and strategic space against equally increasing US engagement.⁸⁹ To China, one can say Ethiopia is a ‘one-stop shop’ in its diplomatic endeavours to garner African support.

Even before the construction of the AU building in Addis Ababa, China had already shown goodwill though through various bilateral actions. China had either donated or assisted in building a hospital in Luanda, Angola; a road from Lusaka, Zambia’s capital, to Chirundu in the southeast; stadiums in Sierra Leone and Benin; a sugar mill and a sugarcane farm in Mali; and a water supply project in Mauritania, among other projects.⁹⁰ The AU building however was significant in that it was a multilateral political offensive which firmly put China in a very prime position for a good economic relationship with the continent. Its construction in Addis Ababa also led the Chinese to ensure more capital projects in Ethiopia, especially in Addis Ababa in preparation of a long-term charm offensive demonstration strategy. Most mega projects built by China are calculated to have a ‘demonstration effect’⁹¹ as they catch the attention of African leaders and their delegations during the many diplomatic trips to Addis Ababa.

There are hundreds of Chinese companies now operating in the East African country of Ethiopia, itself a result of internationalising Chinese capital. Between 2005 and 2016, the total amount of Chinese investments and contracts in Ethiopia stands at

⁸⁹ Domingos Jardo Muekalia (2004) Africa and China's Strategic Partnership, African Security Review, 13:1, 5-11, p10

⁹⁰ Kingsley Ighobor, “China in the heart of Africa: Opportunities and pitfalls in a rapidly expanding relationship”, <http://www.un.org/africarenewal/magazine/january-2013/china-heart-africa>, January 2013

⁹¹ Alemayehu Geda and Atenafu Meskel, ‘Impact of China-Africa Investment Relations: Case Study of Ethiopia’, EARC, Nairobi, 2009, 21-26

\$17, 62 billion.⁹² A good number of these are private firms but it is the State Owned Enterprises (SOEs) that are involved in the larger, higher impact projects. These include China's leading global telecom equipment and solution provider ZTE, Sino Hydro Corporation, Huawei Technologies plc, among others. China has become an integral part of Ethiopia's economic development especially within the last decade when a deliberate government policy made the relationship with China a foreign economic policy priority. This is of course, an expanding economic and political relationship rooted in a historical continuity of South-South cooperation. It is best understood when seen in the context of the increasing presence of China in Africa at an exponential rate in what is now a re-emergence of China in Africa.

It is difficult to find any other sub-Saharan African country where the transformation of infrastructure due to Chinese capital has been so immense as in Ethiopia. Addis Ababa, for example, in the past eight years depicts a vast construction site due to massive construction of various infrastructure. From a poor country whose condition was worsened by a costly border war with Eritrea between 1998 and 2000, and also well known for an ongoing unimaginable infrastructural deficit, Addis Ababa now currently stands tall as one of the fast-transforming cities in Africa, thanks to foreign, especially Chinese investment.

1.6 Methodology and Constraints

A variety of methodological approaches are employed to help answer the research questions. Firstly, the thesis is case-study based. This method has been chosen because a study of this nature requires detailed contextual analysis. It is a very useful method in that it enabled the researcher to use multiple sources of methods of

⁹² American Enterprise Institute,
<http://www.aei.org/china-global-investment-tracker/?gclid=CIHnse2S3MUCFQRwvAodDEMATg>,
Chinese Investment Tracker, 22 January 2016

gathering data as it does not limit the researcher to using a single source. These include surveys, structured interviews, literature reviews and primary documents, archival documents such as newspaper articles. Important to note that this is not necessarily a 'national' case study of the whole of Ethiopia. Rather, the thesis uses carefully selected empirical material from carefully selected case studies from a multi-case design approach. Given that this is a contemporary and not a historical study, the case study method has been quite useful as it enabled the researcher to keep pace with the speed of events given the fluid nature of expanding Chinese cooperation with Africa.

To maintain focus, the study concentrates on those politico-economic strands where the influence of Chinese capital is quite notable. These are to be found in governance models, ideology, infrastructural projects as well a selection of economic sectors, namely leather and agriculture, as well as Special Economic Zones (SEZs).

Valuable data was gathered through primary and secondary sources. One-on-one interviews were carried out in Addis Ababa with some key informants. Some interviews were also conducted over the telephone as well as online. Some interviewees requested questionnaires to enable them to attend to the questions at their own convenience. All these were complemented by further telephone follow-ups to update the study given the fast-paced nature of Chinese investment in Ethiopia.

Key interviewees comprised academics, policy analysts, journalists and government bureaucrats whose work touches on various modes of Chinese investments. Research questions were designed in as narrow a way as is possible. The questions were all linked to the assumptions, hypotheses as well as the specific aims of the study. All of

the fieldwork research was conducted in the capital city, Addis Ababa. This was due to several reasons including easy access to research material and interviewees. I would not have gathered as much material outside of Addis Ababa.

Secondary data comprises of key documents accessed from various sources including key institutions in Ethiopia such as the Ethiopian Investment Agency (EIA) and the Political Science and International Studies department at Addis Ababa University. Further secondary data is accessed from internet sources mainly online news agencies. A total of 16 news organisations comprising from both state-aligned as well as private media were used in the collection of data. All these are buttressed by secondary material accessed and analysed from newspaper opinion and editorials, interviews, blogs, published papers and books. The researcher was also given access to some published dissertations relevant to the topic archived in the Political Science department of the University of Addis Ababa. Further secondary material was also accessed from the Institute of Peace and Security Studies at the same institution.

Most of the interviewees who agreed to participate in the study as informants have elected to remain anonymous. The major reason is that censorship is rife and free speech is still restricted in Ethiopia. People, especially those in positions of power and influence are very reluctant to volunteer information especially of a political nature for fear of victimisation. There were several constraints in the data gathering process. Firstly, government officials in Ethiopia could not fulfil their earlier commitments to assist the researcher. They deemed the questions to be at odds with their officially sworn official secrets obligations. However, they were very generous in availing some secondary sources.

1.7 Conclusion and thesis structure

China's growing presence in Africa has spawned an expanding body of literature seeking to explain the former's motivations and the consequences for the latter. However, as detailed above, most of the frameworks to have emerged in this literature are too state-centric to offer a comprehensive understanding of the role of Chinese investment in Africa such as its impact on state-society relations because they neglect the ways in which internal social forces transform politics. Required, therefore, is a framework that whilst acknowledging role of external forces, also brings in the internal social forces organised through the state to examine how they link with the external variable, in this case foreign Chinese capital. In the next chapter, the theoretical basis of the study is discussed. A single theory cannot explain the state-society impact of Chinese capital adequately. A number of them, namely the state in society framework, Gourevitch's second image reversed approach as well as the relational concept of state power are introduced, discussed and their suitability and complementary relationship for this task justified. The perspectives and approaches that have so far dominated past and ongoing debates will be canvassed in the discussion. Their inadequacy in explaining state transformation through state-society relations is then discussed before the proposed combination of frameworks for this study are introduced.

The third chapter then provides a deeper understanding of the case study, Ethiopia. By elaborating on the economic and political organisation in Ethiopia since 1974, an adequate understanding of the crisis and contradictions of Ethiopia under the socialist Dergue is made possible. In chapter four, the transition from socialism to neoliberalism under the EPRDF regime is examined. This chapter provides the crucial background that made internationalisation of Chinese capital in Ethiopia possible. The chapter is therefore a bridge that traces the changes that took place from a command, centralised socialist economy to a more market oriented, and

neo-liberal regime with the latter ushering in a new wave of external, capitalist players who would eventually seek alliances with local fractions across various economic sectors, a key factor in the transformation process of the Ethiopian state. Chapter 5 identifies, discusses and analyses the drivers of Chinese investment in Ethiopia focusing on how this investment is producing new modalities of state intervention in Ethiopia. The analysis is on the way in which Chinese mode of international engagement – driven by its own distinct capitalist transformation – reinforces Ethiopian neoliberalism particularly by strengthening various forces within the state.

The state-society perspective to Chinese investment in Ethiopia is then deployed in Chapter 6. Here, the distinctive impact of Chinese investment in Ethiopia is identified, explained and interpreted showing how this has led to Chinese globalisation interacting with and reinforcing distinct forms of Ethiopian capital. Chapter seven then lays out how Chinese investment reinforced a system of party capitalism and created and sustained a system of informal politics in Ethiopia. Chapter 8 concludes the thesis by emphasizing that the debate on China in Africa needs to be widened beyond the current theoretical approaches that seem too trapped in state-centric analysis. The chapter also highlights the limitations of the study and suggests some future avenues for research with regard to China-Africa relations.

Chapter 2: Ethiopia-China Relations: An ‘Inside-Out’ Perspective

2.1 Introduction

The key objective in this thesis is to theorise the changing nature of state society relations as these are played out within the Ethiopian state, in the context of growing Chinese investment. The main challenge is to show how the internal and external link together. To meet this challenge, the thesis draws on ‘state-in-society’ approaches, a relational conception of state power and a ‘second-image reversed’ perspective. Migdal’s critique of some of the Weberian foundations of defining the ‘state’ and his alternative state-society framework inspires this study, providing a take-off point. This approach is deliberately preferred because it makes the analysis of social forces and their expression within the state institutions the key point of the analysis. As Migdal notes, the interconnections of the state with other social forces have taken place in multiple arenas of society, and in most instances the state’s agencies have created a formidable presence, precipitating realignments of local forces.⁹³ The chapter therefore also draws on a relational approach to understanding state power which theorizes the internal alliances that the two regimes, the Dergue and Ethiopian People’s Revolutionary Democratic Front (EPRDF) have formed with various sections of the Ethiopian population in legitimating their power.

The state-in-society and relational perspectives address the internal dynamics of state transformation. To encompass and understand the external variable, this chapter also theorizes Chinese capital. Gourevitch’s work on the ‘second image reversed’ is deployed for this task because Chinese capitalism is an ‘international source of domestic politics’⁹⁴ in Ethiopia. The chapter also grapples with and problematizes the

⁹³ Joel S. Migdal, ‘The state in society: an approach to struggles for domination’, in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p21

⁹⁴ Peter Gourevitch, ‘The second image reversed: the international sources of domestic politics’, *International Organization*, 32, 1978, pp 881-912

‘state’ and ‘society’ as theoretical concepts. This also includes the concept of institutions with specific regard to informal institutions as they form a vital cog in the thesis. In sum, this chapter is focused on a comprehensive discussion of all the theoretical perspectives that underpin this study.

2.2 Problematizing the ‘state and society’: State-Society Relations and Globalisation

This study has identified the state-in-society framework as a cornerstone for the analysis. Proposed by Migdal *et al*, this analytical framework is used not only because of its ability to effectively bring the society into political analysis, but also because it is a non-statist theory which interrogates the very ‘state’ itself. It declares that ‘societies affect states as much as, or possibly more than, states affect societies’.

⁹⁵ Bieler and Morton complement Migdal’s argument from a Gramscian perspective on the integral state. The theory of the integral state brings civil society within the dialectical totality, situating it in a dialectical relationship with the capitalist state.⁹⁶ Bieler and Morton argue that ‘capital is not simply represented as an autonomous force beyond the power of the state but is embodied by classes or fractions of classes *within* the very constitution of the state’.⁹⁷ The study is informed by the understanding that Chinese globalisation, just like any other globalisation, does have state transformation consequences in those countries where its international capital interacts with local social forces through the state.

⁹⁵ Joel S. Migdal, ‘Introduction: developing a state-in-society perspective’, in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p2

⁹⁶ Jonathan s. Davies, ‘Neoliberalism, Governance and the Integral State’, *Critical Governance Conference*, University of Warwick, 13-14 December 2010, p16

⁹⁷ Andres Bieler and Adam David Morton, ‘The Will-O’-Wasp of the Transnational State’, *Journal of Australian Political Economy* No. 72

As Weiss points out, global integration raises many questions about the nature and form of the state. Its policy capacities, its institutional integrity and, not least, its political powers have been dramatically altered, so many pundits claim, by the spread of social relations across the globe.⁹⁸

Of all political organisations, the state is the largest, most formal, and most powerful. Yet the state is only one form of organisation among many: It is an organisation within society that coexists and interacts with other formal and informal political organisations. It is, however, distinguished from the myriad of other organizations in seeking predominance over them and in aiming to institute binding rules regarding the other organizations' activities.⁹⁹

From the foregoing, the study contends that the geo-political frameworks that make up the main body of analysis in most China-Africa scholarship in particular has been inadequate mainly because they have treated the state as a 'black box'. This neglects the way in which internal social forces transform politics. For this reason, to understand state-society relations in the face of international capital, Migdal's state-in-society perspective is useful. It revisits and unpacks the classical Weberian conceptualisation of the 'state', offering new insights that are very critical for this study. One of the most critical among these is the unpacking of the state-society complex.

Ethiopia provides a laboratory to understand the nature of this state-society complex within the changing global political economy and particularly the rise of China. The high volume of Chinese investment in its various forms including trade and investment capital alerts us to the fact that state-society relations are also resultantly undergoing a metamorphosis. This chapter introduces the theoretical framework

⁹⁸ Linda Weiss, 'The State-augmenting Effects of Globalisation', *New Political Economy*, Vol. 10, No. 3, September 2005, pp 345-353

⁹⁹ Victor Azarya, 'Reordering state society relations: incorporation and disengagement', in Donald Rothchild, and Naomi Chazan(eds), *The Precarious Balance. State and Society in Africa*, Hebrew University of Jerusalem, 1988, pp 3-21

underpinning this study's main aim which is to show how state-society relations are being impacted by Chinese capital's interaction with some social forces in Ethiopia.

According to Migdal, 'social forces in society represent powerful mechanisms for associative behaviour. These forces encompass informal organisations (such as Senegal's patron-client networks, or friendship groups and old-boy networks in other societies) as well as formal organisations (such as businesses and churches).'¹⁰⁰

Social groups do differ in 'social standing, organisational capacity and political influence' and they 'include state actors such as higher and lower echelon bureaucrats, political parties, customary authorities, professional associations, trade unions, neighbourhood and self-help organizations, social movements, national and international NGOs, churches and religious movements, but also guerrillas, warlords, 'big men', businessmen, multinational corporations, regional and international (government) institutions and foreign states.'¹⁰¹

'Big men', in Ethiopia, would refer to politically connected actors who by virtue of their proximity to the state through the EPRDF regime and its apparatus are major beneficiaries of economic opportunities and normally insulated from legal and other bureaucratic constraints. A state-society perspective makes clear the internal effects of Chinese capital in effecting or rearranging power structures, social dynamics and economic relations in Ethiopia. It is also crucial in identifying the specific social groups that are fundamentally reshaping the state in Ethiopia.

2.3 The 'state in society' framework: Bringing social forces into the analysis

Since the state in society framework is a key pillar of the theoretical grounding for this study, it is imperative to begin with a theoretical explanation of state and society

¹⁰⁰ Joel S. Migdal, 'The state in society: an approach to struggles for domination', in Joel S. Migdal et al, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p20

¹⁰¹ Tobias Hagmann and Didier Peclard, 'Negotiating Statehood: Dynamics of Power and Domination in Africa', *Development and Change* 41(4), 2010, p546

before going on to discuss the specific nature of the state and society in the case study of Ethiopia. In perhaps the classic definition of the modern state, Weber specified that a ‘compulsory political organization with continuous operations will be called a “state” insofar as its administrative staff successfully upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order.’

¹⁰² In the expanded Weberian sense, therefore, the state is defined,

as a territorial entity ruled by an authority that has a monopoly over the legitimate means of violence and that is recognised (or at the very least tolerated) by members of the polity and the larger international community. The keywords are: territory, polity, authority backed by the monopolistic control of the legitimate means of coercion, and recognition at home and abroad.¹⁰³

There have been substantial scholarly contributions to this understanding of the state, all building on the core Weberian dimensions of statehood. A few examples are illustrated below.

Among these recurring aspects is the emphasis on ‘the state’s institutional character (as an organisation or set of organisations), its functions (especially regarding the making of rules), and its recourse to coercion (‘monopoly of the legitimate use of physical force’).’¹⁰⁴ Building on Weber’s definition, Rueschemeyer and Evans conceive ‘the state to be a set of organisations invested with the authority to make binding decisions for people and organisations juridically located in a particular territory and to implement these decisions using, if necessary, force.’¹⁰⁵ Another core

¹⁰² Andres Perez, ‘Legitimacy and the administrative capacity of the state: public administration in developing countries’, *International Review of Administrative Sciences* 57.4, 1991, p644

¹⁰³ Jean-Germain Gros, ‘Towards a taxonomy of failed states in the New World Order: Decaying Somalia, Liberia, Rwanda and Haiti’, *Third World Quarterly*, 17:3, 1996, p456

¹⁰⁴ Max Weber, ‘Politics as a Vocation’, in H. H. Gerth and C. Wright Mills, *From Max Weber: Essays in Sociology*, Oxford University Press, New York, 1946, p78

¹⁰⁵ Dietrich Rueschemeyer and Peter B. Evans, ‘The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention’, in Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, *Bringing the State Back In*, Cambridge University Press, Cambridge, 1985, p46

recurring aspect in most definitions of the Weberian state is that it is regarded ‘as a power organisation that engages in centralised, institutionalised, territorialized regulation of many aspects of social relations’.¹⁰⁶ The state is also said to possess ‘power’, essentially ‘the capacity of the state actually to penetrate civil society, and to implement logistically political decisions throughout the realm.’¹⁰⁷ Indeed, ideal-typical notions of the state as a monopolist of legitimate physical violence, as an autonomous bureaucratic apparatus, as the embodiment of popular sovereignty, and as a spatially and territorially coherent entity enjoy global prominence.¹⁰⁸ These conceptions of the state are enduring and ‘constitute the analytical lenses through which scholars interpret state politics around the world.’¹⁰⁹

Clearly, state-centrism has thus been a dominant theme in analysing political economy as the state has been regarded as the basic unit of analysis. This spans Marxist, modernisation and neorealist theoretical frameworks. However, exposed to contemporary globalisation, the state has undergone and continues to undergo various forms of transformation that serve to underline some of the limitations of the Weberian framework. One example that has exposed the limitations of Weber’s definition of the state is the fact that the state no longer enjoys monopoly of the use of force. In revising and developing Weber’s definition, Mann offers a looser version of the state which comprises four key pointers making it an institutional rather than a functional conceptualisation of state:

- 1) The state is a differentiated set of institutions and personnel
- 2) embodying centrality, in the sense that political relations radiate to

¹⁰⁶ Mann, Michael. *The Sources of Social Power: A History of Power from the Beginning to AD 1760*, volume I., Cambridge University Press, New York, 1986, p26

¹⁰⁷ Michael Mann, ‘The Autonomous Power of the State: Its Origins, Mechanisms and Results’, in John A. Hall, ed., *States in History*, Basil Blackwell, Oxford, 1986, p113

¹⁰⁸ Schlichte, K., *Der Staat in der Weltgesellschaft: Politische Herrschaft in Asien, Afrika und Lateinamerika* [The State in World Society: Political Authority in Asia, Africa and Latin America], Frankfurt and New York Campus, 2005

¹⁰⁹ Tobias Hagmann and Didier Peclard, ‘Negotiating Statehood: Dynamics of Power and Domination in Africa’, *Development and Change* 41(4), 2010, pp 539–562

- and from a centre, to cover a
- 3) territorially demarcated area over which it exercises
 - 4) some degree of authoritative, binding rule making, backed up by some organized political force.¹¹⁰

Such a revisionist definition of the state suggests an important departure from the Weberian school which presented the state as necessarily neat, homogenised and closely integrated. From the above, it is clear that in actual fact, 'states are institutional 'messes' rather than the homogenous structures of ideal type.'¹¹¹ To this end, Shaw would add a new (fifth) criterion to Mann's four criteria for what a state must be, that is, 'to a significant degree *inclusive* and *constitutive* of other forms or levels of state power (i.e. of state power in general in a particular time and space).'¹¹² This understanding of the state is important as it reflects the influence of globalisation and how it has affected the power of the state by taking away some of its long-held privileges and monopolies.

Many other scholars have added their voice in exposing some flaws in the classical definition of the state, challenging some of its core foundations and developing a more complex understanding of the state's power and its social foundations. Among them is Migdal who argues that the main problems with these Weberian definitions include that;

- 1) they tend to feature one dimension of the state, its bureaucratic (or rule-enforcing) character; and 2) they do not capture well 'the formulation and transformation of its goals. As the state organisation comes into contact with various social groups, it clashes with, and accommodates to different moral orders; and therefore 3) the state (should) not be viewed as a fixed ideological entity. Rather it embodies an ongoing dynamic, a changing set of goals, as it engages

¹¹⁰ Michael Mann, *The Sources of Social Power*, Vol. 2: *The rise of classes and nation-states, 1760-1914*, Cambridge University Press, Stearns, New York: Cambridge University Press. 1993. Pp. x, 826

¹¹¹ Martin Shaw, 'The state of globalization: towards a theory of state transformation', *Review of International Political Economy*, 4:3, 1997, p506

¹¹² *Ibid*, 508

other social groups and is thus inseparable from these wider contestations.¹¹³

In relation to this literature, the key point for this study is that, still, these analyses miss the transnational dimension, that is, the changes due to the external actors on domestic structures. The state is not 'above' society but mutually constituted with it. This approach to the state - such as that adopted by Migdal has close affinities with some Gramscian understandings of state power. In short, this study endeavours to develop a relational analysis of the Ethiopian state.

In their discussion on state construction and deconstruction processes in contemporary Africa, Hagmann and Peclard have suggested an interpretative (heuristic) approach different from mainstream frameworks that derive from the Weberian school of statehood, which they term 'negotiated statehood'. Rarely can any social force achieve its goals without finding allies, creating coalitions, and accepting accommodations.¹¹⁴ Stated differently, statehood is essentially the outcome of compromise among various players and not the result of the 'power of the state' as a singular, formal entity. 'The objective of this analytic of statehood in Africa is to better understand how local, national and transnational actors forge and remake the state through processes of negotiation, contestation and bricolage.'¹¹⁵ This thesis contributes to this thinking by providing an analysis of the interplay between Chinese capital and Ethiopian state and society. The distinctiveness of this interplay is that in terms of economic space, the relationship between state and economy is, to say the least, blurred.¹¹⁶ Considering all the above views on theorising the state, this thesis agrees with Jessop that 'state power in turn must be considered as a complex,

¹¹³ Joel S. Migdal, 'The state in society: an approach to struggles for domination', in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p21

¹¹⁴ *ibid*

¹¹⁵ Tobias Hagmann and Didier Peclard, 'Negotiating Statehood: Dynamics of Power and Domination in Africa', *Development and Change* 41(4), 2010, p543

¹¹⁶ Shaun Breslin, 'Capitalism with Chinese Characteristics: the Public, the Private and the International', Working Paper No. 104, Asia Research Centre, June 2004, p21

contradictory effect of class (and popular democratic struggles) mediated through and conditioned by the institutional system of the state.¹¹⁷ The Ethiopian neoliberalism that has emerged from the fusion between the politics and economics in Ethiopia can be read in the same sense.

2.4 The relational understanding of state power

From a Marxist perspective, Bryan offers a relational view and considers the arena of the state to be a messy affair dominated by struggles and counter-struggles. State power is a complex social relation, reflecting the conjunctural balance of social forces.¹¹⁸ Just as both dominant and social classes are components of the social relation of capital, so subordinate as well as dominant classes are represented and expressed within the capitalist state. The state is not a subject itself which exercises political power, but is a locus of political struggle. Political struggles occur within and between apparatuses of the state, so that to posit the state as a unified set of institutions precludes it being seen as a terrain in which political struggle occurs. It follows also that the capitalist state is not a passive political institution which can be “operated” by one class or another, but embodies the contradiction between classes.¹¹⁹ It is the hegemony of one class (or alliance of classes) within the state which expresses the political dominance of that class (or alliance) in social relations generally. There exist social forces organised through the state in Ethiopia. It is imperative to identify and analyse these in preparation for then laying out how and why they have come to mesh with Chinese capitalism in Ethiopia.

¹¹⁷ Bob Jessop, *State Theory: Putting the Capitalist State in Its Place*, The Pennsylvania State University Press, Pennsylvania, 1990, p45

¹¹⁸ Richard Bryan, ‘The State and the internationalisation of capital An approach to analysis’, *Journal of Contemporary Asia*, 17.3, 1987, pp 253-275

¹¹⁹ *ibid*

A further strength of this relational perspective is that we can conceptualise the mutual relationship between internal and external forces in shaping contestation over state power due to globalisation. Globalisation in its contemporary form has played a very important role in how the state has been reconfigured. According to Brenner, ‘globalization as the most recent historical expression of a *longue duree* dynamic of continual deterritorialization and reterritorialization that has underpinned the production of capitalist spatiality since the first industrial revolution of the early nineteenth century’¹²⁰ has led to two important changes: 1) the transcendence of the state-centric configuration of capitalist territorial organization that prevailed throughout much of the twentieth century; and 2) the production of new configurations of territoriality on both sub- and supra-national geographical scales.¹²¹ Therefore, the effort to escape the ‘territorial trap’ of state-centrism does not entail a denial of the state’s continued relevance as a major geographical locus of social power, but rather a rethinking of the meaning of both state territoriality and political space in an era of intensified globalization.¹²²

The strength of the relational perspective has already been exemplified elsewhere, for example Jones’ work on Myanmar. He cautions that rather than viewing the ‘state’ as a rigid entity, it is instructive to consider that states are actually produced.¹²³ This leads to various forms of state transformation for example through various state-society changes. States are seen as being produced, transformed and constrained by conflicts between social forces, particularly classes and class fractions but also ethnic, religious and other groups, as they struggle for power and control over resources.¹²⁴

¹²⁰ Neil Brenner, ‘Beyond state-centrism? Space, territoriality, and geographical scale in globalization studies’, *Theory and Society* 28, 1999, p42

¹²¹ *Ibid*, p43

¹²² *ibid*

¹²³ Lee Jones, ‘The Political Economy of Myanmar’s Transition’, *Journal of Contemporary Asia*, 44:1, 2014, pp 144-170

¹²⁴ *ibid*

2.5 Gourevitch's 'second image reversed': Theorising external agency

To strengthen the thesis' argument that the internationalisation of Chinese capital as the external agency is central to the changing nature of state-society relations in Ethiopia, Gourevitch's 'second image reversed' where the impact of international factors on domestic structures is articulated, is also used. Just as both dominant and social classes are components of the social relation capital, so subordinate as well as dominant classes are represented and expressed within the capitalist state. The state is not a subject itself which exercises political power, but is a locus of political struggle. According to Gourevitch, instead of being a cause of international politics, domestic structure may be a consequence of it.¹²⁵ This thesis advances the claim that Chinese neoliberalism and internationalisation of Chinese state capital has contributed to shaping a distinctive Ethiopian neoliberalism and is playing a significant role in affecting state-society relations in Ethiopia. That international market forces affect politics and have done so for a long time seems incontrovertible.¹²⁶ The key task for this study is to show and explain how this is playing out within the state and society. However, to determine the sort of changes that are taking place, it is critical to also first understand fully the internal character of the Ethiopian state in the first place.

Chinese capital is distinctive and its impact on state-society relations in Ethiopia will depend on the nature and composition of the internal social forces that make up the Ethiopian state. This is where Gourevitch's second image reversed approach is further useful to complement the state in society framework. The state-society and relational frameworks are all linked together with Gourevitch's international sources of domestic politics as 'the impact of each international situation cannot be

¹²⁵ Peter Gourevitch, 'The second image reversed: the international sources of domestic politics', *International Organization* / Volume 32 / Issue 04 / September 1978, pp 881 - 912

¹²⁶ *ibid*

determined without knowledge of the internal character of each society.’¹²⁷ Armed with this critique, this study thus makes a contribution to the China in Africa debate by going beyond the usual geopolitical narrative, by instead employing the state in society framework to unpack the impact of Chinese engagement on the Ethiopian state and society. In view of the spoils and pains that accompany international capital from China in Ethiopia, it is imperative to not only identify the social groups with an interest therein, but also to analyse how their struggles in this context are reshaping the state as witnessed in subsequent policy articulation, distribution of resources and even how international capital is being governed in the Ethiopian state.

2.6 The African State: Trends in party-state systems and institutionalism

This thesis is analysed within the context of the African region, particularly sub-Saharan Africa. One of the main challenges in examining the African state based on the classical Weberian sense or any theoretical frameworks grounded in the Weberian conception of the state is that one soon runs into analytical and contextual problems. The analytical flaws of Weberian conceptions of the state become clearest when they are applied to African states. The African state hardly passes its first encounter with these conceptions because when this is done, the African state can only ever appear as ‘failed’ as the result of the shortcomings of its leadership. Implicit in modernisation theory, for example, was a belief in near absolute autonomy of the political sphere, and in the capacity of the new political elite of tropical Africa to reshape societies in their own image.¹²⁸ African leaders were assumed to have highly personalised the state to an extent that instead of them serving the state, the state actually served their purpose.

¹²⁷ Peter Gourevitch, ‘The second image reversed: the international sources of domestic politics’, pp 881 – 912

¹²⁸ Catherine Boone, ‘States and ruling classes in postcolonial Africa: the enduring contradictions of power’, in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p108

The African state has thus been characterised as strong, centralised and personalised. However, ‘African states have not always been able to secure a monopoly of force against ethno regional opposition movements and, on twenty occasions in the last thirty years, have seen the national territory embroiled in internal war’.¹²⁹ According to Bratton, this actually creates a paradox: the African state is weak by any conventional measure of institutional capacity; yet it remains the most prominent landmark on the African institutional landscape.¹³⁰ However, the relational perspective has been used in the study of the African state by scholars such as Boone to come out with clearer explanations.

It is impossible to continue a discussion on the ‘African state’ without considering the views of Claude Ake. In one of the most ground-breaking early scholarly contributions to the study of the political economy of Africa, the celebrated African scholar described African economies by pointing out the following as the first of five broad characterizations: ‘They are highly statist, that is to say, the state dominates the economy - much more so than in the industrialised West.’¹³¹ Ake’s contribution was to therefore emphasize the overriding supremacy of the state as the most, if not only, important entity in Africa. Writing in 1976, this indeed could have seemed as the case given the problems associated with the then newly independent countries like Ghana, Nigeria, Zambia, Kenya and others where emergent liberation war victors penetrated the new economy through clientist and rent-seeking behaviours. Since then, the wave of globalisation has swept across Africa resulting in several internal and external struggles, contradictions and contestations. These have reshaped the state especially in terms of exercising its sovereignty and power, precipitating a relational, instead of absolute, exercise of power.

¹²⁹ Michael Bratton, ‘Review: Beyond the State: Civil Society and Associational Life in Africa’, *World Politics*, Vol. 41, No. 3 (Apr., 1989), p409

¹³⁰ *ibid*, p410

¹³¹ Claude Ake, ‘Explanatory Notes on the Political Economy of Africa’, *The Journal of Modern African Studies*, 14, 1, 1976, pp. 1-23

Further, besides still falling within the narrow, state-centric lenses of earlier perspectives, some thirty years later, Ake's assertion now needs an update. So much has happened in various African countries and Ethiopia is no exception. Internal political changes have seen governments changing and in the present case of Ethiopia, successive revolutions have deposed very strong regimes beginning with the military Dergue regime which toppled the Imperial regime of Emperor Hayla-Selassie 1 in 1974 only for it to meet the same fate at the hands of the EPRDF in 1991. Further, in the context of this study, Ethiopia's economic relations with China under South-South cooperation have been developing and beginning from 1995 - some twenty years after Ake's assertions - are presently assuming a great prominence and shaking the state in a way that would have been unimaginable three decades ago.

Flanary describes the African state after independence as a neopatrimonial state. The main elements of this theory as a concept of political domination include; highly centralised and often 'personalised' political power upheld through personal loyalties and patron-client relations; politics and economics are seen to be inherently self-sustaining as politics becomes a means of accumulating wealth and vice versa; a high degree of coercion, nepotism and corruption are also deemed to be characteristic features.¹³² Again this theory assumed a conception of the state as a 'thing' standing above society and completely neglected the role of society in its disparate forms in reshaping and reorganising the state. By completely being transfixed with the political elite as the only agency in explaining state behaviour, modernisation theory falls short as a framework that can be relied upon to explain state-society in Africa.

¹³² Rachel Flanary, 'The state in Africa: Implications for democratic reform', *Crime, Law & Social Change* 29, 1998, pp 179-196, p182

Political economists challenged modernisation theorists' notion of state autonomy by pointing to neo-colonialism and dependency.¹³³ In this category fell some writers like Englebert whose strong views on the external agency to the African state actually led him to the extreme conclusion that what has been called an 'African state,' is neither 'African' nor a 'state'. It is instructive to quote the thrust of his view at length:

The contemporary state in sub-Saharan Africa is not African. It descends from arbitrary colonial administrative units designed as instruments of domination, oppression and exploitation. No doubt after some 40 years of independence these states have been transformed, adopted, adapted, endogenized. Yet, their origin remains exogenous: European, not African, and set up against African societies rather than having evolved out of the relationships of groups and individuals in societies... Nor is the African state a state.¹³⁴

Englebert's argument stems from the fact that 'by the standards of Max Weber's classical definition, a state is 'a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory'.¹³⁵ This is a condition Englebert believes most African states do not meet, for 'theirs is a dubious community of heterogeneous and occasionally clashing linguistic, religious and ethnic identities; their claim to force is rarely effective and much less monopolistic; their frequent predatory nature fails the test of legitimacy; and their territoriality is generally at best hesitant and contested.'¹³⁶ Though containing important insights, Englebert's views over-generalise the nature and role of the African state and once again like modernisation theorists, tends to see the state as the only instrument. A consequence of this is that he neglects the way in which the state reflects contestations between various social forces.

¹³³ Catherine Boone, 'States and ruling classes in postcolonial Africa: the enduring contradictions of power', in Joel S. Migdal et al, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p108

¹³⁴ Pierre Englebert, 'Feature review The contemporary African state: Neither African nor state', *Third World Quarterly*, 18:4, 1997, pp 767

¹³⁵ *ibid*

¹³⁶ *ibid*

Other scholars have attempted to identify some of the key features that broadly define the unique nature of the African state in sub-Saharan Africa paying particular, considered attention to its own historiography. Among them is Doornbos who argued that,

the African state has significant common characteristics pointing to a particular configuration, including (i) its post- colonial status, with all the implications this has for the evolution of 'civil society', (ii) its a priori problematic relationship as regards its territorial jurisdiction, (iii) its heavy involvement in a restricted resource base (usually primarily agricultural), (iv) its still relatively undifferentiated yet ethnically heterogenous social infrastructure, (v) its salient processes of centralisation and consolidation of power by new ruling classes, and (vi) its pervasive external context and dependency.¹³⁷

In many respects, this passes as arguably the prime common feature of the African condition in much of African political economy literature by underdevelopment theorists. Underdevelopment theorists argued that African ruling classes enjoyed little autonomy *vis-a-vis* neo-colonial interests and little autonomy to act in ways that systematically violated the logic of global capital.¹³⁸ However, this thesis argues that we need to understand the African state in a more 'relational perspective' by combining both the internal and external variables.

While Ethiopia fits into some general characteristics commonly associated with the African state in African countries, it certainly possesses its own unique characteristics justifying it as a worthy case study. For example, it is one African country with the historical imperialistic exception in that it was never colonised. Ethiopia can thus not be sufficiently explained by generalised perspectives of post-coloniality, for example. Ethiopia offers unique and interesting challenges to the

¹³⁷ Martin Doornbos, 'The African State in Academic Debate: Retrospect and Prospect'. *The Journal of Modern African Studies*, 28, 1990, p180

¹³⁸ Catherine Boone, 'States and ruling classes in postcolonial Africa: the enduring contradictions of power', p108

understanding of how different states have evolved and most importantly, how social groups outside of the formal state have played a prominent role in shaping the state.

There are several key assumptions in the modernisation and underdevelopment frameworks about the African state. One of these assumptions is that of a weak African state that merely takes instructions from China. This assumption underpins much of the China-Africa scholarship which over-emphasizes the salience of geopolitics. This literature neglects the way in which internal social forces and politics are an integral part of how the state ultimately behaves. In light of the influence, importance and intensity of Chinese capital in Ethiopia, ‘serious research is now needed ... on the types of political realignments and social changes that are occurring...’¹³⁹ A critical conception of the Ethiopian ‘state’ therefore forms the requirements for a fresh analysis of how social relations of production are being reorganised as a result of Chinese international capital. Creating the conditions for domination in society and maintaining domination – the reproduction of power within society – are the products of the multiple ongoing struggles and accommodations.¹⁴⁰ Flanary and Callaghy are among scholars on Africa who have unequivocally attempted to separate the African elite from the society. African ruling classes are said to have thus transformed their political power into a means of capital accumulation. The conversion of political power and position into economic wealth for the benefit of the few at the expense of the many has led to the disarticulation of the public and a clear disengagement between state and society.¹⁴¹ Chinese investment in Ethiopia offers opportunities to examine some of these questions.

¹³⁹ David Booth, ‘Alternatives in the Restructuring of State-Society Relations: Research Issues for Tropical Africa’, *IDS Bulletin* vol. 18 no. 4, Institute of Development Studies, Sussex, 1987, p25

¹⁴⁰ Joel S. Migdal, ‘The state in society: an approach to struggles for domination’, in Joel S. Migdal et al, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p21

¹⁴¹ T. Callaghy, ‘The State-Society Struggle: Zaire in Comparative Perspective’, Columbia University Press, New York, 1984

There is a general and well founded concurrence in international relations scholarship that African leaders have been incapable of running the post-colonial state to the satisfaction of the generality of the population. This has led to a serious economic decay, social crisis amid a crisis of expectations. The important thing to note for this study is that whilst the leadership is ultimately responsible, what is required is a relational perspective that recognises that it is not only the elite that is responsible for such economic and social conditions, but a wide array of social forces within the state linked to it as well. Furthermore, even with these social forces brought into the calculus, it is still inadequate. The analysis should also include the external dimensions that interact with the internal forces to produce such outcomes. These crises can only be understood in terms of the broader intertwined transformation of the global and its internal effects not merely the continuing effects of neopatrimonialism.

Consequently, the reasons for this shortcoming lead to many commentators pointing fingers at the ruling class running the state;

Massive state control [has] encouraged and advanced nepotism, bureaucratic and political corruption, and constrained the development of viable and sustainable economic and governmental systems... The control of most economic activities by the state has produced... obstacles to economic and social development in the continent¹⁴²

Buried in this strong statist explanation is the unacknowledged role of social groups. This is because of the fatal tendency to separate the state from its society. States are embedded in society such that it is very misleading to separate the two as distinct 'stand-alone' entities. This has been the case for Africa through precolonial, colonial and postcolonial times. For example, 'the colonial state was strongly shaped by 'indigenous social forces' as colonial rulers relied on and incorporated numerous

¹⁴² J.M. Mbaku, 'Bureaucratic Corruption and Policy Reform in Africa', *Journal of Social, Political and Economic Studies*, 19 (2), 1994, p151

local intermediaries to govern, while post-colonial states ‘exacerbated and institutionalized’ many of the deficiencies of colonial administrations.’¹⁴³ The role of social social forces as well the relational nature of the exercise of power in Africa cannot therefore be overemphasized. There is a lot of knowledge to be gained from combining these two internal factors with the Chinese capital as the external variable to produce an inside-out perspective. This is exactly what this analysis seeks to do.

2.7 The ‘party-state’ system in Africa

One of the two main conclusions of the thesis is that the capitalist model place in Ethiopia is centred on the ruling party. However, the dominant position of the EPRDF should not just be understood as personalised rule, perpetuation of a political culture or simply the power of its incumbency. This study offers new insights into the ‘party-state’ complex by arguing that the EPRDF’s continued stay in power is closely related to the political and economic linkages facilitated through Chinese capitalism in Ethiopia. The bigger picture therefore is that Chinese globalisation, in conjunction with some social forces in Ethiopia, is not only strengthening the EPRDF as a ruling party, but can also be linked to the emergence of party-oriented capitalism as a distinct mode of neoliberalism in Ethiopia. This buttresses the thesis’ argument that there is a need to understand the role of the dominant party in terms of its relationship with systems of economic accumulation. In short, based on the interactions between internal and social forces in Ethiopia in the context of the internationalization of Chinese capital, the thesis argues that the party state system developing in Ethiopia is unique.

The study concedes that dominant party systems in much of Sub Saharan Africa are not new and can be historicized. For example, the legacy of one partyism was

¹⁴³ Tobias Hagmann and Didier Peclard, ‘Negotiating Statehood: Dynamics of Power and Domination in Africa’, *Development and Change* 41(4), 2010, p542

engendered soon after the wars of liberation by the liberation war parties such as Zimbabwe African National Union - Patriotic Front (ZANU PF) in Zimbabwe, African National Congress (ANC) South Africa, and Kenya African National Union (KANU) in Kenya. It was also imposed from above by dictatorial regimes, ostensibly on the basis of uniting the people. The majority of African countries lacked a history of centralised rule or a homogenous political tradition and often did not recognise the political value of party competition and lacked the ideological basis for such competition.¹⁴⁴ However, assuming that the same historical factors that nurtured the 'party-state' system in Africa are the same and unchanging is a failure to understand how contemporary globalisation is making possible complex linkages between internal (e.g political parties) and external forces in mutually reinforcing relationships. This study combines the relational argument and the role of internationalised Chinese capital to argue that this has reinforced the EPRDF party in unique ways.

The EPRDF party has been in power since 1991 and appears to be getting even stronger, increasing its grip on the Ethiopian state. In the last elections in 2015, the EPRDF, and its allies won every single parliamentary seat.¹⁴⁵ This is in contrast to other dominant, veteran parties around it in the region that have regressed and lost political power such as the Kenya African National Union (KANU) in Kenya, the Convention People's Party (CPP) in Ghana, the Malawi Congress Party in Malawi or the United National Independence Party (UNIP) in Zambia. This study will posit that the EPRDF's unique longevity and continued hegemony is also attributable to its party-party linkages with the Chinese Communist Party (CCP). These linkages have provided immense economic opportunities that the EPRDF has converted into political strength hence the strength of its power retention capabilities. The fall of

¹⁴⁴ R. Sandbrook, 'Politics of Africa's Economic Recovery', Cambridge University Press, 1993, p27

¹⁴⁵ BBC 'Ethiopia election: EPRDF wins every seat in parliament', 22 June 2015, <http://www.bbc.com/news/world-africa-33228207>, accessed on 14 March 2016

other dominant political parties alongside the EPRDF's continued strength can in part be attributed to the significant role that its linkages with the CCP facilitated through economic links has provided opportunities for regime hegemony.

According to Bratton, 'the structure of political organisations may be more or less formal and – especially in sub-Saharan Africa – the informal sector of politics has broad scope. Some organisations may be so informal – for example, ethnic or class movements or clienteles of personal patrons – as to be better conceptualised as social forces.'¹⁴⁶ These examples highlight once again the relational exercise of power in the state in so far as they clearly show that power and its reproduction lies not only in the formal institutions of the state like political organisations.

Many other examples of dominant liberation war political parties that have fallen by the wayside abound and although this was largely necessitated by the end of the Cold War as touted by scholars who emphasize external agency, the role of social forces internal has been taken for granted. By definition, according to Greenfeld and Martin;

Although it usually possesses some recognizable attributes, such as territory, continuity in time, structural differentiation, etc., society cannot be defined by any combination of such attributes. Its only definitive characteristic is that it is the outermost social structure for a certain group of individuals who, whatever might be their attribute to it, view themselves as its members and experience their identity as being determined by it.¹⁴⁷

Various social groups interact with formal state structures and various other actors in a rather messier way than is often believed. Part of the literature on the state in

¹⁴⁶ Michael Bratton, 'Peasant-state relations in postcolonial Africa: patterns of engagement and disengagement', in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994

¹⁴⁷ Liah Greenfeld and Michel Martin (eds), *Center: Ideas and Institutions*, The University of Chicago Press, 1988, p27

Africa still assumes that there is a neat differentiation between the realm of the state and the realm of society. This differentiation then leads observers to expect clear-cut boundaries between private and public, legal and illegal, indigenous and foreign, collective and individual domains.¹⁴⁸ This study emphasizes that throughout Africa's colonial and postcolonial history, the interaction between the centre and the periphery has been a constant crucial relationship that has played a key role in producing and reproducing the state.

Having discussed the political economy of the dominant political party system in Africa, the discussion now shifts to the other aspect that is an indicator of the impact of Chinese capital in Ethiopia: informal institutions. These two interrelated strands namely, party-oriented capitalism and informalisation of politics and institutions in Ethiopia represent the study's main evidence of state transformation as a result of the internationalisation of Chinese capital in Ethiopia. While the detailed evidence is discussed in the last chapter, the theoretical aspects surrounding these two strands are first outlined here.

2.8 Institutions

One of the distinctive aspects of Chinese capitalism we note in Ethiopia is that despite all the formal arrangements that it seeks to establish, it also ends up thriving through informal institutions and informal networks. Even though this is part of the findings articulated in the penultimate chapter of this thesis, it is important that the theory behind informalisation of politics be engaged here. This section theorizes informal institutions also in order to determine what they really are. To eliminate possible misconceptions and enhance a clearer understanding, the section will begin the discussion by examining the concept of formal institutions. It is by understanding

¹⁴⁸ Tobias Hagmann and Didier Peclard, 'Negotiating Statehood: Dynamics of Power and Domination in Africa', *Development and Change* 41(4), 2010, pp 539–562

what formal institutions are that it becomes easier to understand what the informal ones are or are not. The section describes the various types of informal institutions and this provides a good basis for identifying those informal institutions that exist in Ethiopia. It also elaborates on the social forces that underlie them, through which Chinese capital was able to penetrate into Ethiopia. This links with the relational argument threading through the thesis because informal institutions become a legitimating force if the formal institutions act as barrier to the entrance or smooth operations of Chinese capital in Ethiopia. The section heavily draws from Helmke and Levitsky¹⁴⁹ who have focused extensively on institutional analysis, both formal and informal.

Institutional analysis has become a very important framework of analysis in politics. Institutions are affected by, and also affect, many political, economic and social arrangements within a given polity. The modern institutionalist theory has at the core of its research agenda two main themes: (i) the search for causality in the relation between institutions and the behaviour of political agents, and; (ii) the analysis of the sources of institutional change.¹⁵⁰ It is by understanding institutionalism that it becomes possible to appreciate and explain the extent to which the external variable (Chinese capital) has impacted on domestic variables (social forces) via the attendant institutions in the state and the resultant transformation of state-society relations in Ethiopia. This reasoning is in line with one of the key arguments of the thesis founded on Migdal's assertion that strongly cautions against treating the state as some form of a unitary entity whose response to outside forces is not influenced by domestic actors. It is therefore important to discuss some definitions around institutionalism before explaining informal institutions.

¹⁴⁹ Gretchen Helmke and Steven Levitsky, "Informal institutions and Comparative Politics: A Research Agenda", *Perspective on Politics*, December 2004, Vol. 2/No. 4

¹⁵⁰ Graziella Testa and Suely Mara Vaz Guimarães Araújo, 'The Methodological Challenges of Informal Institutions of the Brazilian Chamber of Deputies', Draft presentation at the 23rd IPSA World Congress of Political Science, p4

Winiiecki defines institutions as spontaneous or humanly devised arrangements which shape repeated human interactions.¹⁵¹ For Wang, institutions refer to rules of the game; they include formal institutions that take the form of laws and regulations and informal institutions that are implicit norms and customs.¹⁵² In many developing countries, informal institutions carry more weight (in terms of compliance) than formal ones in view of the weakly regulated business environment, poor legal systems and poorly enforced laws.¹⁵³ From the foregoing, the central question that will be answered in the next chapters would be: how then has Chinese capital navigated investment terrain under these circumstances, in the process strengthening and/or creating certain institutions directly and indirectly?

Formal institutions

According to Makinda, institutions are defined in two ways: primary institutions and secondary institutions. Primary institutions would refer to ‘a stable set of rules, principles and norms whilst in the second sense, an institution is a formal organization or secondary institution.’¹⁵⁴ Helmke and Levitsky have provided a more comprehensive definition, explaining that formal institutions are rules and procedures that are created, communicated and enforced through channels widely accepted as official. This, following Makinda’s differentiation, also comprises secondary institutions which ‘includes state institutions (courts, legislatures, bureaucracies) and state-enforced rules (constitutions, laws, regulations),’¹⁵⁵ but also what Ellickson calls ‘organisation rules’, or the official rules that govern

¹⁵¹ Jan Winiiecki, ‘Determinants of catching up or falling behind: interaction of formal and informal institutions’, *Post-Communist Economies*, 16:2, 137-152, 2004, p138

¹⁵² Hongying Wang, ‘Informal institutions and foreign investment in China’, *The Pacific Review*, 13:4, 2000, p526

¹⁵³ Belay Seyoum, ‘Informal Institutions and Foreign Direct Investment’, *Journal of Economic Issues*, 45:4, 2011, p924

¹⁵⁴ Samuel M. Makinda, ‘Hedley Bull and global governance: A note on IR theory’, *Australian Journal of International Affairs*, 56:3, 2002, p366

¹⁵⁵ Gretchen Helmke and Steven Levitsky, ‘Informal institutions and Comparative Politics: A Research Agenda’, *Perspective on Politics*, December 2004, Vol. 2/No. 4

organisations such as corporations, political parties, and interest groups.¹⁵⁶ Makinda goes on to stress that a key relationship exists between primary and secondary institutions: ‘in fact, primary institutions underpin secondary institutions.’¹⁵⁷ Formal institutions, or formal rules (as they are more often called), are constitutions, codes, statutes and other legislative acts. They also include common law and administrative rules.¹⁵⁸ Formal rules establish a minimum degree of conduct expected by persons or businesses in society. Bratton defines formal institutions as the organized routines of political democracy, such as regular elections for top officeholders and legal constraints on the political executive.¹⁵⁹ However, like in most of Africa, it is worth re-emphasising that formal institutions in Ethiopia are very weak and often found wanting because they are either non-existent or underdeveloped. The key point to note however is that, in this thesis, the main focus is on primary institutions.

2.9 Informal institutions in Africa

Informal institutions based on trust and reputation demand more from businesses than formal institutions. Furthermore, the cost of relying on such informal institutions is lower than the costs of depending on formal rules to resolve specific problems.¹⁶⁰ Throughout sub-Saharan Africa’s pre- and post-colonial history, institutions have been central in shaping political, economic and social developments. Hyden asserts that Africa is the best starting point for exploring the role of informal institutions.¹⁶¹ Formal institutions however, are still developing and at various levels are constrained by various problems far too many to even begin

¹⁵⁶ Robert C. Ellickson, ‘Order without law: How neighbors settle disputes’, Harvard University Press, Cambridge, 1991, p31

¹⁵⁷ Samuel M. Makinda, ‘Hedley Bull and global governance: A note on IR theory’, Australian Journal of International Affairs, 56:3, 2002, p366

¹⁵⁸ Jan Winiecki, ‘Determinants of catching up or falling behind: interaction of formal and informal institutions’, Post-Communist Economies, 16:2, 2004, pp137-152

¹⁵⁹ Michael Bratton, ‘Formal versus Informal Institutions in Africa’, Journal of Democracy, Volume 18, Number 3 July 2007, pp. 96-110, p97

¹⁶⁰ Belay Seyoum, ‘Informal Institutions and Foreign Direct Investment’, pp 917-940

¹⁶¹ Goran Hyden, African Politics in Comparative Perspective. New York: Cambridge University Press, 2006, p78

discussing here. The inadequacy and underdevelopment of Africa's formal institutions has contributed to the informalisation of politics. For Ethiopia, where colonialism was resisted, the building of modern, conventional institutions necessary for a capitalist mode of production is understandably and uniquely 'behind schedule'. Nevertheless, a problem arises when institutions are unable to guarantee the order for which they were created, that is, when a discrepancy arises between the behavioural norms of formal institutions and the actual behaviour of individuals.¹⁶² This necessitates the birth, emergence or natural creation of the opposite: informal institutions.

According to Bratton, the term 'informal institutions' refers to the patterns of patron-client relations by which power is also exercised.¹⁶³ These institutions or rules are more varied than formal institutions, and consist of customs and other tradition-based conventions, beliefs (religious, ideological), self-imposed codes of conduct etc. One should include here ingrained habits, often shaped by previous formal rules. It should be noted in passing that such habits were themselves an amalgam of the impact of still earlier formal rules, which, together with the previous formal rules (then in existence), influenced interactions.¹⁶⁴ Critical dependencies are managed by ties of trust and reputation. Informal institutions take the form of agreed upon rules/codes of conduct that produce cooperative outcomes through features such as accounting and auditing standards established through professional associations, ethical behaviour of firms or corporate social responsibility. Standards are often set by business or trade associations.¹⁶⁵

¹⁶² Hans-Joachim Lauth, 'Informal Institutions and Democracy, Democratization', 7:4, 21-50, 2000, p22

¹⁶³ Michael Bratton, 'Formal versus Informal Institutions in Africa', *Journal of Democracy*, Volume 18, Number 3 July 2007, pp. 96-110, p97

¹⁶⁴ Jan Winiacki, 'Determinants of catching up or falling behind: interaction of formal and informal institutions, Post-Communist Economies', 16:2, 137-152, p138

¹⁶⁵ Belay Seyoum, 'Informal Institutions and Foreign Direct Investment', p926

Patron-client relationships are therefore very pronounced and most arrangements have to operate in the informal world. Bratton has lamented that ‘sadly, neither of these two types of political institutions (patron-client relationships), nor their interactions, are well understood as they exist in and touch on Africa.’¹⁶⁶ Seyoum certainly had countries like Ethiopia in mind when he opined that ‘in countries where the formal institutions are weak, market participants gain information about the business environment, quality of investment partners, etc., through informal alternatives. In countries with efficient corporate boards, accounting/auditing information and professional management, for example, business information is more transparent and reliable.’¹⁶⁷ Foreign capital, just like domestic capital, relies heavily on informal institutions in Ethiopia for information, speeding up transactions and even for beating the system on taxes, regulations etc.

The major differentiating factor between formal and informal institutions is the agency of facilitation, enforcement and regulation. Whilst formal institutions are guaranteed by state agencies and their disapproval is sanctioned by that state, informal institutions are based solely on the fact of their existence and of their effectiveness.¹⁶⁸ Compliance is not based on legal enforcement or state coercion but established or internalized norms founded in shared expectations as well as social and economic sanction for deviant action.¹⁶⁹ Informal institutions find ways of self-regulation; compliance is rewarded with earned respect, trust and future promises of further engagement whilst deviance results in not necessarily quantifiable but effective social costs like the loss of reputation or exclusion. This effectively shapes behaviour.

¹⁶⁶ Michael Bratton, ‘Formal versus Informal Institutions in Africa’, *Journal of Democracy*, Volume 18, Number 3 July 2007, pp. 96-110, p97

¹⁶⁷ Belay Seyoum, ‘Informal Institutions and Foreign Direct Investment’, p936

¹⁶⁸ Hans-Joachim Lauth, ‘Informal Institutions and Democracy’, *Democratization*, 7:4, 21-50, p24

¹⁶⁹ Belay Seyoum, ‘Informal Institutions and Foreign Direct Investment’, p926

Informal institutions are thus socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels. Informal networks exist in every society. Even in the most advanced industrialized societies, which come closer to the Weberian ideal of a rational legal order, informal networks play an important role in maintaining political order and facilitating economic activities, not to mention providing social cohesion. For instance, political patronage networks, old boys' networks in employment and professional development, and ethnic networks of economic and social support are prevalent in the United States. Informal networks dominate Japanese politics and economy.¹⁷⁰

However, it is also important to acknowledge early on that despite their significant usefulness as an analytical tool, studying informal institutions is fraught with difficulties precisely because of what they are: an informal phenomenon. Regardless of methodology, informal institutions are harder to observe than formal ones. Survey-based indicators are admittedly approximate and fail to capture the full dimensions of complex informal phenomena.¹⁷¹ To improve clarity and minimise distortions and misleading conclusions therefore, extra care should be taken to certainly avoid labelling everything that is not a formal institution as automatically falling into the informal institution category. For one thing, it is much more difficult to obtain knowledge about the informal institutions of a country than it is to form an opinion about the formal institutions.¹⁷² Helmke and Levitsky helpfully suggest that informal institutions may be partly defined by reference to what they are not. Their argument is paraphrased thus: to be considered informal institutions, they i) should be distinguished from weak institutions; ii) must be distinguished from behavioural regularities as illustrated by Brinks example that removing one's hat in church is an

¹⁷⁰ Hongying Wang, 'Informal institutions and foreign investment in China', *The Pacific Review*, 13:4, 2000, p531

¹⁷¹ Michael Bratton, 'Formal versus Informal Institutions in Africa', *Journal of Democracy*, Volume 18, Number 3 July 2007, pp. 96-110, p98

¹⁷² Hongying Wang, 'Informal institutions and foreign investment in China', p530

informal institution, whereas moving one's coat in a restaurant is simply behavioural regularity, and iii) should be distinguished from informal organisations.¹⁷³

Types of informal institutions

Informal institutions come in various forms and it is helpful to look at their various types with a view to making identification of the same within the Ethiopian state manageable. Informal institutions and social forces have always been important in Ethiopia's political economy to the extent that they have significant economic, political and social influence within the state and how power is exercised within the state. For example, the elite class can be summarised thus: until 1975, the Ethiopian elite were 'landed and titled by the monarchy and were mainly Amhara (from central Shewa province), 'Amharized' Oromo (again primarily from Shewa), and a smattering of Tigrayans and Amhara from the neglected northern core of the historic Ethiopian state.'¹⁷⁴ In the period between 1975 and 1990, it was the top echelon of the state bureaucracy, mainly the military. But from 1991 to the present, the top elite is found among the TPLF and top echelons of the satellite parties under EPRDF. Chinese investment has had the impact of strengthening such institutions as well as creating some at the same time. For example, local businesspeople who work with the Chinese are among those who form the core of the elite now.

Complementary institutions are informal institutions that coexist with effective formal institutions, such that actors expect that the rules that exist on paper will be enforced.¹⁷⁵ Such institutions "fill in gaps" either by addressing contingencies not dealt with in the formal rules or by facilitating the pursuit of individual goals within

¹⁷³ Gretchen Helmke and Steven Levitsky, 'Informal Institutions and Comparative Politics: A Research Agenda', *Perspectives on Politics*, Vol. 2/No. 4, December 2004, p727

¹⁷⁴ Berhanu Abegaz, Academic and expert on the political economy of Ethiopia, Interview, 2 February 2016

¹⁷⁵ Gretchen Helmke and Steven Levitsky, 'Informal institutions and Comparative Politics: A Research Agenda', *Perspective on Politics*, December 2004, Vol. 2/No. 4, p728

the formal institutional framework. These informal institutions often enhance efficiency. Then there are accommodating informal institutions, which are informal institutions that create incentives to behave in ways that alter the substantive effects of formal rules, but without directly violating them; they contradict the spirit, but not the letter, of the formal rules. Accommodating informal institutions are often created by actors who dislike outcomes generated by the formal rules but are unable to change or openly violate those rules. As such, they often help to reconcile these actors' interests with the existing formal institutional arrangements. Hence, although accommodating informal institutions may not be efficiency enhancing, they may enhance the stability of formal institutions by dampening demands for change.¹⁷⁶

Competing informal institutions are informal institutions that coexist with ineffective formal institutions. In such cases, formal rules and procedures are not systematically enforced, which enables actors to ignore or violate them. Particularistic informal institutions such as clientelism, patrimonialism, clan politics, and corruption are among the most familiar examples.¹⁷⁷ Substitutive informal institutions are employed by actors who seek outcomes compatible with formal rules and procedures. Like competing institutions, however, they exist in environments where formal rules are not routinely enforced. Hence, substitutive informal institutions achieve what formal institutions were designed, but failed, to achieve. Substitutive institutions tend to emerge where state structures are weak or lack authority.¹⁷⁸

However, one of the thesis' central contributions is to show that informal institutions and the relationship between the formal and the informal are not merely part of political culture or the continuity of African traditions. The thesis' argument is that

¹⁷⁶ Gretchen Helmke and Steven Levitsky, 'Informal institutions and Comparative Politics: A Research Agenda', *Perspective on Politics*, December 2004, Vol. 2/No. 4, p729

¹⁷⁷ *ibid*

¹⁷⁸ *ibid*

the increasing role of informal institutions in Ethiopia reflects, in part, the emergence of new social forces that are emerging out of the effects of Chinese capital. Hence, the growing informalisation of institutions is reflective of the new dynamics of the Chinese capital. For example corruption, policy networks, patrimonialism, norms and cultures are some of the informal institutions that have either emerged or been reinforced by various forms of Chinese capital in Ethiopia as illustrated in chapter 6. The relational perspective, a key theoretical component of the study allows us to study the informal institutions in terms of the underlying social forces and interests that sustain and reproduce these informal institutions.

2.9.1 Conclusion

This thesis goes beyond the geo-strategic approach to focus on the way the Chinese engagements and investment in Ethiopia shape the way new and old social forces respond to the external imperative within state institutions. This task is aided by a theoretical framework that brings in social forces in the calculus of state transformation. This chapter has explained and justified this framework, making it well placed to answer the research question. The state-society framework marks itself out as a unique approach capable of making an important contribution to politics in Africa. Because it pays close attention to the crucial questions surrounding the 'state', it challenges established approaches especially those that have for a long time attributed to the formal state, an immense amount of authority, influence and power. By bringing social forces into the centre of the discussion, it is an approach that indeed, unlike many others, tries to keep pace with the fast changes occurring in society and play a crucial role in shaping the state. Indeed, the challenge to political analysis has always been how to systematically combine the internal and the external factors and their contribution to the creation of new alliances and fractions as well as the remodelling of old ones. The framework alerts us to the fact that state power can be understood best as a complex social relation. In the next chapter, this logic guides

the discussion by explaining the social formations and the link between state and society or formal and informal power. The chapter has also discussed the two interrelated strands that form the backbone of the thesis: party statism as well as informal institutions as dimension of state transformation. In the next chapter, the study examines the crisis caused by the Dergue and more importantly, how it set the stage for Chinese investment.

Chapter 3: Crisis and contradiction in Ethiopia since 1974: Setting the Stage for Chinese investment

3.1 Introduction

Two periods have significantly shaped contemporary Ethiopia: the reign of the Dergue regime (1974 -1991) and the reigning EPRDF government. Most scholars on Ethiopian politics like Young¹⁷⁹ and Keller¹⁸⁰ concur that the period immediately after the year 1991 was the turning point in Ethiopia's social, political and economic development. Whilst this thesis is essentially located in the period immediately relevant to the project, that is from 1991 onwards, it is only possible to understand the political economy of this period by understanding its predecessor regime, Mengistu's Dergue regime, which was in power between 1974 and 1991. The key task for this chapter is an analytical discussion of the socialist Dergue regime with the aim of showing how the state has always been embedded in social struggles in Ethiopia. To achieve this, the chapter carefully selects a number of internal issues like ethnicity, land and economic policy that clearly denote the relational aspect of power in Ethiopia. When the liberal reform under the EPRDF regime is examined in the next chapter, the important difference between the two periods is the external dimension that lacks in the Dergue period. This difference must be understood to appreciate the distinct nature of state-society relations in either period.

This chapter will show that state-society relations during the Dergue were influenced primarily by internal factors as the political economy was insulated from external forces like foreign capital. This is largely because of the limited foreign influence

¹⁷⁹ Jon Abbink, 'The Ethiopian Second Republic and the Fragile 'Social Contract'', *Africa Spectrum* 44, 2009, pp 3-28.

¹⁸⁰ Edmond J. Keller, *Revolutionary Ethiopia: From Empire to People's Republic*, No. 646. Indiana University Press, 1991

that could be had since, among other measures; the regime was not inclined towards foreign investment. The socialist policies of the Dergue provide a background to the shift to liberalism by its successor EPRDF government. The latter opened the avenue for foreign capital, particularly Chinese investment, the subject of the next chapter. First, however, the chapter opens with a brief background to the Ethiopian state before analysing by far the most important aspect of Ethiopia's political economy: ethnicity. An analysis of the socialist policies of the regime is then followed by a discussion of the subsequent crisis that the policies caused, leading to its demise.

3.2 Background to the Ethiopian state

Ethiopia is one of the oldest continuing polities in the world, with its political beginnings rooted in the Axumite kingdom that reached its zenith between the 4th and 6th centuries A.D.¹⁸¹ Ethiopia has an interesting history and occupies a special place on the African continent, especially in the Sub Saharan African region. Perhaps the most famous aspect of Ethiopia is that it is virtually the political and economic capital of the continent and hosts the seat of the African Union (AU) as well as the Economic Commission for Africa (ECA) in Addis Ababa. Central to the reasoning behind making it Africa's regional citadel is the historic fact that it is the only country never to have been colonised on the whole sub-Saharan African continent, what Aalen terms a 'historical exception'.¹⁸² Ethiopia is the only African country to fight and defeat a European colonising force, successfully repelling Italian colonial forces in the early twentieth century. This is notwithstanding the brief interlude of Italian occupation that did not last more than 200 days.

¹⁸¹ Walle Engedayehu, 'Ethiopia: Democracy and the Politics of Ethnicity', *Africa Today*, Vol. 40, No. 2, *The Horn of Africa: Reconstructing Political Order* (2nd Qtr., 1993), pp. 29-52

¹⁸² Lovise Aalen, 'Ethnic Federalism in a Dominant Party State: The Ethiopian Experience 1991-2000', Report R 2002: 2, Chr. Michelsen Institute Development Studies and Human Rights, p2

However, especially for the purpose of this study, there is something unique about Ethiopia that makes the academic enquiry on its transformation quite illuminating. First, it has a political regime that came to power after waging a successful armed struggle, and has instituted a unique political system in Africa: an ethnic-based federation whereby the old unitary state was given up and sovereignty was vested in the country's "nations", "nationalities" and "peoples".¹⁸³ Secondly, Ethiopia is home to a very significant amount of Chinese investment. As the seat of the African Union, it also has a very important political multilateral diplomatic relationship with China alongside an individual, economic and political bilateral relationship.

Officially, the country is known as the Federal Democratic Republic of Ethiopia (FDRE) whose capital city is Addis Ababa. The Federation is composed of Nine States (*killils*): Tigray, Afar, Amhara, Oromia, Somali, Benishangul-Gumuz, Southern Nations Nationalities and People's Region (SNNPR), Gambella and Harari Regional States; and two Chartered Cities – Addis Ababa and Dire Dawa.¹⁸⁴ The Ethiopian state traces its roots to the Axumite civilisation in the first millennium BC, whose centre was in what is now the province of Tigray.¹⁸⁵ Although it declined after the seventh century AD, Axum's legacy was sustained in the core of what was to become Ethiopia in the form of Coptic Christianity, the liturgical Geez language of the Church which is the basis of the modern languages of Tigrigna and Amharigna spoken by the two branches of the Abyssinian family, and a feudal system that survived up to the 1974 revolution.¹⁸⁶ Geographically, it enjoys a unique location at crossroads between Africa, the Middle East, and Asia. Ethiopia is bordered by Djibouti and Somalia to the East, Eritrea to the north, South Sudan and Sudan to the

¹⁸³ Tobias Hagmann and Jon Abbink, 'Twenty years of revolutionary democratic Ethiopia, 1991 to 2011', *Journal of Eastern African Studies*, 5:4, 2011, pp 579-595

¹⁸⁴ The Embassy of the Federal Democratic Republic of Ethiopia To the Commonwealth of Australia, 'Ethiopia in Brief', <http://www.ethiopianembassy.net/about-ethiopia/>, accessed on 12 March 2015

¹⁸⁵ John Young, 'Ethnicity and power in Ethiopia', *Review of African Political Economy*, 23:70, 1996, 531-542

¹⁸⁶ *ibid*

west and Kenya to the south. Covering an area of 1.14 million sq. km., 45% of which is arable land and a population of over 80.9 million (2010/11) and a population density of 70.96 per sq. (2010/11),¹⁸⁷ Ethiopia is one of the largest countries on the continent and the most populous landlocked country in the world, as well as the second most populated country in Africa.¹⁸⁸

Ethiopia is a multilingual society with around 80 ethnic groups; with the two largest being the Oromo and the Amhara¹⁸⁹. Major religions in the country also resemble this ethnic diversity. The major ones are Christianity and Islam but there are a number of traditional ones as well. It is a predominantly poor country with the rural population constituting up to 85% of the population.¹⁹⁰ The extreme poverty has been exacerbated by frequent famine and, historically, plagues of locusts.¹⁹¹ This demographic statistic does indicate the importance of the rural population when it comes to political power by the sheer fact of their numerical strength and also emphasizes the sensitive nature of the land resource. The political system is built around a multi-party federal system. The Ethiopian constitution was adopted in 1995. The constitution provides for a federal system, which is structurally based on the federal government with nine autonomous regional states and two chartered city administrations.¹⁹² The FDRE has a parliamentary form of government with a bicameral parliament which comprises the House of the People's Representatives and the House of the Federation. The House of the People's Federation is the highest authority of the Federal Government.¹⁹³

¹⁸⁷ Ethiopian Investment Agency, Ethiopia: Land of Tomorrow, 2013

¹⁸⁸<http://en.wikipedia.org/wiki/Ethiopia>

¹⁸⁹ibid

¹⁹⁰ Arne Bigsten *et al*, 'Growth and Poverty Reduction in Ethiopia: Evidence from Household Panel Surveys', World Development Vol. 31, No. 1, 2003, pp. 87–106

¹⁹¹ Alemseged Abbay, 'Diversity and democracy in Ethiopia', Journal of Eastern African Studies, 3:2, 2009, pp 175-201,

¹⁹² Ethiopia Investment Agency, Invest in Ethiopia: An investment guide to Ethiopia: Opportunities and Conditions 2013, p1

¹⁹³ibid

Amharic is the working language of the Federal Government and Oromiffa and Tigrigana are other major languages widely spoken in the country.¹⁹⁴ At present there are about seventy cultural groups in Ethiopia.¹⁹⁵ Of these, the Oromo, Amhara, Tigray, Afar and Somalis are the largest, but none has a demographic majority.¹⁹⁶ There are two dominant religious groups: Muslims, constituting about 40 per cent, and Christians, slightly a slightly larger group.¹⁹⁷ There are a number of traditional religions as well. Nevertheless, the Amharai Tigray Christian hegemony remained the most distinguishing feature of the Ethiopian state despite several attempts to alter this from within and without.¹⁹⁸ Ahmed Gran's Islamic conquests in the sixteenth century (Gorman 1981), Beta Israel's (Felasha) opposition to Christian hegemony in the fourteenth and fifteenth centuries (Quirin 1993), and the Mahdist attacks from Sudan in the late nineteenth century (Erich 1996) are cases in point.¹⁹⁹

Political power in Ethiopia is closely tied to material and economic interests. This predates both the EPRDF and the Dergue regimes. In the imperial era of Haile Selassie, for example, the landholding class was the basis of power, and the inequalities and economic stagnation in that system contributed to the downfall of the emperor in 1974. However, in line with the state-society framework employed, this thesis concurs with Abbink's assessment that a focus on formal politics is misleading. In Ethiopia, where institutional reforms and a process of political liberalization began in earnest after 1991, the vital political decisions are made in the informal sphere, behind the façade, in circles and networks of a neo-patrimonialist

¹⁹⁴ Ariana Corporation, <http://www.ariana-co.com/en/conferance/aboutethiopia>, accessed on 15 March 2016

¹⁹⁵ Assefaw Bariagaber, 'Ethnicity and Constitutionalism in Ethiopia', in Cris E. Toffolo, *Emancipating Cultural Pluralism*, State University of New York Press, New York, 2003, 223

¹⁹⁶ *ibid*

¹⁹⁷ Constitutionet, 'Constitutional history of Ethiopia', <http://www.constitutionnet.org/country/constitutional-history-ethiopia>, accessed on 12 January 2015

¹⁹⁸ Assefaw Bariagaber, 'The politics of cultural pluralism in Ethiopia and Eritrea: trajectories of ethnicity and constitutional experiments', *Ethnic and Racial Studies*, 21:6, 1998, 1056-1073

¹⁹⁹ *ibid*

nature, impervious to what institutions like a parliament or a high court say.²⁰⁰ The relationship between formal and informal institutions of power is central to the analysis of Ethiopian politics.

This brief insight into the formal institutions within the Ethiopian state and its development and situates the country in its broader political context. However, as the thesis argues, state institutions are embedded in deeper social and political contestation. These are expressed through struggles and contradictions around religious tensions, ethnic rivalry, and land politics as well as the role of elites in projects of ethnic nationalism, mass mobilisation and governance. The Dergue opted for a socialist economic system where market forces were deliberately suppressed and socialisation of the production and distribution process pursued vigorously. Before elaborating on the socialist rule of the Dergue regime, the thesis now briefly detours to briefly discuss a background to ethnicity in Ethiopia. The value of this section is in that any understanding of the political economy of Ethiopia is enhanced by appreciating the ethnic component. Access to power,²⁰¹ identity as well distribution of resources is largely linked to ethnic politics and ethnonationalism in Ethiopia.

3.3 The enduring legacy of ethnicity in Ethiopia

According to Azam, state formation in Africa began with an institutional endowment of ethnic division.²⁰² The aspect of ethnicity is a crucial variable in the political economy of not just Ethiopia, but across sub-Saharan Africa. It is a source of tension, identity, entitlement and disenfranchisement. In the majority of countries, ethnic

²⁰⁰ J. Abbink, 'Discomfiture of Democracy? The 2005 Election Crisis in Ethiopia and its Aftermath', *African Affairs*, 105/419, pp 173-199

²⁰¹ John Young, 'Ethnicity and power in Ethiopia', *Review of African Political Economy*, 23:70, 1996, pp 531-542

²⁰² Jean-Paul Azam, 'The Redistributive State and Conflicts in Africa', *Journal of Peace Research*, Volume 38, Number 4, July 2001, p430

tension is exacerbated by a colonial legacy of balkanised ethnic and tribal groups through the arbitrary drawing of borders that began with the Berlin Conference of 1884-85 at the peak of the ‘Scramble for Africa’.²⁰³ Essentially, various ethnic groups were lumped up into one state with far reaching consequences for peace, sustainability and development. Additionally, colonial policies, including divide and rule politics that were instrumental in the administration of colonies, have had domino effects that have continued into the post-colonial era. Ethnic tension, often mixed with religious differences has threatened to rip apart countries like Rwanda, the Democratic Republic of Congo (DRC), Kenya, Zimbabwe, Nigeria, Burundi, and Liberia among others. Lesotho is the only African country with a population comprised of a single ethnic group.

Bringing back the discussion to Ethiopia, persistent ethnic cleavages, suppressed until 1974, were brought into the open as a result of the revolution of 1974, and ethnic-based organizations proliferated all over the country.²⁰⁴ It can be stated with a great degree of certainty that probably the single most important factor that is crucial in Ethiopia’s state, politics and economy is ethnicity. It is a crucial arena for political, economic and social contestations over the distribution of material and identity resources. In the next section, it will be discussed in detail how this contestation is played out within the state. Ethiopia is ‘one of the most ethnically diverse countries aptly described by a twentieth century Italian historian Carlo Conti Rosini as the museum of people.’²⁰⁵ Internally, religion, regional location, ethnicity, and nationality have each, at various times and in varying combinations, served as focal points in the contest for power and control over economic resources.²⁰⁶ However, it has often been

²⁰³ Ieuan Griffiths, ‘The Scramble for Africa: Inherited Political Boundaries’, *The Geographical Journal*, Vol. 152, No. 2, Jul., 1986, pp. 204-216

²⁰⁴ Assefaw Bariagaber, ‘The politics of cultural pluralism in Ethiopia and Eritrea: trajectories of ethnicity and constitutional experiments’, *Ethnic and Racial Studies*, 21:6, pp 1056-1073

²⁰⁵ Donald N. Levine, ‘Greater Ethiopia: The Evolution of multi-ethnic society’, The University of Chicago Press, 1974, p20

²⁰⁶ Alemayehu Geda, *The Political Economy of Growth in Ethiopia*, Chapter 4 of volume 2, p3

overlooked that various ethnic groups are themselves a crucial social force in Ethiopia. They equally exert influence on the political elites in the negotiation and production of ethnic space and the opportunities that come with it. But these ethnic identities are mobilised in political struggle and contestation and become the focus of the struggle within the state. The Dergue regime was ethnically aligned to the Amharic group and its reign reflected its pro-Amharic attitude with regards to distribution of power and control in the state. When it was overthrown in 1991 by the EPRDF, however, the new political authority also began to build its power along ethnic lines and because the Tigrayan-dominated TPLF was the leading faction in the coalition, the EPRDF is accused by its critics for replacing an ‘Amharic hegemony’²⁰⁷ with a Tigrayan one.

It is necessary to begin with an examination of the ethnic question because it helps to elucidate why the EPRDF later introduced a radical reform making Ethiopia an ethnic federal state. According to Aalen, the federalisation of Ethiopia was introduced after a long period of attempted centralisation in the country and was received with both hope and scepticism from the international community and political groupings within the country.²⁰⁸ This move was despite the fact that ‘at no time in their modern history have Ethiopians ever made demands for separation along tribal lines.’²⁰⁹ Ethnicity has always been a flashpoint in Ethiopia’s socio-political development given how ethnically diverse the country of more than 80 million people is. Many contestations that arise in the socio-economic and political arena in Ethiopia are entangled with ethnic identity. For this reason, political players in Ethiopia always have used ethnic politics as a political

²⁰⁷ Kenneth Inyani Simala, ‘The Power of Language and the Politics of Regime Change in Africa’, in Maurice Nyamanga Amutabi and Shadrack Wanjala Nasong’o (Eds), *Regime Change and Succession Politics in Africa. Five Decades of Misrule*, Routledge, New York, 2013, p199

²⁰⁸ Lovise Aalen, ‘Ethnic Federalism in a Dominant Party State: The Ethiopian Experience 1991-2000’, Report R 2002: 2, Chr. Michelsen Institute Development Studies and Human Rights, p1

²⁰⁹ Assefa Mehretu, ‘Ethnic federalism and its potential to dismember the Ethiopian state’, *Progress in Development Studies* 12, 2&3, 2012, p115

mobilisation tool as well as a mechanism for legitimating their power. The study will show that ethnicity is one of the clearest examples of the relational exercise of political power in Ethiopia.

Ethnicity is therefore a crucial aspect that has continued to be a constant in state-society relations in Ethiopia and its influence is immense. It is from ethnic groups that informal political, social and economic networks emerge. According to Azam, roughly speaking, 'ethnic capital' is the 'social capital' that the ethnic group provides for its members.²¹⁰ What makes Ethiopia unique in any study that appreciates the role of ethnicity in state-society relations in Africa is that, by virtue of the fact that it had not been subjected to colonialism, it survived the complex problem of externally imposed tribalism where colonial rulers exploited ethnic differences for their own ends. Crucially, the ensuing legacy, even after the colonialists had departed, has blighted post-colonial Africa with serious consequences for nation-building, state-building, internal cohesion and peace and development. In virtually all of sub-Saharan Africa, governments face a very difficult challenge posed by the multi-ethnic nature of their countries. The Rwandan genocide of 1998 that saw the massacre of close to a million people inside one hundred days is probably the most well-known example of this problem. Even in countries not in conflict, or at least with no outright hostilities, ethnicity is still skilfully used in all sorts of ways in ways that impact on the state and its transformation. For Ethiopia, however, ethnic organisation is purely a product of endogenous factors.

²¹⁰ Jean-Paul Azam, 'The Redistributive State and Conflicts in Africa', *Journal of Peace Research*, Volume 38, Number 4, July 2001, p430

3.4 The socialist Dergue regime (1974-1991): Nationalisation, the rural economy and Land reform

This section gives an overview of the EPRDF's predecessor, the socialist Dergue regime. This background is important as it provides the circumstances under which the EPRDF eventually took over power in Ethiopia. Even more crucially, it also shows how the state has always been embedded in the social struggles, conflicts and contestations in Ethiopia. Three aspects of the regime's socialist rule are briefly examined, namely economic policy, land reform, and nationalisation. These three examples will highlight the embeddedness of the state in the struggles in the Ethiopian society and how they play out within the state.

The 1974 popular revolution that took place in Ethiopia initially replaced Emperor Haile Selassie with the Provisional Military Administrative Council (PMAC). From the earliest days of the revolution, the state as represented by the Provisional Military Administrative Council (PMAC) or the Dergue assumed a vanguard role.²¹¹ Describing how the system operated then, Sklar noted that 'the dominant institution is not the vanguard party; rather it is the state constituted as a military oligarchic ruling class'.²¹² Some scholars like Kebede, however, argue that what happened in 1974 was not a revolution but a 'stolen revolution' as they accuse the Dergue of hijacking a people's revolution insisting that 'a revolution inspired and led by the Ethiopian civilian left was gaining momentum when it was brutally interrupted by a military coup'.²¹³ Kebede's argument is another example of the role of social forces

²¹¹ Edmond J. Keller, 'State, Party and Revolution in Ethiopia', *African Studies Review*, vol. 28, no. 1, March 1985, pp 1-17

²¹² Richard Sklar, 'The Nature of Class Domination in Africa.', *The Journal of Modern African Studies*, 17.04, 1979, pp. 531-552

²¹³ Messay Kebede, 'The Civilian Left and the Radicalisation of the Dergue', *Journal of Developing Societies* 24, 2008, p160

in shaping the political order of the state being ignored in analysis. Rather, in this account, the role of the military is given omni-prominence.

The Dergue may have eventually installed itself as the ruling political force in Ethiopia after the fall of the Imperial regime but this significant state transformation in 1974 was made possible by the role of other social forces such as students and intellectuals. Students and intellectuals played an important role in the revolution, not because they were powerful, but because they defended and popularized an ideology that fitted, unintentionally, the interests of the Dergue. Their resounding participation in the civilian unrest; their defense of socialism as the right solution to Ethiopia's problems; the reputation they had acquired during their long and solitary struggle against Haile Selassie; the fact that socialism appeared as the position of the majority of modern educated Ethiopians; and the prestige of Marxism as the dominant ideology of the time, all helped students popularize the socialist ideology.

²¹⁴ The Dergue was able to relate to this ideology and adapted it to justify its rule. Without such a vocal group that popularized the Marxist-Leninist ideology with articulate and revolutionary slogans like 'land to the tiller', it is inconceivable the Dergue would have rose to the apex of the Ethiopian state, nor would the state had transformed the way it did in 1974.

Inspired by Marxist-Leninist ideas, the Dergue's approach to economic organisation indicates a desire for national wealth redistribution but whose main aim was to control the state firmly. By all measures they adopted a 'hard control' regime.²¹⁵ By January 1975, the Dergue's economic program was very clear. In February 1975 the

²¹⁴ Messay Kebede, 'The Civilian Left and the Radicalisation of the Dergue', *Journal of Developing Societies* 24, 2, 2008, pp 159-182

²¹⁵ Alemayehu Geda. 'The political economy of Growth', *The Political Economy of Economic Growth in Africa, 1960-2000: Country Case Studies*, p3

Dergue took the 'socialist' measure of nationalising 101 leading companies.²¹⁶ In August, a further proclamation was issued calling for the nationalization of most urban property.²¹⁷ By the end of the 1970s, the broad outline of a quasi-socialist economy was in place; all land, extra houses, and large as well as medium private enterprises were nationalised without compensation.²¹⁸ The Dergue intensified the administrative centralisation program of the monarchy under a unitary state, and implemented an unprecedented degree of state ownership and control of the modern sector of the economy.²¹⁹

As it increased its grip on power, the Dergue regime did not just limit itself to the modern sectors of the economy in the urban, metropolitan areas only. It also targeted the rural areas which form the core of the Ethiopian population and therefore a crucial constituency for its regime political survival agenda. The rural population was then organised into peasant associations and these state-sponsored associations were soon to serve as stepping stones for the establishment of producer cooperatives or quasi-collective farms.²²⁰ In March 1975, all rural property was nationalized; thus, the most significant base of power for the feudal aristocracy and their collaborators was eliminated in one fell swoop.²²¹ By mid-1983 there were more than 20,000 associations with a total membership of about eight million. The most important aim of the proclamation establishing these associations was to provide the basis for socialist agriculture by promoting cooperative farming. It was envisioned that there

²¹⁶ Michael Chege, 'The Revolution Betrayed: Ethiopia, 1974—9', *The Journal of Modern African Studies* / Volume 17 / Issue 03 / September 1979, pp 359 - 380, p370

²¹⁷ Edmond J. Keller, 'State, Party and Revolution in Ethiopia', *African Studies Review*, vol. 28, no. 1, March 1985

²¹⁸ Shentanayan Darajan et al, (Eds), *Aid and Reform in Africa: Lessons from Ten Case Studies*, The World Bank, Washington, 2001, p1-17

²¹⁹ Berhanu Abegaz, 'Aid and Reform in Ethiopia', *Aid and Reform in Africa Project of the World Bank*, p24, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.196.2365&rep=rep1&type=pdf>, accessed on 16 March 2016

²²⁰ Berhanu Abegaz, 'Aid and reform in Ethiopia', background paper for WORLD BANK, 2001, available at <http://www.worldbank.org/research/aid/africa/intro.Htm>, accessed 2 April 2015

²²¹ Edmond J. Keller, 'State, Party and Revolution in Ethiopia', pp 1-17

would be a gradual transformation from service cooperatives to an elementary form of producer cooperative; the latter institutions would in turn be transformed into advanced producers' cooperatives.²²² Peasants were thus the major beneficiaries of the nationalisation of land and this effectively dismantled the feudal system which had kept them under decades of servitude. The main objective of this proclamation was to weaken the power and wealth of those social classes vested with the land and income of rental houses.²²³

To perpetuate its coordinated approach to link all sectors of the economy to its overall power design, the Dergue ensured a link between the agricultural producing sectors with the manufacturing sector. Much of the inter-regional wholesale and retail trade in key staples and important industrial goods was reserved for parastatals.²²⁴ Aligning key economic activities and giving parastatals a leading role in the economy was part of the regime's efforts at firmly controlling the state by taking charge of the economic levers. It should also be emphasized that peasants' associations were set up to organize, administer, and defend peasant communities.²²⁵ The Dergue firmly believed in being heavily involved in the political and economic affairs of the state. This brought with it the creation of new social forces such as the bureaucratic cadres. The military regime's vision of state-led industrialization included an overzealous 'villagization' campaign, to facilitate political control as well as the delivery of social services; an ambitious but poorly planned program of 'resettlement' of the drought-vulnerable population; and a program of import substitution for key industrial goods. By mid-1988, villagization had grouped 12

²²² *ibid*

²²³ TakeleNechaSungena *et al*, 'Towards an Efficient Implementation of the Land Lease Policy of Ethiopia: A case-study of Hawassa', *Developing Country Studies*, SSN 2224-607X (Paper) ISSN 2225-0565 (Online), Vol.4, No.14, 2014

²²⁴ Shentanayan Darajan *et al*, (Eds), *Aid and Reform in Africa: Lessons from Ten Case Studies*, The World Bank, Washington, 2001

²²⁵ *ibid*

million people - one third of the rural population - into more than 12,000 large villages.²²⁶

Because the Dergue political elites needed a legitimating force for their rule and political survival whilst the majority rural population desired an authority that would protect their land interests, compromise on either side was crucial. The relational framework is very useful in helping to understand some interesting aspects about the radical land reform instituted by the Dergue. According to Kebede,

Put otherwise, peasants were cornered, so to speak: they were forced to defend the regime because, after the radical proposal, the very idea of land reform would be withdrawn if peasants did not come in defence of the Dergue. Peasants obtained something they did not ask for, but which they could not refuse without losing everything.²²⁷

The regime secured this ‘consent’ in the Gramscian sense by using land reform to sustain a coalition with a key social force. It is therefore quite instructive, from this example, to emphasize that the relationship between formal and informal institutions of power is central to the analysis of Ethiopian politics. It is not just the ‘state’ or the ‘ruling elite’ that wields ‘power’; rather, power is wielded through alliances with various subordinate social forces. A kind of ‘social economic block’ is therefore formed through what Morton would call a ‘passive revolution’. According to Morton, a passive revolution can be a technique of statecraft which an emergent bourgeois class may use by drawing in subaltern social classes while establishing a new state on the basis of the institution of capitalism.²²⁸ It is how the contestations, compromises and alliances that eventually play out from such arena as land reform that the direction of state transformation is carved.

²²⁶ *ibid*

²²⁷ Messay Kebede, ‘The Civilian Left and the Radicalisation of the Dergue’, p159–182

²²⁸ Adam David Morton, ‘The continuum of passive revolution’, *Capital and Class* 34(3) 315–342, 2010, p318

The relational argument also explains what appears to have been a contradictory approach to the land reform exercise with regards to nationalisation. According to Chege,

the nationalisation of land amounted to a disguised privatisation, since it did no more than ‘confirm the *rist* family-holdings in the North, and restore peasant landholder rights in the South’ but with the interesting twist of channelling the surplus produced by millions of peasants directly to the state. Such is the irony: the Dergue will be remembered in history for having committed the infamous act of carrying out a capitalist revolution in the name of Marxism and, even worse, for having destroyed Ethiopian socialists in the name of socialism.²²⁹

Consequently, the heavy state involvement, regulation as well as the statist policies including nationalisation was not without consequence as the economy buckled²³⁰ under it.

3.5 Crisis and contradiction of the socialist model and the demise of the Dergue

Internal contradictions as well as some external factors precipitated the demise of the Dergue. Critics argue that the revolution never got off on a good start after the overthrow of the Empire. According to Chege, ‘whether it was possible to proceed from there to a socialist transformation of society was rendered entirely academic by the rise of a military dictatorship reminiscent of Bonapartism, devoid of any popular class base, and beholden to the Soviet Union.’²³¹ A war with Somalia proved to be very costly and disastrous given the thin economic base and support from the Soviet Union was not forthcoming as it was also faced with a serious crisis after 1988. The economy shrank by 7.0% during and immediately after the height of the civil war in

²²⁹ Michael Chege, ‘The Revolution Betrayed: Ethiopia, 1974—9’, *The Journal of Modern African Studies*, 17, 1979, p362

²³⁰ Desalegn Abraha, ‘Command Economy as Failed Model of Development Lessons Not Yet Learned: The Case of Eritrea’, *Journal of Management Policy and Practice*, Vol. 11, Iss. 5, 2010, pp.49 - 68

²³¹ Michael Chege, ‘The Revolution Betrayed: Ethiopia, 1974—9’, *The Journal of Modern African Studies* / Volume 17 / Issue 03 / September 1979, pp 359 - 380, p378

1988-92.²³² Second, the idea of communist statism and socialism became ideologically discredited²³³ internationally. Third, the economic consequences of the campaigns of villagization, resettlement, and producer cooperatives proved disastrous for an already impoverished population.²³⁴ The system was confronted by growing tensions in 1980s.

These and other factors combined to render the socialist system unworkable. Sweeping socialist reform triggered an exodus of foreign business people and banks; the nationalisation of land, industries and property; and the reconstitution of many firms as state-owned enterprises (SOEs).²³⁵ Because the state attempted to do too much, it inevitably narrowed the space available for the private sector. Saving and investment in this sector declined partly because of the policy environment.²³⁶ Local capital was forced to engage in largely speculative, albeit profitable, activities. From the time the Dergue regime ruled Ethiopia in 1974, there was not a single instance of new private foreign investment in the country, whatever public investment took place being very limited.²³⁷ What resulted was the loss of internal support, leading to the crumbling of the Dergue regime. Between 1974/75 and 1989/90, growth decelerated to 2.3 percent (-0.4 percent in *per capita* terms). Growth was also extremely irregular given its dependence on the agricultural sector, which is vulnerable to the vagaries of nature.²³⁸ The Derg Regime was also characterized by intense conflict, which

²³² Shentanayan Darajan et al, (Eds), *Aid and Reform in Africa: Lessons from Ten Case Studies*, The World Bank, Washington, 2001,

²³³ Alex E. Fernandez Gilberto and Andre Mommen (Eds), *Regionalization and Globalization in the Modern World Economy: Perspectives on the Third World and transitional economies*, Routledge Studies in the Development of Economics, London & New yORK, 1998, xv

²³⁴ Shentanayan Darajan et al, (Eds), *Aid and Reform in Africa: Lessons from Ten Case Studies*, The World Bank, Washington, 2001,

²³⁵ Sarah Vaughan and Mesfin Gebremichael, "Rethinking business and politics in Ethiopia The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray", Research Report 2011, p18

²³⁶ Eshetu Chole and Makonnen Manyazewal , 'The Macroeconomic performance of the Ethiopian Economy 1974-90', p29

²³⁷ *ibid*

²³⁸ Alemayehu Geda and Befekadu Degefe, 'Explaining African Growth Performance: The Case of Ethiopia ', August 2005.

accentuated the dismal growth performance.²³⁹ The GDP contracted by 13.2% in 1984-1985, exacerbated by a devastating famine.²⁴⁰

Towards its twilight years, desperate reform efforts were made to arrest the decline in the wake of the poor economic performance in Ethiopia. Clearly, the relationship between the state and society was breaking down and this led to modification in the regime organisation and the institutions of the state. This of course was exacerbated by the fall of the Soviet Union as the socialist system became discredited in much of the world. Attempts were even made at some significant concessions to the market, including decontrolling of prices, lifting of restrictions on private trade, and compensation to foreign nationals whose enterprises had been nationalised. In terms of investment, for example, the Joint Venture Proclamation was issued in 1989; there was to be no capital ceiling on investment; it removed the limits on the proportion of equity contributed by each party, on the total legal life of the Joint Venture, and the areas of operation.²⁴¹ The Dergue lost the support of key social forces in Ethiopia including students and the private sector such as private capital and small traders.

These reforms proved ineffective and in the end, what came out of the reform effort was a mixture of both state and market-oriented economic policies and institutions. The internal crisis of the state was compounded by a series of external challenges. While the government was attempting to legislate its reform measures of November 1988, things were moving at a dizzying pace on the international front. Most significant was the demise of socialism in Eastern Europe and its imminent collapse

http://www.alemayehu.com/AA%20Recent%20Publication/Growth_FinalFR_August_2005.pdf, accessed on 17 March 2016

²³⁹ Alemayehu Geda and Nega Berhanu, 'The political economy of growth in Ethiopia', in *The Political Economy of Economic Growth in Africa 2000, 1960*

²⁴⁰ The World Bank, 'Ethiopia: Issues and Options 47411 in the Energy Sector', Report of the joint UNDP/World Bank Energy Sector Assessment Program, July 1984

²⁴¹ Eshetu Chole and Makonnen Manyazewal, 'The Macroeconomic performance of the Ethiopian Economy 1974-90', p35

in the Soviet Union. These developments, including the deepening economic crisis, the continued military defeats, the internal and external confidence crisis these generated, and dwindling external resource flows, limited the government's room for manoeuvre and rendered the November 1988 reform inadequate.²⁴² As a result of these and numerous other problems, the World Bank classified Ethiopia as the world's poorest country. Serious economic ruin ensued and this precipitated the demise of the Dergue regime. Mengistu's early 1990 adoption of a new economic policy failed to reinvigorate Ethiopia's ailing economy.²⁴³ It was this broader crisis of this economic regime and the corresponding crisis of the state that saw the emergence of a TPLF-led coalition to topple the Dergue.

The enduring impact of the Dergue reign, which is still a factor in Ethiopian politics today, is that of a 'cadre system of party control of the economic, military, and administrative sectors of the state bureaucracy.'²⁴⁴ Its socialist orientation meant that economic activity was centrally planned and indeed, heavy state involvement was entrenched and the private sector severely crowded out. The major beneficiaries were workers, peasants, the petit bourgeoisie, and all anti-feudal and anti-imperialist forces. The Dergue's relations with these social groups consisted primarily of co-opting as many of them under its vanguardist party so as to assume perfect control of the state. It was a relational arrangement which guaranteed the regime's rule as long as it pursued populist policies under a common vision of socialism. However, the contradictions and failure of the socialist system to keep the economy afloat resulted in some social forces making political and economic demands difficult for the regime. This prompted the regime to scramble for some sort of

²⁴² Eshetu Chole and Makonnen Manyazewal , 'The Macroeconomic performance of the Ethiopian Economy', 1974-90', *The Ethiopian Economy: Structure, Problems and Policy Issues*, 1992, p35

²⁴³ Mulatu Wubneh, 'Ethiopia: Library of Congress Country Study, Chapter 3 'Growth and Structure of the Economy'', May 2015, Library of Congress: <http://lcweb2.loc.gov/frd/cs/ettoc.html#et0088>, accessed on 3 March 2016

²⁴⁴ Shentanayan Darajan et al, (Eds), *Aid and Reform in Africa: Lessons from Ten Case Studies*, The World Bank, Washington, 2001

reform to appease these social groups, including some far reaching moves towards liberalisation and international engagement particularly in trade.

On 28 May 1991, the Dergue regime fell. Despite the many promises it made to the Ethiopian people, the Dergue delivered very little such as land redistribution to the peasants. It became clear that it was to 'focus mainly on increasing military equipment supplied by the Soviet Union to fight opponents and separatist guerilla groups in Eritrea and Tigray among others.'²⁴⁵ Without any funding, it could not sustain its military rule and was therefore unable to fight the armed insurrection. Mengistu Haile Mariam fled to Zimbabwe (where he remains in self-imposed exile) and was replaced by a coalition of rebel forces, the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) and the Tigray People's' Liberation Front (TPLF), the most important group in this coalition which originated from the northern highland region of Tigray.²⁴⁶ This closed one of the most significant chapters in Ethiopia's long social, political and economic history.

3.6 Conclusion

This chapter has presented a crucial period in the history of the Ethiopian state, a period that has a direct and important influence on the present era. The failure of the socialist policies of the Dergue provided the groundswell for the emergence of the EPRDF as well as its far-reaching neoliberal reforms, one of which was the opening up of the hitherto closed economy to foreign capital, including Chinese capital in Ethiopia. The second aim was to show, by way of carefully selected examples, the socialist government's involvement in the struggles and contestations within the

²⁴⁵ Salambo in Addis, 'Fall of the Derg', <http://salamboinaddis.com/2013/06/03/fall-of-the-derg/>, accessed on 17 March 2016

²⁴⁶ Jon Abbink, 'Breaking and Making the State: The Dynamics of Ethnic Democracy in Ethiopia', *Journal of Contemporary African Studies*, 13:2, 1991, 49-163

state. It has been shown that even though it was a military regime, the Dergue exercised its power through particular elements within the Ethiopian society. To provide the political setting, this chapter has also discussed ethnicity as a crucial aspect of the Ethiopian political economy. It is at the centre of Ethiopian politics and is the main arena where struggles within the state find expression. This theme became more important when the EPRDF, which was made up of an ethnic minority succeeded the Dergue regime. The state-society relations under the Dergue regime are important because it was these structures and institutions that were adapted and reshaped by the process of neoliberalisation which is discussed in the next chapter.

Other than ethnicity, this chapter has focused on two other themes, namely the land question, and investment. State-society relations under the Dergue were characterized by sustained efforts by the military regime to heavily immerse itself in the state following a Marxist-Leninist model that underwrote its socialist program which included nationalisation of lands and industries. The economic crisis that was induced by the fall of communism and socialism led to an armed rebellion which finally culminated in the fall of the Dergue regime in 1991. The new government, a coalition led by the TPLF, rolled out a reform process. This reform period is the genesis of an opening up of a closed economy and the penetration of Chinese capital in Ethiopia with far reaching consequences for state-society relations in the East African country. In the next chapter, this period of the reign of the EPRDF is examined, with specific reference to its neo-liberal reform agenda which emerged following the failure of the Dergue socialism.

Chapter 4: From Dergue Socialism to an ‘Ethiopian neoliberalism’: Transition and reform under the EPRDF since 1991

4.1 Introduction

This chapter analyses the defining transition that took place in Ethiopia from a command, centralised socialist economy to a market oriented and neoliberal regime. In particular, it provides an understanding of institutional mechanisms and processes through which Chinese investment was then able to penetrate Ethiopia and establish various networks of state and society linkages. The chapter links the economic and political transition that happened when the EPRDF regime took power in 1991 to the emergence of new social forces with links to state institutions. The main argument of this chapter is that the reform period ushered in by the change of government in 1991 gave rise to a particular variant of Ethiopian neoliberalism whose form and character was shaped by pre-existing social relations and political structures. As the capitalist transition was emerging out of the political and social context in Ethiopia, the internationalisation of Chinese capital was simultaneously beginning to be a key feature of the global political economy. It is the intersection of these two forces that have shaped neoliberalism in Ethiopia. Rather than calling it a ‘facade’²⁴⁷, the thesis regards the political and economic liberalism that was instituted by the EPRDF to be essentially a particular variant of neoliberalism.

The chapter pays attention to three aspects of the state-society complex in particular: ethnicity, land and investment policies. These three are arenas where social struggles and contestations clearly play out when the EPRDF’s liberal reform agenda rolled out from 1991. Focussing on these three aspects is meant to achieve two objectives. The first is to show how the state was embedded in these contestations. Secondly,

²⁴⁷Jon Abbink, ‘Discomfiture of democracy? The 2005 election crisis in Ethiopia and its aftermath’, *African Affairs* 105.419, 2006, pp 173-199

these three case studies highlight elements of the type of neoliberalism that has emerged in Ethiopia, which is far from a full-blown neoliberalism or ‘Western’ neoliberalism. The changes in land policy as well as investment policy, for example, clearly bring out how the state has sought to retain control even in the face of liberal economic reform.

This shift in ideology affected the interest of private capital in a peculiar way, such that the reforms essentially placed the state, via its state-owned enterprises, at the core of the economy. Henceforth, the Ethiopian state became actively involved in the economy as a player and private companies have had to compete with the state-linked entities in many areas. In explaining this, Alemu argues that this is because ‘while committed to opening up the economy and attracting investment, directed state control is always evident, as part of a carefully managed transition.’²⁴⁸ The essence of the reform period is that it changed the role of the state in Ethiopia. The thesis argues that in introducing neoliberalism, the state merely distributed power as a mechanism of maintaining it.

The chapter proceeds in two broad sections. To be examined first is a brief elaboration of the genesis of, and rationale behind, the reform agenda based on the EPRDF’s imagined new state project. This is followed by a closer analysis of the specific liberalisation features drawn from the three selected case studies. This will show the limited²⁴⁹ nature of Ethiopian neoliberalism, as it emerged from a preexisting context which explains why it retained a significant level of centralism. The last section then provides a link between the type of liberalisation reform that

²⁴⁸ Dawit Alemu, ‘The Political Economy of Ethiopian Cereal Seed Systems: State Control, Market Liberalisation and Decentralisation’, IDS Bulletin Vol. 42, Number 4, July 2011, p74

²⁴⁹ By referring to Ethiopian neoliberalism as ‘limited’, the study is not suggesting or classifying Ethiopian neoliberalism as inferior or otherwise. Rather, in keeping with the argument of the thesis this is just but a variety of neoliberalism that developed complete with its own characteristics. To that end, use of the term ‘limited’ should be understood as a comparative, specifically in comparison to the traditional ‘Western’ neoliberalism

was instituted and the emergence of some new social forces linked to the state. As a prelude to the next chapter which discusses Chinese investment drivers in detail, a brief section at the end then links the liberalisation in Ethiopia to the entry of Chinese capital.

4.2 The EPRDF regime and liberal reform: Towards a new state project

The previous chapter outlined how the Dergue regime's economic policies created a trail of disaster on Ethiopia's socio-political and economic fabric. Mengistu's Dergue military regime had presided over a dictatorship running a command economy. His eventual overthrow by rebel forces emanating from the provinces of Tigre and Eritrea ushered in a wholly different political dispensation to democratise the state as well opening up the country to foreign capital. However, there were two particularly big challenges for those who took over the running of the state in 1991 following the demise of the Dergue regime in Ethiopia. Firstly, how to rebuild a country devastated by a brutal fifteen-year civil war. Second, how to reunite a much divided country whose population had coalesced around various political groups. There was a multiplicity of interests that had to be managed including the various ethnic groups (major and minor), former rebel forces, numerous political groups as well as various factions of political elites. Engedayehu observed then that 'the ideological, ethnic and political differences of these groups have made it a monumental task to develop a long-lasting political framework'.²⁵⁰ Further still, the new EPRDF government had the duty of coming up with a political framework that was also acceptable to the former rebel forces. With this background, it becomes possible to understand why a relational arrangement in the exercise of power was the most viable for the EPRDF.

²⁵⁰ Walle Engedayehu, 'Ethiopia: Democracy and the Politics of Ethnicity', *Africa Today*, Vol. 40, No. 2, The Horn of Africa: Reconstructing Political Order, Indiana University Press, 2nd Qtr., 1993

The period from May 1991 to the present, therefore, is the reign of the EPRDF. The EPRDF is a coalition of ethnic political movements ‘which is made up of the Tigray People's Liberation Front (TPLF) and two other small fronts, the Ethiopian People's Democratic Movement (EPDM) and the Oromo People's Democratic Organization (OPDO).’²⁵¹ However, in spite of the nominally coalition structure of the EPRDF, from the beginning the TPLF provided the leadership, ideological direction and majority of the fighters of the movement.²⁵² Critics like Gebrewold contend that ‘even if the EPRDF pretends to be an inclusive political organisation, it is obvious that it is dominated by Tigrayans.’²⁵³ This has created tension between the Tigrayans and other ethnic groups especially the Amharic and the Oromo. However, any public discontent actually results in more *Tigrayanisation* of Ethiopian politics because the Tigrayan ethnic group is forced to ensure its ethnic dominance subsists, with the leadership as a mutual safeguard.

Given the multi-ethnic nature of Ethiopia and the problems associated with it, political control over the state would be fragile unless the party forged a social block with the minority Tigray ethnic group. The EPRDF has achieved this by also co-opting many opposition parties that emerged, including creating puppet parties, many of which are apparently of its creation such as the Southern Ethiopian People's Democratic Front (SEPDF), consisting of several EPRDF - affiliated parties in the south of the country.²⁵⁴ In other regions, the EPRDF has assisted the establishment of several political parties which are not members of the coalition, but closely affiliated

²⁵¹ Kidane Mengisteab, ‘Ethiopia's Ethnic-Based Federalism: 10 Years after’, *African Issues*, Vol. 29, No. 1/2, Ethnicity and Recent Democratic Experiments in Africa, Cambridge University Press, 2001, p21

²⁵² John Young, ‘Regionalism and democracy in Ethiopia’, *Third World Quarterly*, 19:2, 1998, pp 191-204

²⁵³ Belachew Gebrewold, ‘Conflict Systems in Ethiopia’, in Wolbert Smidt and Kinfe Abraham (eds), *Discussing Conflict in Ethiopia: Conflict Management and Resolution*, Proceedings of the Conference ‘Ethiopian and German Contributions to Conflict Management and Resolution’, Addis Ababa, 11-12 November 2005, Lit Verlag, Zurich, 2007, p218

²⁵⁴ Lovise Aalen, ‘Ethnic Federalism in a Dominant Party State: The Ethiopian Experience 1991-2000’, Report R 2002: 2, Chr. Michelsen Institute Development Studies and Human Rights, p9

and supervised by the ruling party.²⁵⁵ The Tigrayan ethnic group dominates the national army. The TPLF regime in Ethiopia has been promoting the domination of a minority ethnic elite, i.e., the Tigrayans, in all spheres of the nation's life — economy, military, intelligence and security services, foreign affairs, etc.²⁵⁶

Accordingly, Abbink notes that the nation-building dream of the EPRDF was already problematic owing to this '*Tigrayanisation*' of the power structure. Irrespective of age, experience or job qualifications, many leading positions in the state machinery, the public services, the economy, the decision-making centres from the national to the local level, are given to people of Tigray background.²⁵⁷ This ethnic engineering has worked very well for the EPRDF. A cursory consideration of literature on the politics of ethnicity in Africa provides some clues. Ethnicity in Ethiopia may be viewed as a device or tool through which the EPRDF established a social relationship of interdependence with other ethnic groups as well as other social forces to establish what Gergen termed *relational nuclei*.²⁵⁸ From Gergen's perspective, relational nuclei means that the mutual interdependence of members in a society means that 'all personal outcomes are essentially contingent on interchange.'²⁵⁹ The well-being of the EPRDF was therefore dependent on the well-being of some social forces within the Ethiopian state to guarantee its political control.

²⁵⁵ *ibid*, p9

²⁵⁶ Neamin Zeleke, '[Tigres dominate the military in Ethiopia](http://nazret.com/blog/index.php/tigres_dominate_the_military_in_ethiopia?blog=15)', 6 March 2009, http://nazret.com/blog/index.php/tigres_dominate_the_military_in_ethiopia?blog=15, accessed on 12 March 2015

²⁵⁷ J. Abbink, 'Breaking and making the state: The dynamics of ethnic democracy in Ethiopia', *Journal of Contemporary African Studies*, 13:2, 1995, pp 149-163

²⁵⁸ Kenneth J. Gergen, 'Relational theory and discourses of power', in D.M. Hosking, H.P. Dachler, and K.J. Gergen (Eds.), *Management and organisation: Relational alternatives to individualism*, Aldershot, Avebury, 1995, p34

²⁵⁹ Beatrice Bridglall, 'Mentoring and its role in Scholarly development', in Nathalie D. Mizelle and Theodora Regina Berry (Eds), *From Oppression to Grace: Women of Color and Their Dilemmas in the Academy*, Stylus Publishing, Sterling, 2006, p96

When one considers the views of Mafeje, it is also clear that the exploitation of ethnic capital in Africa is part and parcel of the relational exercise of power. Mafeje argues that, closely examined, ethnicity is nothing but an invention that is skillfully manipulated by the elite for power and domination. He adds that 'properly understood 'tribalism' and 'ethnicity' are ideological ploys, stratagems, cunning culturally informed maneuvers so as to gain political advantage. This is an instance of the worst kind of political cynicism wherein the supposed leaders are prepared to sacrifice unsuspecting masses of people for their own immediate and mundane interests.²⁶⁰ This analysis aptly captures how politicians skilfully use identity-based differences to make subjects dependent on them while also depending on them to maintain and exercise sovereign power and authority. In most African countries, ethnicity is the main form of identity. It is a major source of both unity and division. In Ethiopia this would be even more significant given the multiplicity of ethnic groups that are disgruntled by Tigrayan hegemony. Ethnic issues therefore fused with the economic reform project to trigger a process of an Ethiopian neoliberalism.

After assuming power, the EPRDF set about implementing new and controversial policies, the most contentious of which was the acceptance of Eritrea's independence, and the reversal of the age-old quest of Ethiopian rulers to centralise the state and integrate a population belonging to more than eighty ethnic groups, or nationalities.

²⁶¹ The EPRDF adopted the typical structural adjustment policies of market liberalization, with the support of the Bretton Woods institutions.²⁶² This ostensibly ushered in a very vigorous political and economic reform process. The EPRDF

²⁶⁰ Archie Mafeje, 'State and civil society in post-independence Africa, in networking with a view to promoting peace, conflict in the horn: What can civil society do to bring about solidarity and cooperation in the horn?' 15th - 17th March, Nairobi, 1999

²⁶¹ John Young, 'Ethnicity and power in Ethiopia, Review of African Political Economy', 23:70, 1996, pp 531-542

²⁶² Alemayehu Geda, 'The political economy of growth in Ethiopia', in B. Ndulu et al, (Eds), The Political Economy of Economic Growth in Africa, 1960-2000, vol. 2- Country Case Studies, Cambridge University Press, Cambridge, 2007

promised to begin an era of multi-party democracy and ethnic equality, and to put an end to the command economy.

In the first decade, the ruling EPRDF's policies and strategies had been based on ideology of the so-called 'Revolutionary democracy'²⁶³, or in local Amharic language '*Abyotawi* democracy'²⁶⁴ in pursuit of a 'revolutionary era'.²⁶⁵ According to Abbink, 'revolutionary democracy aims at the collective mobilization of the people, led from above by the party. It derives from a combination of Marxist and ethno-regional ideology and has no negotiated, evolutionary basis in Ethiopia.'²⁶⁶ It was an ideology grounded in the belief that only the party knew what was good for Ethiopia and it was not obligated to consult other political groups including civil society. According to Bassi, 'the ideology of revolutionary democracy was grounded in three components that were incompatible with liberal democracy. These were the Leninist component, where 'rather than a 'party of the working class', what was needed is a 'party for the working class'.²⁶⁷ The second was the Stalinist component and this operation was made by re-framing the national question in the logics of democratic centralism.²⁶⁸ The third and final component was the influence of Chinese communism. This ideological shift provides a significant pointer to the form and direction of neoliberalism that was taking shape in Ethiopia.

²⁶³ The revolutionary sense stems from the fact that this ideology redefined Ethiopian nationhood. For example, suppression of religious expression was ended. Ethnic democracy was proclaimed whilst the right to secede from the state under certain conditions was legally enshrined in the Constitution

²⁶⁴ Jean-Nicolas Bach, '*Abyotawi* democracy: neither revolutionary nor democratic, a critical review of EPRDF's conception of revolutionary democracy in post-1991 Ethiopia', *Journal of Eastern African Studies*, Vol. 5, Iss. 4, 2011, pp 641-663

²⁶⁵ Matthew J. McCracken, 'Abusing Self-determination and Democracy: How the TPLF is looting Ethiopia', 36 *Case W. Res. J. Int'l L.* 183, 2004, p1

²⁶⁶ J. Abbink, 'Discomfiture of Democracy? The 2005 Election Crisis in Ethiopia and its Aftermath', *African Affairs*, 105/419, 2006, p195

²⁶⁷ Marco Bassi, 'Federalism and Ethnic Minorities in Ethiopia: Ideology, Territoriality, Human Rights, Policy', p56 <http://www.dadarivista.com/Singoli-articoli/2014-Giugno/02.pdf>, accessed on 25 March 2016

²⁶⁸ *ibid*

In the late 1990s, the EPRDF moved from the revolutionary democracy mantra to a ‘developmental state’ approach. Prime Minister Zenawi explained that, ‘the ‘developmental state’ should be obsessed with value creation, making accelerated and broad-based growth a matter of national survival’.²⁶⁹ Fantini has elaborated how this ideology played out in Ethiopia in practice noting how the Ethiopian government has immersed itself and taken control of ‘domestic revenues and international development assistance, as well as of the bank sector.’²⁷⁰ The property of land is retained in public hands, with the official goal of avoiding processes of rural land dispossession, accumulation and consequent uncontrolled urbanisation. The state is by far the main supplier of basic social services (health, education, water and sanitation, food security schemes).²⁷¹ This demonstrates a very active role for the state as opposed to ‘privileging market forces over state intervention in most areas of economic activity.’²⁷² The reforms introduced by the EPRDF clearly bring out the changing role of the state in Ethiopia. Now, the state would be central in the economy as a player as well. The justification for that, according to Lefort, was in keeping with fears of leaving everything to ‘market forces’. To that end, the EPRDF felt ‘rendering the state ‘non-activist and non-interventionist’ and reducing it to a ‘night watchman’ role, thus ‘unleashing the market’ while expecting it to correct its own ‘failures’, would lead to a ‘dead-end’.²⁷³ In pursuing a ‘developmental state’, Ethiopia was emulating the Chinese development state.

According to Fantini, ‘the politics of emulation goes beyond the mere adoption of imported political models, authorising practices of extraversion of external

²⁶⁹ Alex De Waal, ‘The Theory and Practice of Meles Zenawi’, *African Affairs*, 112/446, 2013, p153

²⁷⁰ Emanuele Fantini, ‘Developmental state, economic transformation and social diversification in Ethiopia’, *Istituto per gli Studi di Politica Internazionale ISPI Analysis*, No. 163, March 2013, p3

²⁷¹ *ibid*

²⁷² Javier Corrales, ‘Neoliberalism and its Alternatives’, in Peter Kingstone and Deborah J. Yashar (Eds), *Routledge Handbook of Latin American Politics*, Routledge, London, p133

²⁷³ René Lefort, ‘Free market economy, ‘developmental state’ and party-state hegemony in Ethiopia: the case of the ‘model farmers’, *The Journal of Modern African Studies*, 50, 2012, p683

paradigms and their hybridisation with autochthonous political repertoires.²⁷⁴ Therefore, although the adoption of this model is an emulation inspired by the success stories of China in particular and East Asia in general, Ethiopia has nevertheless carved out a specific developmental state model for itself. The thesis now looks at how the three aspects that underwent liberal reform, namely ethnicity, land reform and economic policy explain how the state has been involved in these contestations. To grasp the neoliberalism variant that emerged in Ethiopia, an understanding of the changing roles of the state is required. These case studies bring out the Ethiopian regime's approach and understanding of the idea of liberalism and democracy but also how this is shaped by pre-existing social context and political structures.

a) The EPRDF and the politics of Ethnic democracy: The state and ethnic engineering

Ethnicity has for a long time been a central theme in the political economy of Ethiopia and sub Saharan Africa at large.²⁷⁵ According to Young, ethnicity might be conceptualized in terms of three defining elements, namely as a variable list of shared cultural attributes; an active consciousness of collective selfhood and lastly as defined by boundaries.²⁷⁶ To mitigate the potential for conflict and tension as well as to foster unity, some multi-ethnic African countries have devised ethnic federations. A federation of ethnic groups is a typical African organization of society where the state bureaucracy and the political elite are composed of people from most of the different ethnic groups of the country; they in fact play the part of 'delegates' of their kin groups or ethnic groups.²⁷⁷ According to Azam, 'in peaceful African countries, a

²⁷⁴ Emanuele Fantini, 'Developmental state, economic transformation and social diversification in Ethiopia', Istituto per gli Studi di Politica Internazionale ISPI Analysis, No. 163, March 2013, p3

²⁷⁵ Carola Lentz, 'Tribalism' and ethnicity in Africa', *Cah. Sci. hum* 31.2, 1995, pp 303-328

²⁷⁶ M. Crawford Young, 'Revisiting Nationalism and Ethnicity in Africa', James S. Coleman African Studies Center, UCLA: James S. Coleman African Studies Center, 2004, p7

²⁷⁷ Jean-Paul Azam, 'The Redistributive State and Conflicts in Africa', *Journal of Peace Research*, Volume 38, Number 4, July 2001, p437

sophisticated system of inclusion of the educated people from the different ethnic groups in various organizations (e.g. students unions or single party) has evolved, whereby the state purchases loyalty from the groups through their educated urbanite 'delegates'.²⁷⁸ In Ethiopia during the Dergue era, ethnicity had still been a contentious issue but the regime (dominated by the Amharic ethnic group) had tightly controlled it under a unitary, socialist system to the extent of making Amhara the only official language.

Economic, social and political questions of the day are ultimately linked to ethnicity in Ethiopia²⁷⁹ due to massive contestation especially between the Amharic and Tigray ethnic groups and to some extent, the Oromo. Amhara are discontent because of the lost political power, Oromo are discontent because of marginalisation though it is the majority ethnic group in Ethiopia.²⁸⁰ There are about 100 other political parties in Ethiopia, most of which are organised along political lines.²⁸¹ Consequently, a general problem in Ethiopian political life is the difficulty of distinguishing the party organs from the administrative organs of the state. People tend to see the party and the state as one. This problem appears both at national, regional and local level.²⁸² The Dergue regime was seen as an Amharic hegemony. In order to create favourable conditions necessary to implement its neoliberal and ruling agenda, the EPRDF dismantled the Amharic structures that underpinned the Dergue hegemony, including its ethnic political capital. The EPRDF-TPLF replaced a perceived 'Amhara/highland'- dominated ethnocratic state with a multi-ethnic state, but with one clear

²⁷⁸ *ibid*, p430

²⁷⁹ Lahra Smith, *Making citizens in Africa: Ethnicity, gender, and national identity in Ethiopia*. No. 125. Cambridge University Press, 2013

²⁸⁰ Belachew Gebrewold, 'Conflict Systems in Ethiopia', In Wolbert Smidt, Kinfe Abraham (Eds), *Discussing Conflict in Ethiopia: Conflict Management and Resolution, Proceedings of the Conference 'Ethiopian and German Contributions to Conflict Management and Resolution'*, Addis Ababa, 11-12 November 2005, Lit Verlag, Zurich, 2007, p218

²⁸¹ Steven Gish, Winnie Thay and Zawiah Abdul Latif, *Cultures of the World: Ethiopia*, Marshall Cavendish Benchmark, New York, 1996, p30

²⁸² Lovise Aalen, 'Ethnic Federalism in a Dominant Party State: The Ethiopian Experience 1991-2000', Report R 2002: 2, Chr. Michelsen Institute Development Studies and Human Rights, p84

leading core group.²⁸³ The Ethiopian regime seems to have attempted to manoeuvre the ethnic question to maintain control in the state. Resultantly, one of the most important changes introduced by the EPRDF was the replacement of Amharic hegemony with Tigrayan hegemony.

In what it termed ‘ethnic democracy’, the EPRDF chose to institutionalise ethnicity through a specialised federal manoeuvre: dividing the country into specific tribal regions (*Killils*) although according to Mehretu, ‘at no time in their modern history have Ethiopians ever made demands for separation along tribal lines’.²⁸⁴ Each region was designated by a nationality and two special chartered cities of multi-ethnic composition were created.²⁸⁵ By so doing, the old unitary state was given up and sovereignty was vested in the country’s ‘nations’, ‘nationalities’ and ‘people’.²⁸⁶ The logic here was that the EPRDF would use this as a way to give each of the twelve ethnic groups a stake in the governance of the country, something which the Amharic-centric Dergue had failed to do. Mobilization of rebellion against this Dergue government, led by Lt.-Col. Mengistu Haile-Mariam, had been successful on the basis of an appeal to this ethno-regional or ethnic aspect in people’s identities, and it found resonance among some other large ethnic communities or their elites.²⁸⁷ Rhetorically, the EPRDF argued that political liberalisation was central to its reform agenda as it sought to dismantle the centralisation of politics in favour of decentralisation. Ethiopia thus officially became an ethnic federation. This was all

²⁸³ Jon Abbink, ‘Ethnic-based federalism and ethnicity in Ethiopia: reassessing the experiment after 20 years’, *Journal of Eastern African Studies* Vol. 5, No. 4, November 2011, p601

²⁸⁴ Assefa Mehretu, ‘Ethnic federalism and its potential to dismember the Ethiopian state’, *Progress in Development Studies* 12.2-3, 2012, p115

²⁸⁵ Walle Engedayehu, ‘Ethiopia: Democracy and the Politics of Ethnicity’, *Africa Today*, Vol. 40, No. 2, *The Horn of Africa: Reconstructing Political Order*, 2nd Qtr., Indiana University Press, 1993, pp. 29-52

²⁸⁶ Tobias Hagmann and Jon Abbink, ‘Twenty years of revolutionary democratic Ethiopia, 1991 to 2011’, *Journal of Eastern African Studies*, 5:4, 2011, pp 579-595

²⁸⁷ Jon Abbink, ‘Ethnic-based federalism and ethnicity in Ethiopia: reassessing the experiment after 20 years’, p599

part of the pursuit of a new ‘state project’ based on an open and decentralised political economy underpinned by constitutionalism and legislated federalism.

Zewde identifies four major factors that account for the dominance of ethnic-based mobilisation strategies in the post-1991 period, namely: 1) the political philosophy of the ruling party; 2) the destruction of the multi-ethnic left in the late 1970s; 3) the precedence of East Europe and; 4) the material rewards that (ethnic nationalism) brings.²⁸⁸ These four factors provide the context in which this ethnic democracy concept was conceived. The fourth factor further attests to the relational exercise of power in Ethiopia which dovetails with the state-society framework to explain how social forces shape or reshape political processes through formal and informal institutions within the state. Gudina emphatically sums up exactly how ethnic mobilisation is central to Ethiopian society and politics, when noting that: ‘Ethiopian elites of various ethnic backgrounds promote contradictory views in the interpretation of the past, the way they understand the present and way they perceive the future.’²⁸⁹ This melting pot of the ethnic complex is central to understanding Ethiopia’s body politic, national psyche as well as the political economy of the country’s development.

Abbink confirms that the prevailing context shaped the thinking behind this policy of ethnic liberalism and ethnic democracy. He opines this as he offers a suggestion, if not a justification, why there was some basis for this route to be taken. Abbink remembers that ‘back in 1991 the TPLF-EPRDF ideology of ethnic federalism could have been seen as ‘the best possible model’ after the ravages of the civil war and a regime marked by harsh centralist government suppression of ethno-regional

²⁸⁸ Bahru Zewde and Siegfried Pausewang (Eds), *Ethiopia: the challenge of democracy from below*, Nordic Africa Institute, Uppsala, 2002

²⁸⁹ Merera Gudina, *Ethiopia: From Autocracy to Revolutionary Democracy*, publisher not identified, 1960s-2011

sentiments and interests, and a relentless war.’²⁹⁰ At the same time, ethnic-based decentralisation *via* the system of devolution, through regional administration, shows the dynamics of formal and informal power as institutions within the state to offset concerns over ethnic domination of some ethnic groups over others. This approach has however been criticised by opponents of the regime. The EPRDF has been accused of using the principle of ethnic based politics as a power retention ploy. By introducing this form of ethnic democracy as a component of neoliberalism, the regime is instead consolidating power by reordering the Ethiopian state in a way that is unambiguously meant to elevate the Tigray ethnic group through systematic marginalisation of the rest of the other ethnic groups.

The harshest critics of the regime such as Gudina have particularly pointed to what they regard as blatant discrimination against the Oromo ethnic group as an example of a systematic Tigray project for ethnic domination. Gudina dismisses the revolutionary (ethnic federalism) democracy introduced by the EPRDF, arguing that ‘the cosmetic changes introduced by the present regime under the guise of democracy and decentralization of power have failed to meet the Oromo people’s quest for real self-rule and democracy.’²⁹¹ To ensure the permanency of the new political order, created according to its own image, the EPRDF is accused of having undertaken constitutional engineering in 1994, where the ethnic based federal structure, first-past-the-post electoral system; a bicameral parliament and above all a parliamentary system of government were introduced.²⁹² For some like Vestal, this is nothing more than ‘sponsored ethnic hatred.’²⁹³ Ironically, where it claims to have

²⁹⁰ Jon Abbink, ‘Ethnic-based federalism and ethnicity in Ethiopia: reassessing the experiment after 20 years’, p602

²⁹¹ Merera Gudina, ‘Ethnicity, Democratisation and Decentralization in Ethiopia: The Case of Oromia’, *Eastern Africa Social Science Research Review*, Volume 23, Number 1, January 2007, p101

²⁹² Merera Gudina, *Ethiopia: From Autocracy to Revolutionary Democracy, 1960s-2011*, publisher not identified, p2

²⁹³ Theodore M. Vestal, ‘Human rights abuses in ‘democratic’ Ethiopia: Government-sponsored ethnic hatred’, *Interethnic@-Revista de estudos em relações interétnicas* 3.2, 2013, pp 37-43

introduced liberal democracy, the EPRDF is instead accused of arresting the democratisation process of the Ethiopian state.

Despite the decentralization rhetoric, the central state still maintains tight control over the decentralisation process and there is a great deal of continuity in power disparity between the centre and the regions.²⁹⁴ This demonstrates that the state became the major beneficiary of the reform process. Opposition also came from the other end of the political spectrum from those who regarded the ethnic policy as designed to dismember the Ethiopian state. Opposition groups and many of the country's intellectuals have vehemently opposed EPRDF plans to devolve powers to ethnically based administrations because of concerns that these moves would bring about the dismemberment of Ethiopia, although the Front argues that such criticisms represent a rear-guard attempt to protect Amhara hegemony whilst the OLF in turn feared that the government's intention was to deny Oromos a right to national self-determination that would include independence.²⁹⁵ Official government attempts, therefore, at decentralisation based on ethnic geography have thus always been met with strong suspicion of ill-will.

They key point for this thesis as regards the ethnic policies that were introduced by the EPRDF especially the ethnicisation of politics in Ethiopia is that this should be seen in light of the carving out of an Ethiopian version of neoliberalism within the context of the democratisation and economic reform political project. Brenner has argued that neoliberalism should be understood as not just a set of economic policy but a process that creates new state institutions.²⁹⁶ The ethnic engineering that the

²⁹⁴ Data Dea, 'Enduring Issues in State-Society Relations in Ethiopia: A Case Study of the Conflict in WoGaGoDa in Wolaita, Southern Ethiopia', *International Journal of Ethiopian Studies*, Vol. 2, No. 1/2 (Summer/Fall 2005-2006), p146

²⁹⁵ John Young, 'Regionalism and democracy in Ethiopia', *Third World Quarterly*, 19:2, 1998

²⁹⁶ Neil Brenner and Nik Theodore, 'Cities and the geographies of "actually existing neoliberalism"', *Antipode* 34.3, 2002, pp 349-379

EPRDF initiated was part of its neoliberal state project. However, this was influenced in shape and form by pre-existing conditions. For example, the government, in defence of its policies, declared that the ideological basis for its policy of ethnic federation was based on the idea that the central policies in Ethiopia had historically been hegemonic and exploitative and were thus a major detriment in previous internecine strife and civil war.²⁹⁷ Critics argue that though the EPRDF made ethnicity its signature issue in remaking Ethiopia and prominently placed the objective of ‘rectifying historically unjust relationships’, ethnicity was not as much of a divisive force until the EPRDF made it so.²⁹⁸ The ethnic democracy introduced by the EPRDF can therefore be viewed as a specific type of Ethiopian democracy but skilfully implemented by the regime. As an ethnic minority, the Tigray-led EPRDF was able to gain firm and total control over the country through a calculated policy of ethnic democracy.

b) The reform era and economic liberalisation: the dominant role of the state

The economic and political reforms embarked upon the Ethiopian economy by the EPRDF created and returned impressive economic gains. Key economic steps taken during this period included the following:

the removal of price controls; the liberalisation of commodity distribution, particularly agricultural produce; gradual devaluation of the Ethiopian Birr; the introduction of a regular Foreign Exchange Auction; the reduction of tariffs on imported goods to encourage imports; reform of tax policy, and gradual computerisation of tax administration; revision of labour and employment law, notably the previous regime’s guarantee of government employment for graduates; gradual sale of a limited number of public enterprises under a wider, and still ongoing, programme of privatisation; the introduction of treasury bill options; the introduction of legislation allowing the establishment of privately owned banks and insurance companies; and the introduction of a land-lease system, designed to

²⁹⁷ Saheed Adejumobi, ‘The History of Ethiopia’, Greenwood Press, London, 2007, p135

²⁹⁸ Assefa Mehretu, ‘Ethnic federalism and its potential to dismember the Ethiopian state’, *Progress in Development Studies* 12, 2&3, 2012, p117

be more ‘market oriented’ and foster commercial investment, whilst retaining land in public ownership.²⁹⁹

Before getting into detail of the process and form of this liberalism, it could be instructive to highlight by way of some statistics how this liberalism has lifted the economy. Ethiopia has shown increasingly impressive economic growth since 1991, with a particular escalation in the period since 2003, and continuing high annual growth rates throughout the period of the global downturn from 2008.³⁰⁰ The IMF records Ethiopia’s real average annual growth over the last decade as 8.4% (2001-2010), which is comparable with the rates achieved by BRIC countries.³⁰¹ In 2008, GDP composition by sector was as follows: Agriculture 45.9%; Industry 12.1% and Services 41.2% while life expectancy at birth was 55.41 years.³⁰²

Perhaps the first sign that the regime’s neoliberal conception was different, unique and not in keeping with the traditional ‘Western neoliberalism’, was provided when the EPRDF’s economic transition program was criticised by the World Bank as being half hearted. The privatisation program in particular was criticised as slow and lacklustre, and excluded important sectors (notably banks, telecoms, power and water distribution, and air transport) either from foreign or from private investment.³⁰³ The key point for this thesis however is not just that the above important sectors were excluded. Rather, it is that they were replaced and in their place emerged new social forces such as party-owned companies under the umbrella conglomerate Endowment Fund for the Rehabilitation of Tigray (EFFORT). EFFORT now ‘owns almost all the major industries in Ethiopia including Banking, Construction, Agribusiness, Mining, Communication, Insurance and other pillars of the economy

²⁹⁹ (Anonymous, n.d.: 7-8)

³⁰⁰ Sarah Vaughan and Mesfin Gebremichael, ‘Rethinking business and politics in Ethiopia The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray’, Research Report 2011

³⁰¹ *ibid*

³⁰² Lucie Weissleder, ‘Foreign Direct Investment in the Agricultural Sector in Ethiopia’, Ecofair Trade Dialogue, Discussion Papers, No. 12 / October 2009 / English Version

³⁰³ Tim Kelsall, *Business, Politics, and The State in Africa: Challenging the Orthodoxies on Growth and Transformation*, Zed Books, London, 2013, p96

that are vital to the well-being of the country.³⁰⁴ The identity of the new capitalist forces that replaced or excluded the traditional capitalist institutions gives a big hint as to the form of neoliberalism that the EPRDF sought to foster. They were linked to the state.

It is mainly through media reports that one can discern a better picture of the extent of the Ethiopian regime's business empire, as it is difficult to get official information due to the secretive nature of the arrangements. However, Abegaz has researched extensively on political party business in Ethiopia and has identified a network of the regime's business interests:

Some of the largest EPRDF companies or their affiliates are as follows: agriculture, Hiwot Agricultural Mechanisation, Zeleke Agricultural Mechanisation, Tesfa Livestock, and Rahwa Goat and Sheep Export; in finance and trade, Wegagen Bank, Africa Insurance, Guna Trading House, Ambassel Trading House, Dinsho Plc, Wondo Trading, and Dedebit Credit and Savings Institution; in industry and mining, Meskerem Investment, Ezana Mining, Sheba Tannery, Almeda Textiles and Garment, Addis Pharmaceuticals, Mesfin Industrial Engineering, Beruh Chemical, and Dashen Brewery; in construction, Addis Construction, Sur Construction, and Mesebo Building Materials; in transport, Trans-Ethiopia, Blue Nile Transport, and Express Transit; and in services, Mega-Net Corporation and Experience Ethiopia Travel.³⁰⁵

The liberalisation of the economy thus displaced the little traditional private capital that existed prior to 1991, replacing it with emergent, new capitalist forces, both private and state-owned. However, as can be seen from Abegaz's work, it is party-linked businesses that emerged as the major beneficiaries. This analysis is supported by Klein who notes that 'the TPLF/EPRDF business empire is said to control nearly a third of the private sector at the moment. Hence the best beneficiary

³⁰⁴ Asress Mulugeta, 'Privatizing EFFORT and all Other EPRDF Controlled Companies to Build Abay Dam', ECADF Ethiopian News and Views, July 19 2013, <http://ecadforum.com/2013/07/19/privatizing-effort-and-eprdf-controlled-companies/>, accessed 3 February 2016

³⁰⁵ Berhanu Abegaz, 'Ethiopia', in Shentanayan Darajan *et al*, (Eds), Aid and Reform in Africa: Lessons from Ten Case Studies, The World Bank, Washington, 2001, p207

of the free market economy is the TPLF.³⁰⁶ As will be elaborated in the next chapter, this was not by a coincidence. Rather, it was part of an elaborate process of the emergence of an Ethiopian neoliberalism, underpinned by what the study describes as party-oriented capitalism.

The EPRDF also continued with its political liberalisation and decentralisation program by focusing ‘on the capacitation and expansion of demographically defined local districts or *weredas*’, the third tier of government’.³⁰⁷ However, they are coopted into the party through a sophisticated recruitment drive. Today the social base of the elite includes the many peasant farmers, youth co-operative members, school and university students and graduates who have been recruited into the party. Party cadres form an important core of the federal and regional service with an increasing number of political opponents at every level of government.³⁰⁸ In the last few years the EPRDF has also won a degree of support in the commercial sector (albeit a minority), with significant private donations to the party a significant feature of the 2010 election campaign.

The EPRDF government has achieved a high degree of centralisation of rent management and allocation, retaining control of a large proportion of available sources of rents and economic levers.³⁰⁹ These include the large state-owned enterprise (SOE) sector, endowment-owned businesses, and substantial regional

³⁰⁶ Axel Klein, ‘The Horn of Turbulence: Identifying the Root Causes of Conflict and the Appropriate Instruments for Peace Building as a Precondition for Sustainable Conflict Resolution’, Institute for African Alternatives, ‘Resource Scarcity and Conflict Management in the Horn of Africa’, A Research Project organised by the Institute For African Alternatives (IFAA), UK, http://new.ifaanet.org/wp-content/uploads/2011/12/horn_of_turbulence1.htm, accessed 03 May 2016

³⁰⁷ Tim Kelsall, *Business, Politics, and The State in Africa: Challenging the Orthodoxies on Growth and Transformation*, p96

³⁰⁸ Dessalegn Rahmato and Meheret Ayenew, ‘Democratic assistance to post-conflict Ethiopia: impact and limitations’, FSS monograph series, no. 3, Forum for Social Studies, Addis Ababa, 2004

³⁰⁹ Sarah Vaughan and Mesfin Gebremichael, ‘Rethinking business and politics in Ethiopia The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray’, Research Report 2011

development organisations; as well as tight regulation of financial institutions, including for micro-credit, and expansion of the tax base.³¹⁰ This would be crucial in facilitating Chinese investment later on. According to Abegaz, ‘such firms in effect create two distinct private sectors: one that is politically connected, and another that is not.’³¹¹ The former can exploit political connections (through party cadres in the bureaucracy) to practice unfair competition for government business and to engage in rent-seeking in the form of tailored state subsidies or protection and insider privatisation.³¹² Even though they belonged to the EPRDF party as officials, they were still difficult to identify. They are said to be registered in the name of individuals, NGOs, or regional governments.³¹³ Their partnership with private players, both local and international, created a complex alliance between the state and new social forces with links to state institutions.

Whilst this may not be the exact state-led capitalism that has defined the growth, expansion and indeed internationalisation of the Chinese economy in the past two decades, it resembles something like it. There is a strong indication that this can be viewed as a southern neoliberalism. In much of the global South, the market agenda seems rather to have re-organized state elites, and re-structured, sometimes to the point of crisis, social arrangements between the state and the wider population.³¹⁴ As explicit talk of Leninism has faded over the years, other ideas about the developmental state and its economic successes in Southeast Asia have come to the fore.³¹⁵ The inherently non-liberal conception of a broadly encompassing role for the party, with mass membership of the population, and co-operatives and mass

³¹⁰ *ibid*

³¹¹ Berhanu Abegaz, ‘Ethiopia’, in Shentanayan Darajan et al, (Eds), *Aid and Reform in Africa: Lessons from Ten Case Studies*, The World Bank, Washington, 2001, p207

³¹² *ibid*

³¹³ *ibid*

³¹⁴ Raewyn Connell and Nour Dados, ‘Where in the world does neoliberalism come from? The market agenda in southern perspective’ *Theor Soc*, 43:11, 2014, p126

³¹⁵ Sarah Vaughan, ‘Revolutionary democratic state-building: party, state and people in the EPRDF's Ethiopia’, in Jon Abbink and Tobias Hagmann (Eds), *Reconfiguring Ethiopia: The Politics of Authoritarian Reform*, Routledge, Oxon, 2013, p623

associations alongside a powerful developmental state, has persisted and been reinvented as the EPRDF's terminology, and ultimate socialist aspiration, has changed.³¹⁶ Inevitably, this has led to the creation of new social forces in the form of rent seekers who have close links with the state, formally and informally.

Meanwhile, the EPRDF did not limit its liberalisation changes to opening up for local, private capital internally only. Many significant changes were introduced and in terms of the investment framework, the investment code was revised four times in as many years and presently allows greater private sector participation, including in public utilities where the state enjoys a *de facto* monopoly.³¹⁷ The effects were already clear within the first seven years. The total FDI inflows into Ethiopia have increased continuously from US\$ 135m in 2000 up to US\$ 545m in 2004. Since then up to 2007 the yearly FDI inflows have varied between US\$ 545m and US\$ 265m.³¹⁸

It is important to put the market economy reform instituted by the EPRDF into perspective. Although it advocated for the dismantling of the socialist system and ushered in a market economy based on liberalism and the primacy of market forces, its development strategy was not anchored on full-blown capitalism but on what could be referred to as a developmental state with neoliberal characteristics. Neoliberalism, as Brenner *et al*³¹⁹ have argued, takes diverse and variegated forms including in the global south. To show the unique nature of the Ethiopian neoliberalism, even after all the hype about liberal reform, Vaughan and Gebremichael have found that the system in Ethiopia is a

³¹⁶ *ibid*

³¹⁷ Berhanu Abegaz, 'Ethiopia', in Shantayanan Darajan et al, (Eds), *Aid and Reform in Africa: Lessons from Ten Case Studies*, The World Bank, Washington, 2001, p193

³¹⁸ Lucie Weissleder, 'Foreign Direct Investment in the Agricultural Sector in Ethiopia', *Ecofair Trade Dialogue*, Discussion Papers, No. 12 / October 2009 / English Version, p9

³¹⁹ Neil Brenner and Nik Theodore, 'Cities and the Geographies of 'Actually Existing Neoliberalism'', *Antipode*, 34: 2002, pp. 349–379

much wider centralised and ideologically driven strategy of managed economic development pursued by the ruling party. This strategy is assertively led by the state, and also encompasses the activities of SOEs, public and private banks and micro-credit institutions, FDI, co-operatives, farmers³²⁰ and youth associations, and regional developmental bodies.

Further, ‘economic performance in Ethiopia is highly correlated with conflict and the political processes that accompany it.’³²¹ The EPRDF elite fundamentally restructured the Ethiopian state, redefined Ethiopia’s relation with independent Eritrea, and coopted the economy by bringing it largely under its own control.³²² The state is playing a prominent role in the economy and hopes to continue doing so until the free market matures, and until such time, the state is poised to maintain control of the commanding heights of the economy.

c) Liberalisation and capitalist land reform: The changing role of the state

Ethiopia’s new neoliberalism also extended to the rural economy although the transition to a more market-based, liberal policy regime on land did not happen immediately but progressed gradually. This was because such changes had the potential to hurt some social forces at a time when the EPRDF needed the support of as many of them as possible to consolidate its power first. An example is the peasant class which, though opposed to the previous regime’s nationalisation of land, would not countenance a radical shift towards a capitalist system that would invite foreign private players which would threaten their land ownership. For example, owing to the land redistribution policy and its subsequent negative effects, the peasants of

³²⁰ Sarah Vaughan and Mesfin Gebremichael, ‘Rethinking business and politics in Ethiopia The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray’, The Africa Power and Politics Programme Research Report 02, Overseas Development Institute, London, August 2011, p13

³²¹ Alemayehu Geda, ‘The Political Economy of Growth in Ethiopia’, in Benno J. Ndulu *et al* (Eds), The Political Economy of Economic Growth in Africa 1960 - 2000, Vol. 2 Country Case Studies, Cambridge University Press, 2008, p119

³²² Jon Abbink, ‘Discomfiture of Democracy? The 2005 Election Crisis in Ethiopia and its Aftermath’, *African Affairs*, 105/419, 173–199

Gojjam began to voice their protest against local officials.³²³ However, the changes that were subsequently introduced changed the political economy of land in Ethiopia. Whereas the Dergue had embarked on a socialist path of nationalising agricultural land, the EPRDF subjected this key resource to market forces. This thesis maintains that just like with ethnicity and the economy, the liberalisation and capitalist land reform instituted by the EPRDF was in keeping with an Ethiopian neoliberalism that would still leave the state with overarching control over the sector.

During the first decade of EPRDF rule, government policy was very much focused on smallholders and peasants. The investment in agricultural lands in Ethiopia in the late 1990s and 2000s started with domestic investors, both private and ruling party-affiliated people, who bought land for commercial agriculture for export.³²⁴ It is from the 2000s that a shift is apparent towards embracing foreign, large scale private investors into the agricultural sector. A number of legal instruments were enacted to formalise the accommodation of foreign private capital's access to land and water in Ethiopia. The main legal basis for investments in Ethiopia is Proclamation 280/2002 (and amendments 375/2003). They state the incentive to attract foreign investment in order to promote investments in order to promote export industries and technology transfer and thereby increase foreign exchange earnings.³²⁵ The critical point to note is that the pursuit of neoliberalism was not just an economic strategy but a state project that entrenched certain social forces including state officials, local business elites, and later on international corporate actors within the state. Clearly, politically

³²³ Temesgen Gebeyehu Baye, 'Peasants, land reform and property right in Ethiopia: The experience of Gojjam Province, 1974 to 1997', *Journal of African Studies and Development* Vol. 5(6), October, 2013, pp. 145-156

³²⁴ Jon Abbink, 'Land to the foreigners': economic, legal, and socio-cultural aspects of new land acquisition schemes in Ethiopia', *Journal of Contemporary African Studies*, 29:4, 2011, pp 513-535

³²⁵ Philipp Baumgartner, 'Change in trend and new types of large-scale investments in Ethiopia', in Tony Allan *et al*, (Eds) *Handbook of Land and Water Grabs in Africa: Foreign Direct investment and food and water security*, Routledge, London, 2013, p181

connected entrepreneurs emerged as a new social force out of the liberalisation and marketization of land in Ethiopia.

It should be noted that from a regional perspective, land deals involving national governments and private, international capital have become so pervasive in Africa over the past few decades.³²⁶ Concerns over the leasing of, or selling of, large areas of land to transnational corporations (TNCs) and external governments by national governments are growing. It is estimated that 2.4 million hectares in Africa have already been appropriated this way.³²⁷ The lowest prices are in Africa, where, says the World Bank, at least 35 million hectares of land has been bought or leased.³²⁸ Changes in the Ethiopian Government's land policy started to favour large-scale investments in the early 2000s and the policy sees them as a main pillar of agriculture production.³²⁹ For a country where 80% of the population rely on the land for a livelihood, this meant far-reaching implications. In a food-insecure country such as Ethiopia, where several million people rely on food aid, the idea of offering fertile land to outsiders has raised concerns.³³⁰ The capitalist transformation around land has thus seen an influx of foreign investors wishing to exploit the land resource in Ethiopia, affecting power and social structures. The presence of international capital has linked various fractions of foreign capital with other local social forces such as the well-networked party-owned companies grouped under EFFORT and SOEs.

³²⁶ Lorenzo Cotula *et al*, Land grab or development opportunity? Agricultural investment and international land deals in Africa Enabling poor rural people to overcome poverty, IFAD, 2009, London, p77

³²⁷ Nana K. Poku and Anna Mdee, Politics in Africa: A New Introduction, Zed Books, London, 2011, p66

³²⁸ Lorenzo Cotula *et al*, 'Land grab or development opportunity? Agricultural investment and international land deals in Africa Enabling poor rural people to overcome poverty', IFAD, 2009, London p77

³²⁹ Philipp Baumgartner, 'Change in trend and new types of large-scale investments in Ethiopia', p181

³³⁰ Xan Rice, 'Ethiopia – country of the silver sickle – offers land dirt cheap to farming giants', Guardian, 15 January 2010, <http://www.theguardian.com/world/2010/jan/15/ethiopia-sells-land-farming-giants>, accessed 19 May 2015

In Ethiopia, demand for agricultural land by foreign and domestic investors has soared in the last decade.³³¹ The state has embarked on a crusade to modernise agriculture by effectively suppressing smallholder, peasant farming in favour of more sophisticated, mechanised agriculture hence the influx of foreign capital in the agricultural sector. In order to attract foreign capital into Ethiopia's agricultural sector, the government introduced massive incentives including tax breaks besides offering the land at very cheap world prices in the first place.³³² The new situation prompted the introduction of investment licences to regulate the agricultural sector. According to Baumgartner, if investment licences are grouped according to their European share we obtain three groups: (1) fully Ethiopian, (2) Ethiopian share (joint investment with foreign), and (3) fully foreign.³³³ The internationalisation of land acquisitions and land deals in Ethiopia thus led to the creation of new transnational alliances with domestic investors entering into deals and partnerships with foreign investors.

The Ethiopian government says thirty-six countries including India, China, Pakistan and Saudi Arabia have leased farm land there.³³⁴ One of the most affected regions affected by this opening up of land to foreign investors is the Ethiopian region of Gambella. According to Vidal, sparsely-populated Gambella is at the centre of the global rush for cheap land, precipitated by the oil price rise in 2007/2008, when many countries wracked by food riots encouraged their farmers to invest abroad to grow food. Gambella has offered investors 1.1 million hectares, nearly a quarter of its best farmland, and 896 companies have come to the region in the last three years.

³³⁵ At the same time, the state was also involved in the sector as a player. Ethiopia is

³³¹ Philipp Baumgartner, 'Change in trend and new types of large-scale investments in Ethiopia', p180

³³² Beth Robertson and Per Pinstrup-Andersen, 'Global land acquisition: neo-colonialism or development opportunity?', *Food Sec.* 2, 2010, p272

³³³ Philipp Baumgartner, 'Change in trend and new types of large-scale investments in Ethiopia', p182

³³⁴ John Vidal, 'Ethiopia at centre of global farmland rush', *Guardian*, 21 March 2011, <http://www.theguardian.com/world/2011/mar/21/ethiopia-centre-global-farmland-rush>, accessed 19 May 2015

³³⁵ *ibid*

probably the African country with the greatest state involvement in the agricultural sector, through the developmental state; it also has the highest level of state investment.³³⁶ This created new social forces with links to the state like bureaucratic party-linked cadres as well party-linked capitalists and civil society.

The temptation to view the actions of the EPRDF on land reform as having been conceived neatly by the state outside of the contribution or at least influence of no other social forces must be resisted. It is misleading to view the EPRDF as having absolutely conceived and delivered a market economy, and especially with regards to agriculture, a land reform package with such far reaching capitalist transformations without influence. According to Berhe, land reform seems to have been ‘opportunistic and varied’, even occasionally a competitive response to the activities of the leftist Ethiopian People’s Revolutionary Party (EPRP).³³⁷ The EPRDF introduced these reforms in part because other political parties were proposing to the peasants’ alternative, attractive land reform arrangements. The far reaching land reform program was thus both a reaction to, and a product of, the pressure felt by the EPRDF from such rival parties such as the TPLF which was promising a more broad based and secure land redistribution program. The key point however is that politically connected entrepreneurs emerged as a new social force out of the liberalisation and marketization of land in Ethiopia.

4.3 Liberalisation, the emergence of new social forces and the entry of Chinese capital

The reform period is important for many reasons. For this thesis, the critical point to note is the variety of neoliberalism that came out of the reform era which saw the

³³⁶ Rene Lefort, 'Free market economy, 'developmental state' and party-state hegemony in Ethiopia: the case of the 'model farmers'', *The Journal of Modern African Studies*, 50, 2012, p686

³³⁷ Aregawi Berhe, *A Political History of the Tigray People’s Liberation Front (1975-1991): Revolt, Ideology and Mobilisation in Ethiopia*, Tsehai Publishers, Los Angeles, 2009, p235

state emerging with the central role in the economy. Within this globalisation matrix, the state is being (re)assigned roles in order to facilitate capital's designs. Put differently, Ethiopia becomes a trans-national state (TNS) 'regarded as a guarantor of capital accumulation at the global level'.³³⁸ The second, and interrelated point is that because of this mode of neoliberalism, opportunities were created for the emergence of new forms of capitalist players. Some of the key social forces to emerge include private businesspersons, transnational companies, civil society, party-linked business cadres as well state-owned entities – all linked to the state. These players are some of the major capitalist players now pivotal to the Ethiopian economy. Crucially, the state has sought to coopt them in one way or another. In this brief section, the thesis discusses how the 'developmental state' has devised mechanisms to coopt or at least silence some of these social forces. This development is key as, in the next chapter, it will be demonstrated how Chinese capitalism strengthened such new forces within these institutions with important implications for state-society relations in Ethiopia.

Political and economic reform went hand in hand as the EPRDF advanced its neoliberalism. This resonates with the way neoliberalism is understood by Brenner *et al* and adopted in this thesis as an uneven process – that emerges out of existing state institutions and practices to create new hybrid combinations:

The uneven development of neo-liberalization results, on the one hand, from the continuous collision between contextually specific, constantly evolving neo-liberalization projects and inherited politico-institutional arrangements, whether at global, national or local scales. At the same time, through this collision, neo-liberalization processes rework inherited forms of regulatory and spatial organization, including those of state institutions themselves, to produce new forms of geo-institutional differentiation.³³⁹

³³⁸ Andreas Bieler and Adam David Morton, 'The will-o'-the-wisp of the transnational state', *The Journal of Australian Political Economy* 72, 2013, p23

³³⁹ Neil Brenner, Jamie Peck and Nik Theodore, 'After neo-liberalization', Revised version forthcoming in: *Globalizations*, 7, (2010, in press)

The liberalisation of the political space in pursuit of the new state project from 1991 ushered in a new era for civic actors. Trade unions, peasant cooperatives, youth and student organizations, professional associations, the non-government media, NGOs and advocacy groups soon sprouted.³⁴⁰ When the Dergue collapsed in 1991, civil society groups and NGOs emerging from the wreckage left behind were weak, disorganized, and without either significant resources or constituent bases.³⁴¹ However, despite opening up political space for them, the state attempts to subjugate much of the civil society such that most of it is linked together within the state institutions.

On March 30, 2005, the Government of Ethiopia, expelled three internationally esteemed United States non-governmental organizations--the International Republican Institute (IRI) the National Democratic Institute, (NDI) and the International Foundation for Electoral Systems - (IFES) - that were attempting to train civil society organizations so that they would promote a democratic practice that would help the general election process of 2005.³⁴² For those that have maintained independence, the EPRDF has enacted legal and extralegal measures that force civil society to avoid issues that deal with democratic governance and human rights violations. According to Clark, the EPRDF's known tactic is to plant undercover agents in the organization with the purpose of creating splinter groups in the ranks and then supporting factions favourable to its policies and cracking down on groups opposed to it.³⁴³ For example, the chair of the Confederation of Ethiopian Trade Unions (CETU), Dawi Ibrahim, has been forced to flee to the Netherlands

³⁴⁰ Paulos Milkias, 'The Role of Civil Society in Promoting Democracy and Human Rights in Ethiopia', A paper presented at the Ethiopian Americans Council Conference hosting the honourable Anna Gomes, European Union M.P. on the theme: 'Protecting the Democratic Rights of the Ethiopian people: Reflections and Next Steps' held in Los Angeles California, on July 2, 2006, http://www.ethiomedial.com/carepress/author_paulos.pdf. p3

³⁴¹ Jeffrey Clark, 'Civil Society, NGOs, and Development in Ethiopia A Snapshot View', The World Bank Washington, D.C., 2000, p5

³⁴² Paulos Milkias, 'The Role of Civil Society in Promoting Democracy and Human Rights in Ethiopia', p24

³⁴³ *ibid*

where he has asked for a political asylum to escape unremitting government surveillance on his private life and open ended persecution and hostile measures directed against him by the state security police.³⁴⁴ The government has gone on to create its own NGOs affiliated to it and ‘in other cases, parallel organizations such as those of the Ethiopian Teachers Association (ETA) and the Ethiopian Journalists Association (EJA) were created’.³⁴⁵ Such civil society organisations with links to the state emerged as some of the new social forces and as will be discussed, were strengthened by Chinese capital which by extension has strengthened the EPRDF regime.

Notwithstanding widespread criticism inside Ethiopia, if one were to entertain the thought that the idea of devolution or decentralisation was conceived with the best of intentions, then it still faced another uphill battle right from the onset. Constitution-making under the EPRDF has little in common with the bargaining, trade-offs, and compromises that usually typify such processes; rather it reflects the weakness of the country’s democratic institutions, the political objectives of the governing party, and its position of dominance within a state where serious opposition had been crushed or marginalised.³⁴⁶ Put differently, the internal capacities of the Ethiopian state have not been strong enough to institutionally sustain a more devolved yet democratic dispensation. Ethiopian democracy is not perfect. However, despite the hurdles that the liberalisation of the economy and politics has encountered, the key point to note is that the gradual opening up of the economy is linked to the emergence of new social forces within the state.

³⁴⁴ *ibid*

³⁴⁵ Tadesse Teshome, ‘Complementary and Adversarial Stances in State-civil Society Relationships and Their Implications for Democratization and Development: The Case of Ethiopia’, International Conference on African Development Archives. Paper 131, 2012, p24

³⁴⁶ John Young, ‘Regionalism and democracy in Ethiopia’, *Third World Quarterly*, 19:2, p195

With the aid of these three case studies, the chapter has elaborated how the EPRDF committed itself to implementing radical reforms to transform the state from socialism to some form of neoliberalism. This new state project was envisaged to reverse poverty by opening up the economy to foreign capital alongside the liberalisation and democratisation of the state. The incoming EPRDF-led Transitional Government of Ethiopia (TGE) embarked on a range of reform measures in three areas: democratisation, decentralisation and economic liberalisation.³⁴⁷ The thesis takes particular interest in the fact that this neoliberal and capitalist transformation was the key in enhancing the political processes and social coalitions that would facilitate and cushion Chinese investment in Ethiopia. In other words, these reforms prepared the ground for the subsequent political and institutional changes that were triggered by Chinese investments. These institutional structures shaped the character, whilst the opportunities shaped the impact of Chinese investment. This period is about a capitalist transformation and sets the stage for the discussion of Chinese investment and its drivers in the next chapter.

With regard to this liberalisation and the economic benefits it delivered in Ethiopia, this thesis takes particular interest in the role of Chinese capital. Among the transnational investors is Chinese capital whose scope and involvement in the Ethiopian economy has expanded ever since 1995. As soon as the EPRDF ascended to power in 1991 and began the process of opening up the economy, it set Ethiopia on a platform of strong engagement with China. This was effectively kick-started by then Prime Minister Meles Zenawi's first official 'visit to 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.'³⁴⁸ As part of its global engagement, Chinese capital (both State owned

³⁴⁷ Sarah Vaughan and Mesfin Gebremichael, 'Rethinking business and politics in Ethiopia The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray', Research n 2, 2011

³⁴⁸ Gedion Gamora, 'Ethiopia and China Political and Economic Relations: Challenges and prospects after 1991', p2, <http://www.afrology.com/pol/pdf/gamora.pdf>, accessed on 12 May 2014

and private) is a core player in the Ethiopian economy today. At the same time, Ethiopia has a very important political and diplomatic relationship with China steeped in both bilateralism and multilateralism.

Owing to the neoliberal reform agenda, the country has become one of the highest beneficiaries of foreign, especially Chinese capital in Africa in the last decade. While traditional donors such as the World Bank (IDA), the United States and European donors still provide the bulk of development assistance to Ethiopia, ‘new’ partners – first and foremost China, but also India or the Global Fund – have brought new sources of financing and alternative ideas on political and economic development for the Ethiopian government.³⁴⁹ The task then in the next chapter is to analyse the specific players in Ethiopia facilitating these Chinese investments. According to Bieler and Morton, ‘capital is not simply represented as an autonomous force beyond the power of the state but is embodied by classes or fractions of classes *within* the very constitution of the state.’³⁵⁰ Also, with the afore discussed hegemony of the Tigrayan elite, the question arises if Chinese capital is facilitated by them as conduits for its internationalisation or whether global capital knows no tribe or ethnicity but simply remains linked by fractions of capital in Beijing and Addis Ababa.

4.4 Conclusion

This chapter has showed the important transition from a centralised, command economy to market neoliberalism that took place after 1991. This was both an economic and political transformation. It is emphasized that the form that this neoliberalism took was shaped by the specific political context of Ethiopia. The

³⁴⁹Furtado, X. and W. J. Smith, ‘Ethiopia: Retaining Sovereignty in Aid relations’, in L. Whitfield (Ed.), *The Politics of Aid. African Strategies for Dealing with Donors*, Oxford, Oxford University Press, 2009, pp. 131-155

³⁵⁰ Andres Bieler and Adam David Morton, ‘The Will-O’-Wasp of the Transnational State’, *Journal of Australian Political Economy*, The, No. 72, Summer 2013/2014, pp 23-51

chapter draws the connection between state transformation, new social formations and the link between state and society or formal and informal power via state institutions. The opening of the political and economic space in 1991 created many opportunities for both domestic and international players. Since a developmental state approach had been proclaimed, the state became heavily involved in the economy in various ways. The key here is to understand the way these new social forces emerged out of this distinctive process of neoliberalisation and worked through old (party oriented) and new political institutions. Such local forces would be key in the coming discussions focusing on how Chinese capital as an external variable linked with these internal fractions and the effect this had on state-society relations. To summarize, the reform process ushered in an Ethiopian neoliberalism that had as some of its key features, state control, cooptation and domination. With such internal conditions, Chinese capital was able to establish entry points into the Ethiopian economy, penetrating to the extent of establishing networks with specific social forces linked to the state. The chapter has made the analysis of (Ethiopian) neoliberalism and state transformation (especially the role of the state) the key aspects setting the stage for the next discussion on the institutional drivers of Chinese investment in Ethiopia.

Chapter 5: The drivers of Chinese investment in Ethiopia since 1995: Institution, economics and politics

5.1 Introduction

The previous chapter outlined how the new EPRDF government instituted its reform agenda soon after taking over from the socialist Dergue in 1991. One of the key reforms undertaken was the opening up of the economy to foreign capital. A significant outcome of this was the entry of Chinese capital into the Ethiopian economy beginning in 1995 and the dawn of serious Chinese-Ethiopian investment relations. This took place in the context of the internationalisation of Chinese capital which was then only beginning. According to Bryan, ‘a process of internationalisation is generally understood as a growth of trade between nations, or investment by one nation in another’.³⁵¹ In order to outline the nature, extent and patterns of Chinese investment in Ethiopia, the chapter examines the three key drivers of Chinese investment in Ethiopia. Broadly, these are institutional, economic and political. Because this expanding cooperation is the result of the internationalisation of Chinese capital, its manifestation through globalisation with Chinese characteristics and the centrality of Ethiopia to China’s overall expansion into Africa is also discussed. The chapter’s key argument is that there has developed mutual accommodation between Ethiopian neoliberalism and the EPRDF regime on the one hand, and the Chinese mode of international engagement – driven by its own distinctive ‘statist capitalist’ transformation, on the other.

The chapter is divided into two broad sections. The first section traces the historical background behind China - Africa cooperation, including how specific episodes like the Cold War and its politics have influenced the nature of this relationship over time

³⁵¹ Richard Bryan, ‘The state and the internationalisation of capital: An approach to analysis’, *Journal of Contemporary Asia*, 17:3, 1987, pp 253-275

and space. It also provides an understanding of China's distinctive path of capitalist development as defined by statist capitalism. The chapter will then identify specific drivers of Chinese investment in Africa. These include SOEs, Special Economic Zones (SEZs), private capital and political as well as economic instruments of China's distinctive mode of international engagement. These drivers are all enhanced by certain bilateral and multilateral institutions. By the end of the chapter, the nature, extent and patterns of Chinese investment in Ethiopia should be clear. This analysis is guided by the understanding that the specific form that neoliberalism took in Ethiopia, and the state transformation that has ensued, involved a key role for the state in reinforcing and facilitating this investment. The next chapter will then focus on how this Chinese investment is linked to new modalities of state intervention in Ethiopia especially how this is strengthening the Ethiopian state institutions.

Ethiopia has had important foreign economic relations with many countries but none seems to have been so more profound and consequential than the decision in the early 1990s to intensify co-operation with China. This coincided with the very period when China, pursuing a new policy towards Africa, was implementing its 'Go Out' strategy.³⁵² The 'rise'³⁵³ of China over the past 10-15 years is arguably one of the most significant highlights of economic growth in the world in the twenty-first century. Yin-Wong Cheung *et al* observe that 'China's overseas investment activity has reached a level that could challenge international investment norms and affect international relations.'³⁵⁴ China has become by far Africa's biggest trading partner, exchanging about \$160 billion-worth of goods a year.³⁵⁵ According to Hunter,

³⁵²Aaron L. Friedberg, 'Going Out': China's Pursuit of Natural Resources and Implications for the PRC's Grand Strategy', Vol. 17. No. 3. National Bureau of Asian Research, 2006

³⁵³David Rapkin and William Thompson, 'Power transition, challenge and the (re) emergence of China', *International Interactions* 29.4, 2003, pp 315-342

³⁵⁴Yin-Wong Cheung, Jakob de Haan, Xingwang Qian, and Shu Yu, 'China's Outward Direct Investment in Africa', *Review of International Economics*, 20 (2), 2012, p202

³⁵⁵ The Economist, 'China in Africa: One among many. China has become big in Africa. Now for the backlash', 17 January 2015,

<http://www.economist.com/news/middle-east-and-africa/21639554-china-has-become-big-africa-now-backlash-one-among-many>, accessed on 13 June 2015

China's growth, power and influence is being felt everywhere especially through the projection of its 'soft power.'³⁵⁶ Through involvement in global governance and the spread of its 'soft power', for instance, via corporate activity (whether state or privately owned) and international migration, China is a prominent global actor and is arguably the key driver in what may in the longer term emerge as a wider Asian-influenced form of globalisation: a Global Asian Era.³⁵⁷ As Chinese expansion goes global, in Sub-Saharan Africa, it is leaving distinctive marks.

As far back as 2005, Zafar noted that 'over the last decade, China has built a network of trade, aid, and investment links with close to 50 African countries, and there has been a rush to buy up concessions to Africa's natural resources.'³⁵⁸ In the first ten months of 2005, Chinese-African trade grew by 39% to \$32.17 billion and as a result, China overtook the United Kingdom (UK) as Africa's third most important trading partner in 2005 (after the US and France).³⁵⁹ In 2010, it was reported, according to statistics of the Chinese Ministry of Commerce that China's FDI in Africa had increased yearly by an average of 46% over the last decade.³⁶⁰ However, China-Africa cooperation is part of a longer history and it is instructive to trace and summarize its genesis and development. This is important because the rhetoric of the historical relationship that continues to be articulated by the two sides today, such as 'win-win' and 'mutual benefit', provides good context notwithstanding the evolving nature of these ties.

³⁵⁶ Alan Hunter, 'Soft Power: China on the Global Stage', *Chinese Journal of International Politics*, 2009, p12

³⁵⁷J. Henderson *et al*, 'Globalisation with Chinese Characteristics: Externalisation, Dynamics and Transformations', *Development and Change* 44 (6), 2013, p1223

³⁵⁸ Ali Zafar, 'The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links', *The World Bank Research Observer*, vol. 22, no. 1, Spring 2007, p105

³⁵⁹ Denis M. Tull, 'China's engagement in Africa: scope, significance and consequences', *The Journal of Modern African Studies*, Volume 44 Issue 03, September 2006, p464

³⁶⁰ The African Development Bank Group Chief Economist Complex, 'Chinese Trade and Investment Activities in Africa', *Policy Brief Volume1, Issue 4* 29 July, 2010, p7

5.2. Evolving China-Africa relations: From Ideological solidarity to China's pragmatic engagement

Economic relations between China and Africa have a very long history and can be traced back to the first Han emperors of the Second Century B.C. The best example is the Chinese navigator, Zheng He, who reached the coast of Africa four times, disembarking in Somalia and Kenya, in the early fifteenth century.³⁶¹ Despite these very early ties between Africa and Asia, it must be stressed that it was only in the mid-twentieth century that they began to take a distinct and important turn. The increased speed of these relations is a consequence, in part, of the connections forged during the anti-colonial struggles of the 1950s and the revolutionary period of Chinese foreign policy from 1950 to the early 1970s.³⁶² China's first official contacts with Africa occurred during the Bandung Conference of Nonaligned Nations in April 1955 and the attendance of Chinese leaders at this conference was testimony to China's new identification as a member of the Third World.³⁶³ In locating China's historical ties with Africa, it is also important to highlight that China has always ideologically offered an alternative worldview to that provided by the West politically, socially or economically. For example, communism and socialism have at various times formed the basis of Chinese economic and social organisation and these have been adopted by several African countries with varying degrees of success. For the better part of the last century, China was arguably the world centre for communism and socialism. Maoism in particular resonated throughout the Third World.³⁶⁴ That said, the nature of China-Africa relations have not remained static but have evolved over time and they can be explained in phases.

³⁶¹ Mary-Françoise Renard, 'China's Trade and FDI in Africa', African Development Bank Group, Working Paper Series, No 126- May 2011, p6

³⁶² G. Mohan., and M. Power, 'New African Choices? The Politics of Chinese Engagement', *Review of African Political Economy*, 2008, 35:115, p1255–1272

³⁶³ Piet Konings, 'China and Africa: Building a Strategic Partnership', *Journal of Developing Societies*, 23, 2007 p341

³⁶⁴ Julia C. Strauss, 'The Past in the Present: Historical and Rhetorical Lineages in China's Relations with Africa', *The China Quarterly*, 199, 2009, pp 777-795

According to Mathews, China-Africa relations can broadly be divided into three distinct phases. The first was the fifteenth century mercantile expansion of China associated with the Ming Dynasty, which saw China ‘discover’ much of Africa as far as south as Mozambique nearly 100 years before the first arrival of the Europeans.³⁶⁵ Then came the Cold War era during which two distinct phases of Chinese engagement with Africa are identifiable. The first was the Maoist era when China’s Africa policy was marked by mainly ideological and strategic considerations.³⁶⁶ From its own point of view, China was far more interested in launching a “soft power” campaign in Africa in the Maoist era, against both Western imperialism/colonialism and Soviet revisionism at the time. China saw itself as a member, and even the leader, of Third World struggles, trying to undermine western and Soviet influence, and to isolate Taiwan on the world stage.³⁶⁷ Owing to Cold War politics, many pre-independent African states in the 20th century were inspired by the Chinese model and aspired to follow suit. According to Taylor, Beijing constructed a theoretical position that implicitly posited the developing world and China together and inferred an antagonistic relationship with the two superpowers³⁶⁸ (US and then USSR). To that end, the Chinese nation made enormous financial contribution (considering China was still a basket-case Third World economy) and human sacrifices just to make an ideological point.

China provided various forms of support to African liberation war movements that were fighting imperialism in the 1950s to 1980s, most of whom are still ruling parties today. To illustrate this point, a few examples may suffice. Zimbabwe, then Southern Rhodesia received ‘military assistance, which saw China sending military hardware to guerrillas in the Zimbabwe African National Liberation Army

³⁶⁵ Kuruvilla Mathews, ‘Understanding China-Africa relations’, in A.S Yaruigam and Rashim Kapoor (Eds), *Inside Africa; Contemporary Perspectives*, SHIPRA, Centre for African Studies, New Delhi, 2013, pp 41-61

³⁶⁶ Piet Konings, ‘China and Africa: Building a Strategic Partnership’, p341

³⁶⁷ *Ibid*, p341

³⁶⁸ Ian Taylor, *China and Africa: Engagement and Compromise*, Routledge, London, 2006, p22

(ZANLA), the military wing of Zimbabwe African National Union (ZANU). The second form of support was the extensive military training that was given to ZANLA guerrillas.³⁶⁹ Even today, Zimbabwe's President Robert Mugabe considers himself a 'Maoist.'³⁷⁰ China 'supported the National Front for the Liberation of Angola (FNLA) and National Union for the Total Independence of Angola (UNITA).'³⁷¹ China-Africa relations during the greater part of the Cold War therefore were largely political because during this period, China sought ideological support and influence in Africa. During this period, China also expanded its involvement in Africa to counter the influences of the United States and the Soviet Union. In the 1960s, China lacked the resources of the Cold War superpowers, but it still invested significant energies in support of independent Africa.³⁷² Besides assisting African countries in their struggles for independence, China was also carving out its own spheres of influence in the region. However, China's policy towards the region was to change with the ascension to power of Deng Xiaoping in December 1978.

This second phase in the Cold War period therefore started with Deng Xiaoping's economic modernization policies. Almost immediately, Deng virtually brought to an end China's remaining practical support for revolutionary movements abroad and significantly reduced China's aid to Third World countries.³⁷³ Deng remodelled China's foreign policy to align it with national interest in a changing world. China's foreign policy now stressed the development of friendly relations with other nations without regard to their social systems or ideological orientation.³⁷⁴ Consequently, it

³⁶⁹ Abiodun Alao, 'China and Zimbabwe: The content and contexts of a complex relationship', Occasional Paper 202, Global Powers and Africa Programme, South African Institute of International Affairs, October 2014, p7

³⁷⁰ Stephen Chan, Robert Mugabe: A Life of Power and Violence, I. B Tauris, London, 2003, p133

³⁷¹ Elizabeth Schmidt, Foreign Intervention in Africa: From the Cold War to the War on Terror, Cambridge University Press, Cambridge, 2013, p29

³⁷² Chris Melville and Olly Owen, 'China and Africa: a new era of south-south cooperation', openDemocracy 8, 2005

³⁷³ Michael Yahuda, 'Deng Xiaoping: The Statesman', The China Quarterly, 135, 1993, pp 551-572

³⁷⁴ Domingos Jardo Muekalia, 'Africa and China's Strategic Partnership, African Security Review, 13:1, 2004

was in 1979 that a significant change in China-Africa relations took root. According to Taylor, with Beijing fixated on its economic development programme under Deng Xiaoping, Africa was seen as largely irrelevant to the increasingly commercial nature of the PRC's external relations.³⁷⁵ Yet China's policy towards Africa today is, however complex and calculated to be in keeping with China's strategic interests. In sum, the relationship has thus evolved from a mainly political one to an economic one.

From the foregoing, the "Beijing Consensus" must be understood as China's second "soft power" campaign. More importantly, it should be noted that the lessons of the Maoist era are today playing a key role in shaping the form and content of China's contemporary foreign policy strategy towards Africa. China's attitude towards Africa turned pragmatic as 'China no longer wanted to assist Africa unconditionally and in order to develop economically, it could not assist Africa with costly aid programmes.'³⁷⁶ Chinese penetration in Africa and Ethiopia today is therefore not just a natural outflow of a neoliberal Sino-Capitalism – the debate in China about how to deal with Africa (states and societies) is also informed by the lessons learned from the approaches of the Maoist era, warts and all.

Chinese foreign economic policy has therefore developed and evolved over time. However, this reform era which started in the late 1970s as a process of 'Opening Up' to the outside world, as well as 'Bringing In' foreign investment and expertise³⁷⁷ is the genesis of an assertive Chinese foreign policy not only in Africa, but across the globe. According to Friedberg, 'the official campaign launched in 2002 to encourage

³⁷⁵ Ian Taylor, 'China's foreign policy towards Africa in the 1990s', *The Journal of Modern African Studies*, 36, 1998, pp 443-460

³⁷⁶ Judith van de Looy, 'Africa and China: A Strategic Partnership?', ASC Working Paper 67/2006, presented at the 'Afrikadag' organized by the Evert Vermeer Stichting at the Haagse Hogeschool in The Hague on 22 April 2006

³⁷⁷ Ruben Gonzalez-Vicente, 'The internationalisation of the Chinese state', *Political Geography* 30, 2011, pp 402-411

Chinese firms to invest overseas has an air of improvisation, if not desperation, and is an odd blend of shop-worn party sloganeering (“Go Out!”), and 21st century state-directed capitalism.³⁷⁸ China’s economic dealings with most African countries are today based on a cool evaluation of their perceived economic potential.³⁷⁹

At the same time the ‘Go Out’ strategy was being rolled out, a deliberate home-grown type of capitalism that had a central role for the state in the economy was developing in China. In all the radical reforms that he introduced, Deng insisted China remain a socialist nation with central control.³⁸⁰ What ensued was a huge ideological shift from socialist modes of production to a distinct neoliberalism in China’s political economy. As Hameiri and Jones have noted, ‘since the reform era began in 1978, the Chinese state has experienced considerable disaggregation, the divestment of power and control to semi- and fully private actors, and the devolution of authority and resources to subnational agencies.’³⁸¹ China’s economic transformation is linked to the changes that occurred in its international orientation, especially its economic engagement with the world. With this background, the key point for this study is that China’s social, economic and political history and its state-led development would mesh with patterns of capitalist transformation to create a distinctive pattern or neoliberal development in Ethiopia. Indeed, it is this distinctiveness, encapsulated in what scholars like Breslin³⁸² have termed ‘capitalism with Chinese Characteristics’, or ‘globalisation with Chinese characteristics’ like

³⁷⁸ Aaron L. Friedberg, “Going Out”: China’s Pursuit of Natural Resources and Implications for the PRC’s Grand Strategy’, <http://www.ou.edu/uschina/SASD/SASD2007readings/Friedberg2006GoingOut.pdf>, accessed on 11 March 2016

³⁷⁹ Ian Taylor, ‘China’s foreign policy towards Africa in the 1990s’, *The Journal of Modern African Studies*, 36, 1998, pp 443-460

³⁸⁰ Deng Xiaoping Biography, <http://www.biography.com/people/deng-xiaoping-9271644>, accessed on 17 March 2016

³⁸¹ Shahar Hameiri and Lee Jones, ‘Rising powers and state transformation: The case of China’, *European Journal of International Relations*, Vol. 22(1), 2016, p82

³⁸² Shaun Breslin, ‘Capitalism with Chinese Characteristics: The Public, the Private and the International’, Working Paper No. 104, Asia Research Centre, June 2004

Henderson with Appelbaum and So³⁸³ or simply, ‘Chinese characteristics’ like Callahan³⁸⁴ that would shape its engagement with Ethiopia.

Today, China’s relations with Sub-Saharan Africa are multifaceted and much of this activity is concentrated in a handful of African countries and in the extractive industries, such as oil and mining but increasingly, businesses from China are also pursuing strategies in Africa that are about far more than natural resources.³⁸⁵ As Africa’s second most significant trading partner in aggregate terms and provider of large loan packages in exchange for provisions for infrastructure, as well as an increasingly important investor in financial services, China is easily the largest of the emerging powers operating in Africa today.³⁸⁶ As recently as 2013, the Chinese President was in Tanzania and stressed;

Let me make it clear to you, my dear friends, that in the new environment, China-Africa relations have become more important with greater common interests, instead of less important with fewer common interests. Let me assure you that China will intensify, not weaken, its efforts to expand relations with Africa.³⁸⁷

A cursory glance at the manner in which China-Ethiopia political and economic relations has gained pace over the past two decades gives an impression that the

³⁸³ Jeffrey Henderson, Richard P. Appelbaum and Suet Ying H, ‘Globalization with Chinese Characteristics: Externalization, Dynamics and Transformations’, *Development and Change Special Issue: Globalization with Chinese Characteristics*, Volume 44, Issue 6, November 2013, pp 1221–1253

³⁸⁴ William A. Callahan, ‘China and the Globalisation of IR Theory: discussion of Building International Relations Theory with Chinese Characteristics’, *Journal of Contemporary China*, Volume 10, Issue 26, 2001, pp 75-88

³⁸⁵ Harry G. Broadman, ‘China and India go to Africa: New Deals in the Developing World’, *Foreign Affairs*, Vol. 87, No. 29, Mar. – Apr., 2008, pp 95-109

³⁸⁶ C. Alden, ‘Emerging Powers and Africa’, 13

³⁸⁷ ‘Africa-China - Friends, Sincere Partners Forever’, Speech delivered by Xi Jinping, President of the People’s Republic of China, at the Julius Nyerere International Convention Centre on March 25 2013 in which he outlined his Africa policy <http://allafrica.com/stories/201304040165.html?page=4>, accessed 13 March 2016

momentum will only continue.³⁸⁸ Africa expects to benefit from technology transfer, access to loans, development assistance as well as diplomatic support for example in the UN Security Council where China wields veto power. China requires the African market as well investment opportunities for its expanding domestic economy.³⁸⁹ The China-Africa relationship is therefore expected to grow and there are strong indications that China's interest in Africa is long-term.

The resource-rich countries of Angola, Sudan, Nigeria and Zambia, as well as the more politically strategic countries of South Africa, Ethiopia and Egypt, are priority countries in China's broader African engagement.³⁹⁰ Interestingly though, Ethiopia still stands out in China's Africa policy even when it is not endowed with mineral resources. Ethiopia does not produce raw materials critical to China and it does not even have direct access to the sea.³⁹¹ However, between 2003 and 2013, the yearly volume of bilateral trade between China and Ethiopia increased by more than thirteen times. China has become the biggest foreign investor and the largest trading partner of Ethiopia.³⁹² According to Gamora and Mathews, 'Ethiopia has become a reflection of China's wider ambitions in Africa and the changes it portends for the region.'³⁹³ A poor, landlocked nation of 80 million people, 'Ethiopia lacks the vast natural resources that have drawn China's interest in other countries. But it has something else Beijing craves: geopolitical clout in the region. Ethiopia is the source

³⁸⁸ Manickam Venkataraman and Solomon M Gofie, 'The dynamics of China-Ethiopia trade relations: economic capacity, balance of trade & trade regimes', Bandung: Journal of the Global South, 2:8, 2015, p1

³⁸⁹ Greg Pollock, 'Back to the Future: Understanding China's return to Africa and its for US Foreign Policy', Journal of Public & International Affairs 18, 2007

³⁹⁰ Martyn Davies, 'How China delivers development assistance to Africa', Centre for Chinese Studies, University of Stellenbosch, Stellenbosch, February 2008

³⁹¹ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', African Studies Review, Volume 55, Number 1, April 2012, pp 143-160

³⁹² Embassy of the People's Republic of China in the Federal Democratic Republic of Ethiopia, 'China-Ethiopia relations: an excellent model for South-South cooperation', 2 December 2014, <http://et.china-embassy.org/eng/zagx/t1216177.htm>, accessed 3 January 2016

³⁹³ Gedion Gamora and Kuruvilla Mathews, 'Ethio-China Relations: Challenges and Prospects', in Axel Harneit-Sievers, Stephen Marks (Eds), Chinese and African Perspectives on China in Africa, Pambazuka Press, Cape Town, p96

of the Blue Nile, the river that slakes Egypt's thirst. It is the meeting ground between largely Muslim North Africa and the Christian south.³⁹⁴ Even though China has long had a presence in Ethiopia, the scale and intensity of current relations is unprecedented. Before getting into detail on the activities of Chinese capital in Ethiopia, we examine the key aspects of the distinctive nature of Chinese capitalism first.

5.3 The distinctive nature of Chinese capitalism

China has moved from a state-planned and state-owned economy towards state regulation of a hybrid economic system with the existence of a private economic sphere that remains very close to the state system that nurtured it.³⁹⁵ The current massive trade and investment engagements are a direct result of this liberalisation drive which essentially encouraged Chinese companies to become multi-nationals. According to Renard, the Chinese development model is the result of the interaction between a restrictive political system, which developed internally, and economic actors largely dependent on that system.³⁹⁶ This crucial transition in China's domestic economic policy ushered in a raft of changes on its foreign policy, underpinned by what has now been termed Sino-capitalism. McNally has defined Sino-capitalism as a 'capitalist system that is already global in reach but one that differs from Anglo-American capitalism in important respects. Sino-capitalism relies on informal business networks rather than on legal codes and transparent rules.'³⁹⁷ With China's expansion and influence across the globe, this distinct form of neoliberalism has become internationalised in what is now manifesting as globalisation with Chinese characteristics. Thus, whilst globalisation with Chinese

³⁹⁴ Jack Essim, *Eyes of Sacrifice: (The Massacre of Africa)*, Dorrance Publishing, Pittsburgh, 2014, p60

³⁹⁵ Shaun Breslin, 'Capitalism with Chinese Characteristics: The Public, the Private and the International', Working Paper No. 104, Asia Research Centre, June 2004

³⁹⁶ Mary-Françoise Renard, 'China's Trade and FDI in Africa', Working Paper Series, No 126- May 2011, African Development Bank Group, Tunis, p22

³⁹⁷ Christopher A. McNally, 'Sino-Capitalism: China's Reemergence and the International Political Economy', *World Politics*, 64, 2012, p744

characteristics is an international phenomenon, it is rooted in the domestic political economy of China itself. It is a complex cross section of local, provincial, sub-national, state and non-state owned elements of capital and their investments and activities outside China ultimately centre around these fractions of capital and transnational elements alike.

The international economic activities of China cannot, however, be viewed outside the wider discussion of globalisation in general. As late as 1999, Brenner noted that the current wave of globalization in general (was) leading to: i) the transcendence of the state-centric configuration of capitalist territorial organization that prevailed throughout much of the twentieth century; and ii) the production of new configurations of territoriality on both sub- and supra-national geographical scales.³⁹⁸

According to Mittelman;

the manifestations of globalisation include the spatial reorganisation of production, the interpenetration of industries across borders, the spread of financial markets, the diffusion of identical consumer goods to distant countries, massive transfers of population – mainly within the South – as well as from the South and the East to the West – resultant conflicts between immigrant and established communities in formerly tight knit neighbourhoods, and an emerging worldwide (though not universal) preference for democracy³⁹⁹

China's globalisation is unique because of its distinctive capitalism. It is this capital and its mode of organisation that is now being internationalised to countries like Ethiopia and others.

Glassman has defined internationalisation of the state as 'a process in which the state apparatus becomes increasingly oriented towards facilitating capital accumulation

³⁹⁸ Neil Brenner, 'Beyond state-centrism? Space, territoriality, and geographical scale in globalization studies', *Theory and Society* 28, 1, 1999, p41

³⁹⁹ James. H. Mittelman, *The Globalisation Syndrome: Transformation and Resistance*, Princeton University Press, New Jersey, 2000, p15

for the most internationalized investors, regardless of their nationality.’⁴⁰⁰ Gonzalez-Vicente has offered some insights into such characteristics including that, ‘in search for domestic and international competitiveness, most Chinese SOEs underwent a restructuring that transformed them into entities that are now more similar to other major transnational companies, adding that moreover, they became less controllable by the Chinese central government, while remaining strategic branches of the state.’⁴⁰¹ There are many features that distinguish Chinese capital from other capitalisms. One of the most important of them is the role of the Chinese state in the internationalisation of Chinese capital. Therefore, the first feature of the internationalisation of Chinese capital the thesis discusses is the centrality of SOEs.

The state and its various agencies are at the centre of Chinese capitalism. According to Gonzalez, ‘central government strategy is hence a key driver in these processes, through which particular branches of the state become dissociated from centralized power and are profoundly reconfigured in new international arrangements.’⁴⁰² While SOEs from other countries have had limited roles in overseas investment in the past or contemporary periods, the difference with China is the scale of SOE involvement and the extent to which this may imply a concern with political-strategic issues as well as commercial ones.⁴⁰³ Chinese SOEs are playing the most active role in offshore investments. There is therefore heavy state involvement in the economy both at home and abroad; ‘mediation of marketing through state bureaucracies; supporting private players in offshore investment activities; and the participation of the sub-national state and capital in economic activities against the backdrop of

⁴⁰⁰ Jim Glassman, ‘State power beyond the ‘territorial trap’: the internationalisation of the state’, *Political Geography* 18, 1999, p673

⁴⁰¹ Ruben Gonzalez-Vicente, ‘The internationalisation of the Chinese state’, *Political Geography* 30, 2011, p405

⁴⁰² *ibid*

⁴⁰³ J. Henderson *et al*, ‘Globalisation with Chinese Characteristics: Externalisation, Dynamics and Transformations’, *Development and Change* 44 (6), 2013, pp 1221-1253

political support.⁴⁰⁴ China's constraints on the overseas operation of its state-run firms, as well as its enabling mechanism, are more direct and formally regulated.⁴⁰⁵ Through this internationalisation, China is exhibiting and indeed spreading this distinctive capitalist trait. The influence of this mode of capitalism, at least some of its features, is spreading and reaching sub Saharan Africa's shores. This is linked to the specific neoliberalism that has taken root in Ethiopia and should now be part of the analysis of the state-society complex within the Ethiopian state.

In this sense, China is not offering a socialist model but a distinctive brand of neoliberalism and global integration that stands apart from the neo-liberal system of the Washington Consensus that has for long been imposed on African countries. China's distinct capitalism is raising interest in Africa especially given the failure of the Washington Consensus to lift the continent out of poverty.⁴⁰⁶ At the same time, the Chinese government has also been actively promoting its own brand of economic development and reform model to African countries, encouraging government counterparts in several countries to visit China and learn from their experience.⁴⁰⁷ Unlike the Western investments, which have overtones of various forms of conditionality, such as the formation of free trade, building private companies, or loosening of government regulations, the Chinese investments in Africa's infrastructure rejuvenation and the various types of venture investment projects are claimed to be based on flexible soft loans and are tailored to lift the overall economic performance of the borrowing and assistance-getting African countries.⁴⁰⁸ From being a poor, backward economy and a politico-military annex to the Soviet project,

⁴⁰⁴ Mark Yaolin Wang, 'The Motivations behind China's Government-Initiated Industrial Investments Overseas', *Pacific Affairs*, Vol. 75, No. 2 (Summer, 2002), pp. 187-206

⁴⁰⁵ *ibid*

⁴⁰⁶ Charles Gore, 'The rise and fall of the Washington Consensus as a paradigm for developing countries', *World development* 28.5, 2000, pp 789-804

⁴⁰⁷ Drew Thompson, 'Economic growth and soft power: China's Africa Strategy', in Arthur Waldron, *China in Africa*, The Jamestown Foundation, Washington, 2008, p12

⁴⁰⁸ Asayehgn Desta, 'Chinese Investments in Ethiopia: Political Warfare Operations or South-South Cooperation?', http://www.aigaforum.com/articles/CHINESE_INVESTMENT_IN_ETHIOPIA.htm, accessed on 20 March 2016

China is now regularly talked about in its own right as already being one of the engines of the world economy, and as a great power that might soon reach superpower standing.⁴⁰⁹

According to Alden and Davies, a typical Chinese MNC has a business model heavily reliant upon political support, receives financial backing from the state and is involved in mining and energy industries.⁴¹⁰ The success of Chinese firms in these areas is explained by the political ties their government created with the government of Ethiopia, low initial bidding price, the self-financing options (sometimes referred to as ‘vendor financing’) that they give to the Ethiopian government owing to the support they get from the Chinese government, as well as the relatively lower level of skilled Ethiopian personnel (in terms of negotiation, technical and managerial skill).⁴¹¹ With this understanding, Chinese investment in Ethiopia ties together economic and political interests through formal and informal institutional mechanisms.

As Desta has argued, China’s efforts to encourage African governments to fashion their economic systems after its own is an important indication of the soft power that China hopes to ultimately project in Africa.⁴¹² According to Mohan and Power, ‘because both ‘belong to the developing world’, it is further asserted that they face common enemies and a shared perspective on major international issues.’⁴¹³ Chinese

⁴⁰⁹ Barry Buzan, ‘China in International Society: Is ‘Peaceful Rise’ Possible?’, *The Chinese Journal of International Politics*, Vol. 3, 2010, pp5–36

⁴¹⁰ Chris Alden & Martyn Davies, ‘A profile of the operations of Chinese multinationals in Africa’, *South African Journal of International Affairs*, 13:1, 2006, pp 83-96

⁴¹¹ AfriBiz, ‘Ethiopia: Trade and Economic Partnerships 2011’, 20 August 2011, <http://www.afribiz.info/content/2011/ethiopia-trade-and-economic-partnerships-2011/>, accessed on 2 mSRCH 2016

⁴¹² Drew Thompson, ‘Economic growth and soft power: China’s Africa Strategy’, in Arthur Waldron, *China in Africa*, The Jamestown Foundation, Washington, 2008, p12

⁴¹³ Giles Mohan and Marcus Power, ‘New African Choices? The Politics of Chinese Engagement’, *Review of African Political Economy*, 35:115, pp 23-42

expansion into Africa is thus becoming very popular with the political leadership in Ethiopia. Alden quotes a top official in Ethiopia's Ministry of Foreign Affairs remarking that, 'Never in modern history has a nation successfully made such a determined and massive effort as China has in achieving progress within such a short span of time. Ethiopia has been following this remarkable achievement with great interest and admiration.'⁴¹⁴ This is quite revealing. China's growth therefore, which cannot be separated from its own distinct mode of liberalism, is an inspiration to struggling African economies.⁴¹⁵ Ethiopia is one country that is not only economically benefitting from China's rise, but also inspired by the Chinese economic model.

By carving out its own variant of neoliberalism, the Chinese example confirms Brenner, Peck and Theodore's argument that neoliberalism is not a fixed mode but a model capable of assuming different forms depending with the circumstances, context and local conditions.⁴¹⁶ Neoliberalism is understood variously as 'a bundle of (favoured) policies, as a tendential process of institutional transformation, as an emergent form of subjectivity, as a reflection of realigned hegemonic interests, or as some combination of these factors latter.'⁴¹⁷ This chapter sets the stage for advancing the argument that, in its interaction with local social forces in Ethiopia, Chinese neoliberalism in particular and internationalization of Chinese state capital in general has produced or at least reinforced Ethiopian neoliberalism. The key to this thesis' explanation of the Chinese relationship with Ethiopia is the changes in the 'inside out' approach that it has adopted; that is the way the changes in the state and the broader processes of neoliberalism reinforced key dimensions of China's

⁴¹⁴ Chris Alden, *China in Africa*, Zed Books, London, 2007

⁴¹⁵ Stefan Halper, *The Beijing consensus: how China's authoritarian model will dominate the twenty-first century*. ReadHowYouWant. com, 2010

⁴¹⁶ Neil Brenner, Jamie Peck and Nik Theodore, 'Variegated neoliberalization: geographies, modalities, pathways', *Global Networks* 10, 2, 2010, pp 182-222

⁴¹⁷ *ibid*, p183

internationalisation strategy. This is having ramifications for state-society relations in Ethiopia.

5.4 Chinese capital in Ethiopia: Key drivers and their mode of engagement

Ethiopia's contemporary economic, diplomatic and political relations with China can be traced back to the first five years of the EPRDF as this new coalition government revived interaction with China soon after it took power.⁴¹⁸ During this period, an intensive debate about Ethiopia's foreign policy was triggered by concerns that the country's wishes did not always tally with Western powers' designs. Russia and China were identified as Ethiopian diplomats were subsequently dispatched to Beijing to cultivate prospects for a new engagement, expressing desire to 'learn' from China's market-led socialist ideology. This culminated in Prime Minister Meles Zenawi's first visit official to China in 1995.⁴¹⁹ The period between 1996 and 2005 is the consolidation of China-Ethiopia relations and the tone was set when China reciprocated Prime Minister Zenawi's visit with President Jiang Zemin visiting Ethiopia in May 1996.⁴²⁰

There is something distinctive about China's interest in Ethiopia within its broader involvement in Africa. Although the resource-rich countries of Angola, Sudan, Nigeria and Zambia are the main targets of Chinese investment, 'the more politically strategic countries of South Africa, Ethiopia and Egypt are priority countries in China's broader African engagement.'⁴²¹ China is now Ethiopia's biggest trading

⁴¹⁸ David A Shinn, 'Ethiopia and China: How Two Former Empires Connected', 6 November 1982, <http://www.internationalpolicydigest.org/2014/06/11/ethiopia-china-former-empires-connected-20th-century/> accessed on 30 May 2015

⁴¹⁹ China.org.cn, 'Ethiopia', <http://www.china.org.cn/english/features/focac/183534.htm>, accessed on 25 March 2016

⁴²⁰ Evan S. Medeiros, *China's International Behavior: Activism, Opportunism, and Diversification*, Rand Corporation, California, 2009, p157

⁴²¹ Martyn Davies *et al*, 'How China delivers development assistance to Africa', Centre for Chinese Studies, Stellenbosch, February 2008, pp 1-61

partner and one of its largest foreign investors. Adem asserts that the Ethiopian government is (perceived as) a friend of Beijing in a special way. The study advances that China's diplomatic relationship with Ethiopia is related to its neoliberal transformation. Not much different from Western powers, the Chinese government sees Ethiopia as an important strategic ally in the Horn of Africa.⁴²² For China, Ethiopia is a potentially large market and an important investment destination.⁴²³ Addis Ababa is Africa's diplomatic capital and by hosting the AU, Ethiopia bears considerable intrinsic and real influence on the continental body's decisions.⁴²⁴ The Chinese also seem to use their investments in Addis Ababa as a showcase to other African countries. This is usually done by publicly owned firms or big firms that get support from the Chinese government.⁴²⁵ Ethiopia is thus seen as the gateway to Africa by Chinese state and private capital which ultimately seeks continent-wide investment opportunities in its internationalisation drive.

Broken down, the Chinese actors in Ethiopia, like in much of Africa are 'central-level SOEs, provincial governments and private companies.'⁴²⁶ Given its own unique economic and political history characterized by socialism as well as heavy state involvement in the economy, China has reorganised the relationship between institutions in the reform era. The formal relationship between party, state and economy has been established by changes to the organisational principles and structures of the Chinese state, ideational change reflected in reforms to the party and

⁴²² Christine Hackenesch, 'European Good Governance Policies Meet China in Africa: Insights from Angola and Ethiopia', German Development Institute/Deutsches Institut für Entwicklungspolitik, Working Paper Number 10 February 2011

⁴²³ Muna Abdulkhalef, 'Ethio-China ties, 45 years and growing ever strong', 27 September 2015, <http://aigaforum.com/article1/Ethio-China-45years-getting-stronger.pdf>, accessed on 21 March 2016

⁴²⁴ Karby Legget, 'Staking a Claim China Flexes Economic Muscle Throughout Burgeoning Africa', March 29, 2005, The Wall Street Journal online, accessed on 30 May 2015

⁴²⁵ Alemayehu Geda and Atenafu G. Meskel, 'Impact of China-Africa Investment Relations: The Case of Ethiopia', Policy Brief CA No.11/ July 2013

⁴²⁶ Sun Yun, 'Africa in China's Foreign Policy', John L. Thornton China Center and Africa Growth Initiative, Brookings, April 2014, p28

state constitution, and by China's insertion into the capitalist global economy.⁴²⁷ According to Zafar, the Chinese model of investment in essence brings economic growth objectives and foreign policy together guiding trade and invest decisions in Africa along with "no strings attached" financial and technical assistance.⁴²⁸ Chinese capital is winning most of the bids to invest in Ethiopia owing to an elaborate and deliberate strategy that also involves the influence of the Chinese central government.⁴²⁹ To pursue its activities in Ethiopia, Chinese capital has been spurred by a variety of key drivers. Firstly, we consider the institutional drivers behind Chinese investment in Ethiopia.

To fund its internationalisation activities, the Chinese government does so through a number of institutions. However, long before the current heightened relationship, '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.'⁴³⁰ Its major task was to review and assess the bilateral relations every two years and recommend measures that would contribute to their further consolidation.⁴³¹ Also in 1996, 'the Sino-Ethiopian Agreement for trade, economic and technical cooperation' also came into place.⁴³² Building on such foundations, the main institution today is the Chinese Export-Import (EXIM) Bank which was founded in 1994 and is wholly owned by the

⁴²⁷ Shaun Breslin, 'Capitalism with Chinese Characteristics: The Public, the Private and the International', Working Paper No. 104, Asia Research Centre, June 2004

⁴²⁸ Ali Zafar, 'The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links', World Bank Research Observer, 22 (1), 2007

⁴²⁹ Kuruvilla Mathews, Interview, Expert on China-Africa relations, Addis Ababa University, 13 May 2014

⁴³⁰ AFRODAD, 'Mapping Chinese Development Assistance in Africa: An Analysis of the Experiences of Ethiopia', African Forum and Network on Debt and Development, Harare, 2011, p25

⁴³¹ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', pp. 143-160

⁴³² Manickam Venkataraman and Solomon M Gofie, 'The dynamics of China-Ethiopia trade relations: economic capacity, balance of trade & trade regimes', Bandung: Journal of the Global South, 2:8, 2015, p11

state and operates under the central government.⁴³³ It is a government policy bank that is exclusively managed by the State Council. It is the third largest export credit agency (ECA) in the world and has been a vital cog in the rapid expansion of Chinese global trade and investment.⁴³⁴

Together with the China Development Bank (CDB) and the China Agriculture Development Bank (CADB), the EXIM Bank is ‘tasked to promote exports and foreign investment. Its export credits focus on infrastructure (roads, power plants, oil and gas pipelines, telecommunications, and water projects); its investment loans target the energy, mining, telecommunication, industrial, and water projects.’⁴³⁵ Chinese development assistance to Ethiopia remains characterized by this twin track framework – bilateral (China-Ethiopia) and regional (China-Africa, through the Forum for China-Africa Cooperation Forum (FOCAC)).⁴³⁶ In short, Ethiopia has both a multilateral and a bilateral level of engagement with China and both are supposed to thrive either individually or in tandem.

The most important institutions in the coordination, facilitation and implementation of Chinese investment in Ethiopia are the respective embassies and consular offices between the two countries. They have become very crucial, particularly in Ethiopia in processing and facilitating high level visits of business diplomacy between China and Ethiopia. Through them, China has sent experts to Ethiopia, and continues to do so, to train Ethiopian development agents. In different regions, Chinese experts have exchanged knowledge and set up an agricultural demonstration and training centre,

⁴³³ Jian-Ye Wang, What Drives China's Growing Role in Africa?, Issues 2007-2211, IMF Working Paper WP/07211, 2007, p7

⁴³⁴ Martyn Davies *et al*, ‘How China delivers development assistance to Africa’, Centre for Chinese Studies, Stellenbosch, February 2008, p20

⁴³⁵ Desta, Asayehgn, ‘China’s South-South Cooperative Investments part II’, 2009, accessed from http://www.tigraionline.com/chinese_south_invest.html on 2 May 2015

⁴³⁶ AFRODAD, ‘Mapping Chinese Development Assistance in Africa: An Analysis of the Experiences of Ethiopia’, African Forum and Network on Debt and Development, Harare, 2011, p25

which they hope will serve other countries in Africa as well.⁴³⁷ The opportunity offered by China's capital in Ethiopia has inspired Ethiopia's current economic blueprint, the Growth Transformation Plan (GTP). It is an ambitious plan that targets the transformation of Ethiopia via massive infrastructural projects like road networks, rail networks and hydro-electric as well as manufacturing capacity.

In interviews, officials in the Ministries of Foreign Affairs and Industry, Finance and Economic Development openly admit that although Ethiopia may not be definitely drawing its maximum benefit yet from its engagement with Chinese capital due to the simple reason that Ethiopia is still a developing country and therefore 'still learning', this relationship is changing Ethiopia.⁴³⁸ It is acknowledged that the question of who will gain or lose from this relationship going forward depends squarely on human capital, with Ethiopia clearly in desperate need to close the gap of low level business diplomacy, negotiation acumen and knowledge which has been exposed when the Chinese investors renegotiate contracts for example.⁴³⁹ In response, the government, and at times working with their Chinese counterparts, are offering scholarships to gifted students for further study in China whilst others are being sent to Russia so as to boost Ethiopia's human capital capability.⁴⁴⁰ This clearly shows that far from doubting the Chinese neo-liberalism model they have adapted, the Ethiopian authorities firmly believe in it and only desire to see it expand.

The story of key drivers for China-Ethiopia relations is incomplete without highlighting the role of former Ethiopian Prime Minister, the late Meles Zenawi regarded by Chinese leaders as 'an effective expositor, and even defender, of China

⁴³⁷ Margaux Schreurs, 'Ethiopian economy grows with Chinese investment', November 19, 2013, <http://globalriskinsights.com/2013/11/ethiopian-economy-grows-with-chinese-investment/> accessed on 22 May 2015

⁴³⁸ Ministry of Finance and Economic Development official, *Interview*, Addis Ababa, 04 April 2014

⁴³⁹ Alemayehu Geda, *Interview*, Ethiopian Politics and Economics Addis Ababa, 23 March 2014

⁴⁴⁰ Ministry of Finance and Economic Development official, *Interview*, Addis Ababa, 04 April 2014

as a model and partner for Africa.’⁴⁴¹ For the purposes of this study, the thesis considers him as an institution due to the immense influence he wielded over the state. In both his personal capacity as well as Ethiopian Head of State, Zenawi played a crucially leading role as an advocate of Chinese activities in Africa, hailing it as a golden opportunity for Africa to derive unprecedented benefits. He once asserted that ‘the Chinese interest in Ethiopia has been nothing short of a godsend’⁴⁴² and that ‘Chinese entrepreneurs could play a leading role in the construction, infrastructure and natural resources development endeavours of Ethiopia by diverting their capitals and introducing the easily adaptable Chinese technology’.⁴⁴³ With the possible exception of Zimbabwean President Robert Mugabe, it is difficult to find any other African head of state (living or late) who has played as critical an advocacy role for the Chinese model of development and its relevance to the African condition so publicly and forcefully as the late Ethiopian Prime Minister.

Adem is blunt when observing that ‘at often times, however, it has even seemed as if Meles Zenawi has taken upon himself the role not only of China’s spokesperson in Africa, but also of Africa’s spokesperson in the world’.⁴⁴⁴ This continued right up to his death in 2012. His successor Hailemariam Desalegn has not swayed from this path. Recently, in the build up to the 2015 China-Africa Summit, he reiterated that ‘Africa has been growing rapidly in the last decade or so, and China has contributed a lot.’⁴⁴⁵ This thinking attests to the continuation of the Zenawi legacy in Ethiopia towards China. In the final analysis, despite virtually all of African countries sharing cordial relations with China, Ethiopia’s case is outstanding.

⁴⁴¹ Seifudein Adem, ‘China in Ethiopia: Diplomacy and Economics of Sino-optimism’, pp. 143-160

⁴⁴² Mary Fitzgerald, ‘China invests in Ethiopia but at what cost? The Irish Times, January 27, 2010, <http://www.irishtimes.com/news/china-invests-in-ethiopia-but-at-what-cost-1.1273424>, accessed on 15 February 2015

⁴⁴³ Seifudein Adem, ‘China in Ethiopia: Diplomacy and Economics of Sino-optimism’, pp. 143-160

⁴⁴⁴ *ibid*

⁴⁴⁵ China Daily, ‘Ethiopia PM cites China's key role in Africa’s development’, 25 January 2015, http://www.chinadaily.com.cn/world/XiattendsParisclimateconference/2015-12/01/content_22597857.htm, accessed on 18 March 2016

The late Prime Minister's attitude toward China was expressed many times but one can select some of his most simple but powerful assertions about China to fully make the point. At the Forum on China–Africa Cooperation 2006 summit, he declared that ‘China is not looting Africa’⁴⁴⁶ at a time when China's intentions in Africa were widely viewed as predatory. Meles Zenawi also declared that ‘Chinese transformation disproved the pessimistic attitude that ‘if you are poor once, you are likely to be poor forever’.⁴⁴⁷ His commitment to the expansion and cultivation of closer ties with China was unrelenting. His eulogizing of Sino-African relations was duly acknowledged by Beijing and ‘reciprocated by the President of China, who visited Ethiopia in 1997.’⁴⁴⁸ At a time when the world was extremely sceptical and circumspect about China's global expansion, Zenawi was unapologetic and consistently worked tirelessly and passionately in nurturing the China–Africa relationship. However, Zenawi's EPRDF party had a lot to gain from an expanded relationship with China. Not only were the lucrative joint ventures with Chinese capital, especially SOEs, readily engineered for Ethiopian SOEs, they also benefitted party-linked enterprises. This relational association has had significant consequences of financially propping up the EPRDF and the entrenchment of its power within the state. This is adequately elaborated in the next chapter. At this juncture, the study examines the economic driving motivations at the centre of Chinese economic relations

The economic basis of China-Ethiopia relations is rooted in the interdependence relationship between the two countries. The simplest way to put it would be that China wants something from Ethiopia and vice versa. Ethiopia has untapped and

⁴⁴⁶ ‘Ethiopian PM: China not looting Africa’, 16 October 2016, <http://www.fmprc.gov.cn/zflt/eng/jmhzt403870.htm>, accessed on 20 March 2016

⁴⁴⁷ Seifudein Adem, ‘China in Ethiopia: Diplomacy and Economics of Sino-optimism’, *African Studies Review*, Volume 55, Number 1, April 2012, pp. 143-160

⁴⁴⁸ Gedion Gamora and Kuruvilla Mathews, ‘Ethio-China Relations: Challenges and Prospects’, in Axel Harneit-Sievers, Stephen Marks (Eds), *Chinese and African Perspectives on China in Africa*, Pambazuka Press, Cape Town, p94

immense investment opportunities in agriculture, livestock, agro-processing, manufacturing, construction, real estate and tourism among others.⁴⁴⁹ Ethiopia's five-year Growth and Transformation Plan (GTP) – 2010 to 2015, which was approved by the Ethiopian Parliament in November 2010 and is currently in its fifth year, is driving Ethiopia's demand for and openness to foreign investment.⁴⁵⁰ China's FDI in Ethiopia reached \$58.5 million in 2010, from practically zero in 2004, according to a World Bank Survey published in 2012.⁴⁵¹ This is within the overall context that 'Ethiopia is marching to be the third FDI destination in Africa.'⁴⁵² On top of this, China was the largest import and export trading partner of the East-African country in 2011.⁴⁵³ In 2010, 348 Chinese private and state-run manufacturers were operating in Ethiopia.⁴⁵⁴ As of the end of December 2013, there were 701 licenced Chinese projects/companies in Ethiopia, a massive presence in Addis Ababa.⁴⁵⁵ As an expanding economy, Chinese capital seeks new investment opportunities offshore. As a developing country, Ethiopia endeavours to attract FDI into an economy that must deal with poverty, unemployment and low productivity.

Especially after the African country held controversial elections in 2005 that were roundly criticised by Western donors⁴⁵⁶ (and of course not by China), bilateral

⁴⁴⁹ Xinhua, 'Ethiopia seeks to lure more Chinese investment', 14 May 2015, http://www.china.org.cn/world/Off_the_Wire/2015-05/14/content_35565481.htm, accessed on 21 March 2016

⁴⁵⁰ U.S. Department of State, '2015 Investment Climate Statement', May 2015, p3

⁴⁵¹ Margaux Schreurs, 'Ethiopian economy grows with Chinese investment', November 19, 2013, <http://globalriskinsights.com/2013/11/ethiopian-economy-grows-with-chinese-investment/> accessed on 22 May 2015

⁴⁵² Zeray Hailemariam, 'Ethiopia marching to be third FDI destination in Africa', 26 August 2016, <http://www.ethpress.gov.et/herald/index.php/editorial-view-point/item/5743-ethiopia-marching-to-be-third-fdi-destination-in-africa>, accessed on 28 August 2016

⁴⁵³ *ibid*

⁴⁵⁴ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', pp. 143-160

⁴⁵⁵ List of Licenced Chinese Investment Projects Since January 03, 2011 - December G.C, Official document provided to the researcher by the Ethiopian Investment Agency officials, Addis Ababa, 12 April 2014

⁴⁵⁶ Axel Borchgrevink, 'Ethiopia: Rapid and green growth for all?', in Arve Hansen and Ulrikke Wethal (Eds), *Emerging Economies and Challenges to Sustainability: Theories, Strategies, Local realities*, Routledge, London, 2015, p251

relations between Ethiopia and China have expanded. From 2006, the expansion of China-Ethiopia relations has grown exponentially to the extent that China is now Ethiopia's major trading partner and the two-way bilateral trade that stood at \$100 million in 2002 rose to \$562 million in 2006.⁴⁵⁷ In a revealing statement, Ethiopia's trade minister recently emphasized that 'China has become our most reliable partner.'⁴⁵⁸ One agreement in 2006 with three Chinese companies is valued at \$1.5 billion in commercial suppliers' credit at Libor (interbank lending rate) plus 1.5 percent to develop cellular and 3G services across Ethiopia.⁴⁵⁹ Chinese engagement in Ethiopia has also been in the form of aid and loans. Most recently, a \$208 million loan with China's Exim Bank and the state-owned Commercial Bank of Ethiopia (CBE) will be used to finance the expansion of a cement factory and a new power generator.⁴⁶⁰ China has become involved in nearly every aspect of Ethiopia's economy.

The bulk of Chinese companies investing in Ethiopia have a huge presence in the agricultural, manufacturing, service and infrastructural/construction sectors. Initially, Chinese enterprises in Ethiopia mainly invested in project contracting, light industry, textile manufacture and the catering industry but in recent years they have become involved in industries such as iron and steel, cement, glass manufacturing, automobile assembly, construction of industrial parks, business consulting and real estate development.⁴⁶¹ In particular, China has significant presence in Ethiopia's

⁴⁵⁷ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', pp. 143-160

⁴⁵⁸ David H. Shinn, 'Ethiopia and China: When Two Former Empires Connected', International Policy Digest, 6 November 2014, <http://intpolicydigest.org/2014/06/11/ethiopia-and-china-when-two-former-empires-connected/>, accessed 20 March 2016

⁴⁵⁹ David A Shinn, 'Ethiopia and China: How Two Former Empires Connected', 6 November 1982, <http://www.internationalpolicydigest.org/2014/06/11/ethiopia-china-former-empires-connected-20th-century/> accessed on 30 May 2015

⁴⁶⁰ Monika Thakur, 'Building on Progress? Chinese Engagement in Ethiopia', Occasional Paper NO 38, China in Africa Project, South African Institute for International Affairs, July 2009

⁴⁶¹ Li Zhibiao, 'Empirical Analysis and Reflection on Chinese Companies investing in Africa – Ethiopia –based Enterprises as a Case Study', in Zhang Hongming (Ed), China-Africa Relations: Review and Analysis Volume 1, Social Sciences Academic Press, China, 2014, p 129

telecommunications, road construction, and electricity sectors. These are described as ‘quasi-investment’ and not direct investment by Geda and Meskel as most of these infrastructural projects are being carried out by the government but with Chinese financing.⁴⁶² For example, the Chinese government has offered Ethio Telecom a credit (vendor financing) to the tune of US\$1.5 billion and this offer is conditional on ZTE doing the job without bidding.⁴⁶³ As far as infrastructure is concerned, Thakur contends that much as it helps Ethiopia develop, this links closely to another of China’s objectives in Ethiopia, i.e. to achieve better access to Ethiopia’s consumer market.⁴⁶⁴

There is a growing observation among many observers of Chinese investment activity in Africa that given the intensity of the co-operation, if current trends continue, Ethiopia may be the ‘China of Africa’ due to the similarities in conditions based on where China was and where it is now.⁴⁶⁵ For example, Ethiopia’s shoes industry is attracting investors from across the world including big names in the sector such as Huajian of China and George shoes of Taiwan.⁴⁶⁶ Chinese investment in Ethiopia will go a long way in making Ethiopia a regional manufacturing hub both for the local and export market. ‘Ethiopia is exactly like China 30 years ago,’ said Zhang, 55, who quit the military in 1982 to make shoes from his home in Jiangxi province with three sewing machines and now supplies such brands as Nine West and Guess?. ‘The poor transportation infrastructure, lots of jobless people.’⁴⁶⁷ The

⁴⁶² Alemayehu Geda and Atenafu G. Meskel, ‘Impact of China-Africa Investment Relations: Case Study of Ethiopia (African Economic Research Consortium. AERC, Nairobi), 2009

⁴⁶³ *ibid*

⁴⁶⁴ Monika Thakur, ‘Building on Progress? Chinese Engagement in Ethiopia’, Occasional Paper NO 38, China in Africa Project, South African Institute for International Affairs, July 2009

⁴⁶⁵ Markos Berhanu, ‘Ethiopia: Africa’s New China?’, Business, Economy 13 May 2015, <http://www.ethiosports.com/2015/05/13/ethiopia-africas-new-china/>, accessed on 22 March 2016

⁴⁶⁶ Andualem Sisay Gessesse, Better local price challenges Ethiopia’s shoes export’, [‘http://www.newbusinessethiopia.com/index.php/manufacturing/item/78-better-local-price-challenges-ethiopia-s-shoes-export](http://www.newbusinessethiopia.com/index.php/manufacturing/item/78-better-local-price-challenges-ethiopia-s-shoes-export) accessed on 30 May 2015

⁴⁶⁷ Kevin Hamlin, Ilya Gridneff and William Davison, ‘Ethiopia Becomes China’s China in Search for Cheap Labor’, July 23, 2014,

country has enormous potential and no other industry brings out this fact more than the shoe industry in Ethiopia. With approximately 35 million cattle, 39 million sheep and goats, 8.6 million equine and one million camels, Ethiopia is first in Africa and ninth in the world for its livestock population. The country annually produces 2.7 million hides, 8.1 million sheepskins and 7.5 million goat skins.⁴⁶⁸ The similarities are striking including the fact that like China, Ethiopia is highly populated and its potential to maximise on its huge population both as a market and form of labour is being pursued with enormous vigour.

A number of scholars including McFerson⁴⁶⁹, Ominode⁴⁷⁰ and Arrighi⁴⁷¹ have advanced the argument that the economic challenges that Africa has faced are due to largely less beneficial relations with its foreign investors that were interested in the extractive sector,⁴⁷² as opposed to manufacturing finished products. It seems Chinese companies are changing the script in Ethiopia. The majority of Chinese firms are concentrated in the manufacturing sector (over 60%), which is different from what happened in other African countries where Chinese FDI is pretty much resource seeking.⁴⁷³ Instead, in Ethiopia, they are mainly involved in manufacturing machinery, steel, chemicals, pharmaceuticals, glass and paper.⁴⁷⁴ As a result, in terms of capital, the two largest Chinese investments in Ethiopia are cement factories; the

<http://www.bloomberg.com/news/articles/2014-07-22/ethiopia-becomes-china-s-china-in-search-for-cheap-labor> accessed on 3 May 2015

⁴⁶⁸ Andualem Sisay Gessesse, 'Better local price challenges Ethiopia's shoes export', <http://www.newbusinessethiopia.com/index.php/manufacturing/item/78-better-local-price-challenges-ethiopia-s-shoes-export> accessed on 30 May 2015

⁴⁶⁹ Hazel M. McFerson, 'Extractive Industries and African Democracy: Can the "Resource Curse" be Exorcised?'. *International Studies Perspectives*, 11, 2010, pp 335–353

⁴⁷⁰ Bade Onimode, *A political economy of the African crisis*, Zed Books with the Institute for African Alternatives, London and New Jersey, 1988

⁴⁷¹ Giovanni Arrighi, 'The African Crisis', *New Left Review* 15, 2002

⁴⁷² Patrick Bond, *Looting Africa: The Economics of Exploitation*, University of KwaZulu Natal Press, Pietermaritzburg, 2006

⁴⁷³ Afribiz, 'Ethiopia: Trade and Economic Partnerships 2011, 20 August 2011, <http://www.afribiz.info/content/2011/ethiopia-trade-and-economic-partnerships-2011/>, accessed 19 April 2016

⁴⁷⁴ AFRODAD, 'Mapping Chinese Development Assistance in Africa: An Analysis of the Experiences of Ethiopia', *African Forum and Network on Debt and Development*, Harare, 2011, p25

largest one, with a capital of \$358 million, is Sino-Saudi Joint Investment Cements PLC. With a capital of \$268 million, the second largest Chinese company is C. H. Clinker Manufacturer PLC.⁴⁷⁵ By hosting a growing Chinese-driven manufacturing sector, the hope is that Ethiopia's own hitherto moribund and extremely underdeveloped manufacturing capacity will be spurred through skills and technology transfer.⁴⁷⁶ Prime Minister Desalegn believes that China is 'supporting Ethiopia's great vision to become Africa's manufacturing powerhouse'.⁴⁷⁷

The Ethiopian government is extremely supportive of Chinese capital even though, by virtue of its political and financial clout, it is displacing indigenous Ethiopian investors. There are also issues around 'the displacement of locally manufactured goods by cheaper Chinese goods in the short term (resulting in a loss of market shares for Ethiopians who were engaged in the production and sale of similar commodities) and about the impact of cheap Chinese manufactured goods in potentially debilitating Ethiopia's development in the long term (because of the comparative advantages Chinese manufacturers enjoy).⁴⁷⁸ The net effect is that given this free reign, Chinese 'investment entities themselves have become increasingly diversified and a large number of large and medium-sized state-owned enterprises and large-scale joint stock enterprises have entered Ethiopia, taking the place of those individual and private small and medium enterprises.'⁴⁷⁹ Currently, some of the

⁴⁷⁵ Ph. D Adem and Ali A. Mazrui, 'Diplomacy and Economics of Sino-optimism in Africa', *Afrasia: A Tale of Two Continents*, p136

⁴⁷⁶ Kuruvilla Mathews, Interview, Expert on China-Africa relations, Addis Ababa University, 13 May 2014

⁴⁷⁷ Kevin Hamlin, Ilya Gridneff and William Davison, 'Ethiopia Becomes China's China in Search for Cheap Labor', July 23, 2014, <http://www.bloomberg.com/news/articles/2014-07-22/ethiopia-becomes-china-s-china-in-search-for-cheap-labor>, accessed on 3 May 2015

⁴⁷⁸ Seifudein Adem, 'Diplomacy and Economics of Sino-optimism in Ethiopia', in Ali A. Mazrui and Seifudein Adem (Eds), *Afrasia: A Tale of Two Continents*, University Press of America, Maryland, 2013, p137

⁴⁷⁹ Li Zhibiao, 'Empirical Analysis and Reflection on Chinese Companies investing in Africa – Ethiopia –based Enterprises as a Case Study', in Zhang Hongming (Ed), *China-Africa Relations: Review and Analysis Volume 1*, Social Sciences Academic Press, China, 2014, p 129

giant Chinese enterprises that invest in Ethiopia are ZTE (formerly Zhongxing Telecommunication Equipment) Corporation, China Sinohydro Corporation, China Wanbao Engineering Company, China Ghezouba Water Conservancy and Hydropower Engineering Corporation, China Road and Bridge Corporation, China Railway Engineering Corporation, China National Aero Technology Import and Export Corporation, Zhongcheng Group, CGC Overseas Construction Company and Huawei.⁴⁸⁰ A cursory glance shows that all these companies are focused on construction and infrastructural development. This takes us to the next section which details how construction and infrastructural development have become one of the key aspects of Chinese capital in Ethiopia.

Perhaps no other sector epitomises Chinese capital's presence in Ethiopia than the construction/infrastructure sector. China's visibility in the construction sector is incredible. In 2009 all new construction and 66.6 percent of rehabilitation, upgrading, and maintenance of roads in Ethiopia were being done by Chinese companies.⁴⁸¹ However, while Chinese companies dominate in the actual building and rehabilitation of Ethiopia's infrastructure, the major sources of finance for the projects were still the World Bank, European Commission, African Development Bank, OPEC Fund, and Arab Bank for Economic Development.⁴⁸² One of the most remarkable aspects of the city of Addis Ababa today is the amount of construction taking place across the sprawling urban metropolis.⁴⁸³ Because of Chinese investments in Ethiopia's infrastructure, Addis Ababa currently resembles a huge construction site comprising roads, railway, real estate and the expansion of the Addis Ababa Bole International Airport.

⁴⁸⁰ Vivien Foster *et al*, 'Building Bridges: China's Growing Role as Infrastructure Financier for Africa', Trends and Policy Options Infrastructure, No. 5, Publication Forthcoming, The World Bank, p15

⁴⁸¹ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', pp. 143-160

⁴⁸² *ibid*

⁴⁸³ The researcher had the opportunity to witness this first hand during a 2014 study trip to Addis Ababa

Still on infrastructure, Chinese capital is actively involved in the updating and expansion of power plants and the electrification of rural towns, with three major Chinese companies (namely, Wamboo, TTPC, and CGCC) actively engaged in recent years along Tis-Abay, Tekeze, and Fincha Rivers.⁴⁸⁴ Ethiopia is in negotiations to finalize a deal with a Chinese firm Dongfang Electric Corporation to construct a 120 megawatt (MW) wind farm in Ayisha near the Djibouti Border.⁴⁸⁵ This would be the sixteenth electrical power generator in Ethiopia but the third and largest electrical power project under its 'green' technology drive. This project is also part of the government's long term plan to ultimately make Ethiopia achieve 10000 Megawatts (MW) capacity up from the current 2,200 MW.⁴⁸⁶ The Chinese and Ethiopian governments also are investing in hydroelectric plants -- including what will be Africa's largest, the domestically funded Grand Ethiopian Renaissance Dam on the Blue Nile -- that should increase Ethiopia's power supply fivefold by 2020.⁴⁸⁷ A key aspect of Chinese investment in Ethiopia however is the prevalence of state owned enterprises in virtually all of the mega infrastructural projects.

In the case of overseas investment from mainland China, the role of the state in driving the processes is even more crucial. The lavishing of diplomatic attention, coupled with support for prestige projects and development assistance (low-interest and outright grants) in potential recipient countries by the Chinese government, is a prominent feature of the Multi National Companies' (MNCs) overall bidding

⁴⁸⁴ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', pp. 143-160

⁴⁸⁵ Ethiopia eyes investing on 300 Megawatts wind farm', 12 February 2015

<http://www.newbusinessethiopia.com/index.php/construction/item/229-ethiopia-eyes-investing-on-300-megawatts-wind-farm>, accessed on 10 May 2015

⁴⁸⁶ Kevin Hamlin, Ilya Gridneff and William Davison, 'Ethiopia Becomes China's China in Search for Cheap Labor', July 23, 2014, Bloomberg Business,

<http://www.bloomberg.com/news/articles/2014-07-22/ethiopia-becomes-china-s-china-in-search-for-cheap-labor> accessed on 3 May 2015

⁴⁸⁷ *ibid*

process.⁴⁸⁸ The bulk of mega Chinese projects in Ethiopia therefore are being done by Chinese SOEs. The Addis Ababa ring road was built partly with Chinese funding, with the China Road and Bridge Corporation (CRBC) being the main contractor and China pledged \$12.7 million to build the Gotera intersection flyover bridge in Addis Ababa, 54% of whose construction was completed by May 2008.⁴⁸⁹ China's Exim Bank provided \$500 million in loans to Ethiopia, and so far, loan agreements have been signed for 11 projects, including road and bridge construction.⁴⁹⁰ Ethiopia follows a similar tightly controlled, state-heavy economic model and this has shaped China's distinctive mode of engagement with Ethiopia. The linkages are such that Chinese SOEs award business opportunities to state-linked forces in Ethiopia and vice versa through joint ventures.

Joint ventures between Chinese firms and local state and ruling party linked Ethiopian investors is a chief characteristic of China-Ethiopia investment relations. Narrowly defined, a joint venture occurs when two or more firms pool a portion of their resources within a common legal organization.⁴⁹¹ Conceptually, a joint venture is a selection among alternative modes by which two or more firms can transact.⁴⁹² Most recently, there has been a rise of joint China–Ethiopian firms, especially in the construction industry. For example, China's Road and Bridge Corporation (CRBC) collaborated with local Ethiopian investors and formed the Road and Bridge Construction Company (RBC) in 2003. The RBC has well over 23 road, flyover and

⁴⁸⁸ Chris Alden, *China in Africa*, Zed Books, London, 2007, 42

⁴⁸⁹ Monika Thakur, 'Building on Progress? Chinese Engagement in Ethiopia', Occasional Paper NO 38, China in Africa Project, South African Institute for International Affairs, July 2009

⁴⁹⁰ Monika Thakur, 'Building on Progress? Chinese Engagement in Ethiopia', July 2009

⁴⁹¹ Bruce Kogut, 'Joint ventures: Theoretical and empirical perspectives', *Strategic Management Journal*

Volume 9, Issue 4, July/August 1988, pp 319–332

⁴⁹² *ibid*

bridge projects throughout Ethiopia, with a budget of well over \$500 million and 1,500 employees.⁴⁹³

Also, the Chinese firm Norinco collaborated with Lalibela Construction Company to form the Norinco–Lalibela Engineering and Construction Share Company (Nori-La) in 2004, which is undertaking eight road projects in Addis Ababa and the Oromia region, investing \$41 million and employing 500 workers. Gezouba Group Corporation is undertaking a large rehabilitation project worth \$49.2 million along the Shire–Adi–Abune road in Tigray.⁴⁹⁴ Both the Chinese investor and the Ethiopian regime (via a state or party linked joint investor) benefit from the state-to-state relations under whom Chinese businesses operate: the political cover provides them security and special access.⁴⁹⁵ Chinese capital is hardly constrained by most of the investment laws as this is a state-sanctioned arrangement.

Chinese capital and the Ethiopian regime mutually reinforce each other in the maze of mega projects such as dams, roads and other high value infrastructure. For example, one major co-operative project was the construction, beginning in 2002, of the 300 megawatt Tekeze hydroelectric power project, a \$224 million project which is considered to be the largest joint Sino–African venture, built by the China National Water Resources and Hydropower Engineering Corporation, the Gezhouba Group, and the state-run Ethiopian Electric Power Corporation. China’s Exim Bank has provided \$50 million (with an interest rate of 1.75% per annum) as part of the total project contribution.⁴⁹⁶ The largest commercial bank in Ethiopia, (CBE), has inked a deal with the China State Construction Engineering Corporation (CSCEC) to build its headquarters in Addis Ababa. The building is said to be the tallest structure in

⁴⁹³ Monika Thakur, ‘Building on Progress? Chinese Engagement in Ethiopia’, Occasional Paper NO 38, China in Africa Project, South African Institute for International Affairs, July 2009, p10

⁴⁹⁴ Monika Thakur, ‘Building on Progress? Chinese Engagement in Ethiopia’, p11

⁴⁹⁵ Alemayehu Geda, *Interview*, Addis Ababa, 23 March 2014

⁴⁹⁶ Monika Thakur, ‘Building on Progress? Chinese Engagement in Ethiopia’, July 2009

East Africa once completed.⁴⁹⁷ Another major ICT infrastructure project was undertaken by the Zhong Xing Telecommunications Equipment Company Limited (ZTE), China's major telecommunications company, with financial support from the Exim Bank. The project, which cost \$822 million, was aimed at upgrading Ethiopia's telecommunications system over the period 2006–09.⁴⁹⁸ At the same time, in its internationalisation drive, China is credited with introducing the phenomenon of industrial parks in Ethiopia.

China's increasing direct investment in manufacturing in Ethiopia is therefore also being driven through industrial parks or special economic zones (SEZs). Following then Prime Minister Zenawi's November 2006 visit, an 'agreement was concluded between China and Ethiopia in 2008 aimed at creating an industrial zone, or "special economic zone," in the outskirts of Addis Ababa'.⁴⁹⁹ This approach was formally initiated in 2006 when China committed to establish five zones across Africa, and later in 2007, committed to establish a further five zones.⁵⁰⁰ It is therefore one of the first six Chinese SEZs established in Africa under the FOCAC framework to date.⁵⁰¹ The Jiangsu Eastern Industrial Park or Eastern Industrial Zone (EIZ) was wholly established by the Chinese as a Free Trade Zone and touted as a career in transferring Chinese industry, a base of overseas processing trade, and an important bridge for Chinese enterprises entering to the market of Africa, Middle East, Europe and America.

⁴⁹⁷ 'CBE, Chinese company ink deal for headquarters construction', 2 May 2015, <http://www.thereporterethiopia.com/index.php/news-headlines/item/3465-cbe-chinese-company-ink-deal-for-headquarters-construction> accessed on 01 June 2015

⁴⁹⁸ Monika Thakur, 'Building on Progress? Chinese Engagement in Ethiopia', July 2009

⁴⁹⁹ Seifudein Adem, 'China in Ethiopia: Diplomacy and Economics of Sino-optimism', pp. 143-160

⁵⁰⁰ The African Development Bank Group Chief Economist Complex, 'Chinese Trade and Investment Activities in Africa', Policy Brief Volume1, Issue 4, 29 July, 2010, p10

⁵⁰¹ International Poverty Reduction Center in China (IPRCC), 'If Africa builds nests, will the birds come? Comparative Study on Special Economic Zones in Africa and China', United Nations Development Programme (UNDP), Working Paper series, No. 6, 2015, p19

The Ethiopian government oversaw the construction of the EIZ but soon after its completion, left everything in the hands of the Chinese investors.⁵⁰² The Eastern Industrial Zone is 100% Chinese owned, principally driven by the Qiyuan Group⁵⁰³ (steel) plus two small companies, whilst Zhangjiagang Free Trade Zone was brought in as a technical partner. In contrast to common practice, where the host government is responsible for infrastructure leading to the SEZ, the Qiyuan Group has been asked to develop infrastructure, such as power transmission lines, water supply and wastewater treatment to and from the EIZ with a 30% reimbursement of the costs by the Ethiopian Government.⁵⁰⁴ The Park is seen as a part of the Sustainable Development and Poverty Reduction Program (SDPRP) of the Ethiopian Government, and one of the most important projects in the plan of its industrial development.

Given that internationalisation of capital or the state itself is a part, or a form, of the power of the spread of capital across time and space, Dannenberg *et al* pose a very important question in asking, if Chinese SEZs in Africa is a new species of globalisation. They conclude by setting at least three research themes for political and economic geographers: 1) emergence of transnational governance and institutions in enclave spaces, 2) investment motives and location choice factors of Chinese actors in Africa, and 3) implications for development and power relations.⁵⁰⁵ This thesis attempts to shed some light on some of these questions in latter chapters.

⁵⁰² Deborah Brautigam and Xiaoyang Tang, 'China's Investment in Economic Zones in Africa', <http://www.american.edu/sis/faculty/upload/Brautigam-Chinese-Investment-in.pdf>, accessed 2 Janaury 2016

⁵⁰³ The Jiangsu Qiyuan Group, 'The Eastern Industry Zone in Ethiopia has commenced', 12 July 2012, <http://www.qiyuanguroup.com/en/newdes-12.html>, accessed on 10 December 2015

⁵⁰⁴ International Poverty Reduction Center in China (IPRCC), 'If Africa builds nests, will the birds come? Comparative Study on Special Economic Zones in Africa and China', p21

⁵⁰⁵ Deborah Brautigam and Tang Xiaoyang, 'China's Investment in Special Economic Zones in Africa' in Thomas Farole and Gokhan Akinci (Eds), *Special Economic Zones Progress, Emerging Challenges, and Future Directions*, The World Bank, 2011

However, we now consider the last driver of the expansion of Chinese capital in Ethiopia: the political aspect.

Despite the economic incentive, China-Ethiopia relations are also driven by some political considerations. In terms of the current engagements, one of the initial political factors that facilitated ties between the two countries is that Ethiopia's post 1991 international foreign policy postures came at a time when Beijing was reeling under the Western criticisms of its human rights record such as those in reference to the 1989 Tiananmen Massacre.⁵⁰⁶ The two countries share many commonalities in terms of governance models. Ideologically, and in practice, the regimes in China and Ethiopia are highly centralised and restrictive of political opposition activity. Both have negative human rights records⁵⁰⁷ and because China adheres to the principle of non-intervention in sovereign states, there is room for much more common ground with the EPRDF.

The two countries also back each other in international forums as well as on crucial domestic issues that have potential international consequences. For example, in 2006, the Ethiopian Parliament passed a resolution in support of China's Anti-Secession Law and in 2007, Ethiopia joined other African countries in preventing a resolution in the UN Human Rights Commission that censored China's human rights practices.⁵⁰⁸

In 2008, Prime Minister Meles said Tibet is an internal affair and external powers have no right to interfere. He added that "Ethiopia strongly opposes any external force's attempts to destroy China's

⁵⁰⁶ Manickam Venkataraman and Solomon M Gofie, 'The dynamics of China-Ethiopia trade relations: economic capacity, balance of trade and trade regimes', Bandung: Journal of the Global South (2015) 2:8

⁵⁰⁷ Amnesty International Report 2014/2015, 'The State of the World's Human Rights', Amnesty International, <https://www.amnesty.org/en/documents/pol10/0001/2015/en/>, accessed on 20 April 2016

⁵⁰⁸ Christine Hackenesch, 'Competing for Development? The European Union and China in Africa', Discussion Paper, Center for Chinese Studies, Stellenbosch, November 2011, p21

national unity and create hatred among Chinese nationalities.” China’s ambassador to Ethiopia praised Addis Ababa’s “strong support” for China’s position on Taiwan and Tibet. For its part, China never criticizes Ethiopia’s human rights policies or comments publicly on internal conflicts.⁵⁰⁹

The relationship between the Ethiopian regime and the Chinese regime expressed through Chinese capital is thus mutually reinforcing. This special relationship between the two countries underpinned by ideological similarities has therefore contributed to Chinese capital’s growing internationalisation in Ethiopia.

As indicated earlier, when the EPRDF government took over, Ethiopia embarked on a liberalisation drive, undoing the socialism that the previous Mengistu regime had pursued for over two decades. This coincidence led to an enmeshment of systems and institutions that became mutually reinforcing in both regimes’ favour. Since China was also on a neoliberal path, albeit a distinctive one, it easily established a relationship with Ethiopia’s own neoliberal agenda. Foreign Minister Dr Tedros Adhanom at a recent development partners’ meeting in Addis Ababa all but confirmed how China’s version of liberalisation has resonated with the Ethiopian government, ‘We believe in big government. Ownership of the country should not be left to the market because there are market failures. The government should not be like a night watchman... Our investment not only enhances development and makes the economy competent but also improves the social services.’⁵¹⁰

⁵⁰⁹ David A Shinn, ‘Ethiopia and China: How Two Former Empires Connected’, 6 November 2014, <http://www.internationalpolicydigest.org/2014/06/11/ethiopia-china-former-empires-connected-20th-century/> accessed on 30 May 2015

⁵¹⁰ Andualem Sisay Gessesse, ‘Where will huge state investments lead Ethiopia?’, 2 November 2014, <http://www.newbusinessethiopia.com/index.php/manufacturing/item/191-where-will-huge-state-investments-lead-ethiopia>, accessed on 23 May 2015

5.5 Conclusion

The key argument of this chapter is that the mutual accommodation between Ethiopian neoliberalism and the regime and Chinese mode of international engagement is driven by both countries' own distinctive paths of 'statist capitalist' transformation. This chapter has traced the journey which China-Ethiopia relations have travelled. China's liberalisation policies as well as its distinct globalisation from the 1990s resulted in the internationalisation of Chinese state and private capital. The current mammoth investment by Chinese firms in Ethiopia is a direct result of this. Not only is it changing the physical and economic development of Ethiopia, but it is also as diverse as the investment entities themselves including joint venture arrangements between local and foreign capital. Chinese investments in Ethiopia are anchored around economic, diplomatic and political links which are nurtured through close cooperation between the two governments. In the chapter, it has been explained how China's distinctive capitalist transformation – its 'statist neoliberalism' has been internationalised. This internationalization has shaped its distinctive mode of engagement with Africa and Ethiopia in particular. With this background, the next chapter discusses and analyses the strategic linkages and alliances that have emerged and the emergence of new social forces in the Ethiopian state.

Chapter 6: Chinese investment and new modalities of state intervention in Ethiopia

6.1 Introduction

This thesis has applied the ‘second image reversed’ framework to study the nature of Chinese investment in Ethiopia and how it is internalised within new modalities of state intervention in Ethiopia. It has been argued that through various institutions, ideological synergies and economic policy, the Ethiopian state is reinforcing Chinese globalisation strategies through developing institutions and social coalitions that underpin an Ethiopian neoliberalism. These processes, the thesis has argued, illustrate the intertwined nature of Chinese and Ethiopian neoliberalisms. One important consequence of this internalisation is that it has blurred the distinction between the political and economic arenas of the Ethiopian state. The overriding observation is that Chinese investment is strengthening the Ethiopian state institutions by exporting, through various forms of capital, an ideology of public governance and economic organisation that buttresses regime interests of the EPRDF. The chapter will show that the similarities between China and Ethiopia are now striking with both countries now sharing a common model of state capitalism shaping state-society relations and governance in similar ways.

The key task in this chapter is to identify the specific political spaces within the state where these political contests play out in Ethiopia’s political economy. In this chapter, therefore, the impact of Chinese investment on state owned enterprises (SOEs) and the regime interests of the EPRDF will be examined. In addition, the chapter examines how some aspects of public administration have evolved. In the final analysis, this chapter shows that just as the Western neoliberal framework was exported to Africa through such institutions as the IMF and World Bank, and

reinforced Western economic interests⁵¹¹, the export of China's distinct neoliberalism is reinforcing Chinese globalisation whilst bolstering and buttressing the Ethiopian ruling party's interests within the Ethiopian state.

There is great admiration by the EPRDF regime for the Beijing Consensus or the 'China model'⁵¹²– China's indigenous model of economic development without political liberalization. The literature on the Chinese and East Asian models has emphasised the role that economic growth has played not only in improving the material well-being of these countries' citizens, but also in providing the current government with the legitimacy and mandate necessary for the long-term retention of power.⁵¹³ The model justifies authoritarian rule by basing regime legitimacy on its capacity to deliver economic prosperity. However, key for this thesis' argument is the way these external imperatives are located in Ethiopia's 'internal processes within the state.'⁵¹⁴ As a result, certain kinds of interests and power are being reinforced, reproduced or created by Chinese investment in Ethiopia. As this section will show, this is playing out in a number of ways including in ideologies of public governance and the roles of SOEs. Also critical are the party-owned businesses which are both formally and informally managed through party cadres, that mesh smoothly with Chinese investment in Ethiopia.

⁵¹¹ David C. Korten, 'The Failures of Bretton Woods', *The Social Crediter*, Volume 78 No.1, January-February 1999

⁵¹² Elsje Fourie, 'China's example for Meles' Ethiopia: when development 'models' land', *The Journal of Modern African Studies*, 53, 2015, pp 289-316

⁵¹³ Elsje Fourie, 'New Maps for Africa? Contextualising the 'Chinese Model' within Ethiopian and Kenyan Paradigms of Development', PhD Thesis, School of International Studies University of Trento, Italy, September 2012, p339, http://eprints-phd.biblio.unitn.it/888/1/Elsje_Fourie_New_Maps_for_Africa.pdf, accessed on 03 April 2016

⁵¹⁴ Prateeksha Tiwari, 'Indian and Chinese FDI in Ethiopia: Nature, Impact, and Challenges', *DU Journal of Undergraduate Research and Innovation* Volume 1, Issue 3 pp 124-143, 2015 , p132

6.2 State enterprises, regime interests and Chinese investment

It is important to highlight that even though the focus is on SOEs, this does not in any way trivialise the role of Chinese private capital which is also actively involved in the Ethiopian economy. Private companies accounted for nearly half of China's outbound investment in 2011. In that year, 'China's outbound direct investment in the nonfinancial sector reached \$68.58 billion, among which around 45 percent was from non-State-owned enterprises.'⁵¹⁵ Shi Ziming, commercial counselor at the Department of Outward Investment and Economic Cooperation of the Ministry of Commerce, said recently: 'Private enterprises will definitely play a more and more important role in the process of the nation's outbound direct investment activities. They will probably surpass state-owned enterprises as the major force of China's investment wave.'⁵¹⁶ Therefore, despite the prominent role of Chinese SOEs in Ethiopia, the activities of private, Chinese capital is also part of the analysis.

In the last five years, the boom in Ethiopian-Chinese economic relations has been felt in many areas. However, the major ones are road construction, the supply of manufactured goods from China, telecommunications development, the installation of big electric power stations by Chinese companies and investments in the manufacturing sector.⁵¹⁷ China is now Ethiopia's biggest trading partner, with the African country hosting more Chinese diplomats than any other country in Africa.⁵¹⁸ Despite maintaining relations with many countries, Ethiopia has carved out a very

⁵¹⁵ Wei Tian and Ding Qingfen, 'Private investors play bigger role overseas', http://www.chinadaily.com.cn/business/2012-08/31/content_15722433.htm, accessed 16 September 2016

⁵¹⁶ Jack Perkowski, 'Get Ready For More China Overseas Investment', *Forbes* 03 October 2012, <http://www.forbes.com/sites/jackperkowski/2012/10/03/get-ready-for-more-china-overseas-investment/#3efcfb9c4f3e>, accessed on 02 May 2016

⁵¹⁷ Afribiz, 'Ethiopia: Trade and Economic Partnerships 2011', August 20, 2011, <http://www.afribiz.info/content/2011/ethiopia-trade-and-economic-partnerships-2011>, accessed on 2 February 2015

⁵¹⁸ David H. Shinn, 'Ethiopia and China: When Two Former Empires Connected', *International Policy Digest*, 6 November 2014, <http://intpolicydigest.org/2014/06/11/ethiopia-and-china-when-two-former-empires-connected/>, accessed on 12 September 2015

special linkage with China to the extent that the two countries now share a lot in common, politically and economically. Ethiopia, it must be emphasized, did not necessarily copy the Chinese model. Rather, a set of circumstances combined to lead the country onto a path that has resulted in affinities with China.

The most important point to note is that from the 1990s, Ethiopia was moving in the direction of opening up its economy through market-oriented economic policy. Despite some early warning signs, what was not immediately clear was what the government's role in the economy would be under this new ideological dispensation. Although the IMF and World Bank were actively encouraging developing countries to 'open up' their economies through structural adjustment, Ethiopia pursued a different version of neoliberal economic development under the stewardship of Prime Minister Meles Zenawi. According to Kaberuka, 'while the late PM accepted the importance of markets in allocating resources, he rejected market fundamentalism outright. While he asserted the central role for the State, he rejected a predatory, parasitic state controlled by rent seekers.'⁵¹⁹ As economic and political relations with China grew, Ethiopia abandoned its initial 'revolutionary democracy' model for a 'developmental state' model.

At the same time, despite its endeavour to attract more and more FDI, Ethiopia appears to be reluctant to give up state control of the economy for a full-blown market-oriented neoliberalism. As a result, the boundary between the private sector and state is now often so blurred. According to Feyissa, the EPRDF actually pursues 'a non-liberal, state-driven path to capitalist development.'⁵²⁰ New investment proclamations have been published and amended, and privatization of state

⁵¹⁹ Donald Kaberuka, President African Development Bank, "Meles Zenawi and economic transformation in Africa", Inaugural lecture at the launching of the Meles Zenawi Foundation, Addis Ababa, Ethiopia January 29, 2015, p11

⁵²⁰ Dereje Feyissa, 'Aid negotiation: the uneasy partnership between EPRDF and the donors', *Journal of Eastern African Studies*, 5:4, 2011, pp 788-817

enterprises is ongoing.⁵²¹ As explained below, due to the influence of international capital from China, the development agenda is giving the private sector an increasingly important role. However, the key point to note is that the government remains the central player, as much of the core ‘private’ capital can be traced back, or linked, to the state and the ruling EPRDF party in particular.

Ethiopia sees China’s distinct neoliberalism or form of economic governance as an ideal model to emulate. This has been given lifeblood by what the Ethiopian leadership regard as the failure of the Washington Consensus. With this in mind, the man who would lead Ethiopia into a revolutionary relationship with China, Meles Zenawi, thus wrote of ‘Dead Ends and New Beginnings’⁵²² in 2006. The objective was to stress and explain that old economic models (like the Washington Consensus) had already been tried throughout Africa and were failing in part because ‘the neoliberal doctrine had come against the walls of its internal contradictions’.⁵²³ In his view, such doctrines would lead Ethiopia to a ‘dead end’, hence the need for ‘new beginnings’ to be imagined.

According to So, one of the key feature of Chinese neo-liberalism is a weakened capitalist class that is also dependent on the state.

Instead the private sector has numerous links with the state sector in terms of interlocking personnel and ownership. Many collective enterprises are owned and run by capitalists, while many private enterprises are spin-off state properties owned and run by state managers and their kin. This fusion makes it difficult to distinguish what is owned by the state, by the collective, and by the capitalists in

⁵²¹ ‘Foreign Agricultural Investment Country Profile’, FAO Investment Policy Support, http://www.fao.org/fileadmin/user_upload/tcsp/docs/ETHIOPIA_COUNTRY_PROFILE.pdf, accessed on 02 September 2015, p5

⁵²² Alex de Waal, ‘The Theory and Practice of Meles Zenawi’, Review Article, African Affairs, 1–8, Oxford University Press, 2012

⁵²³ Donald Kaberuka, President African Development Bank, ‘Meles Zenawi and economic transformation in Africa’, p10

the private sector because the boundary of property relations are often blurred.⁵²⁴

China's growing weight in international relations and strengthened contact with the Ethiopian government and party officials further increases the attractiveness of China as a role model.⁵²⁵ Among other things, this is a model that focuses on a strong centralised government and political party (similar to Ethiopia's EPRDF) that is strongly involved in economic development and growth — 'authoritarian development' as part of the 'Beijing consensus'.⁵²⁶ Even the IMF, which advocates for an extremely limited role for the government in the economy in favour of the private sector and market forces, has admitted that 'Ethiopia's public sector-led development strategy has delivered robust growth and rising living standards'.⁵²⁷ In part this transformation is ideological in that it feeds into a domestic political project developed by the ruling EPRDF party.

To shed more light on the ideological basis of China-Ethiopia relations, we can consider the way in which political, economic and social engagements have bound together the two countries. The Ethiopian state now has close intellectual links with China's Communists and often sends officials to their party school in Beijing.⁵²⁸ There, Ethiopians imbibe the gospel of industrialisation overseen by a strong state that exerts tight control over an ethnically diverse population with a history of strife.⁵²⁹ The close coordination between aid, trade and investment, reflects the interplay

⁵²⁴ Alvin Y. So, 'Rethinking the Chinese Development Miracle', in Ho-fung Hung (Ed), *China and the Transformation of Global Capitalism*, The Johns Hopkins University Press, Baltimore, 2009, p56

⁵²⁵ Girum Kinfemichael Gebremariam, 'Ethiopia: Ethio-China Partnership - Its Implication for European Development Policy', *The Ethiopian Herald*, 18 September 2015, <http://allafrica.com/stories/201509181781.html>, accessed on 22 February 2016

⁵²⁶ Monika Thakur, 'Building on Progress? Chinese Engagement in Ethiopia', *South African Institute for International Affairs, Occasional Paper No. 38, China in Africa Project*, July 2009, p16

⁵²⁷ Etienne Yèhoué, Felipe Zanna and S. Kal Wajid, 'The Federal Republic of Ethiopia: Selected Issues', *IMF Country Report No. 14/304*, September 5, 2014, p25

⁵²⁸ *The Economist*, 'Ethiopia's economy: Neither a sprint nor a marathon. Africa's most impressive economic managers suffer from excessive caution', 30 May 2015, <http://www.economist.com/news/middle-east-and-africa/21652307-africas-most-impressive-economic-managers-suffer-excessive-caution-neither>, accessed on 12 February 2016

⁵²⁹ *ibid*

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.⁵³⁰ This relationship has formed the backdrop to the transformation of economic strategy which has resulted in Ethiopia's public investment being driven mostly by the state. As a result, for instance, two thirds of Ethiopia's 8.5 percent GDP growth in 2011-12 was due to public investment, according to the World Bank.⁵³¹ The multilateral institution also notes that Ethiopia's public investment rate is the third highest in the world, while private investment rate is the sixth lowest.⁵³² Hence, ideological engagements and synergies form a crucial component of the internationalisation of the Chinese variant of neoliberalism in Ethiopia.

China achieved its historic growth through a state-driven capitalism with an important role given to SOEs and Ethiopia has adopted the same approach whilst maintaining some elements of distinctiveness. In Ethiopia, corporate governance of state owned enterprises is structured and monitored by a board of directors composed of senior government officials and politically-affiliated individuals.⁵³³ There is state monopoly or state dominance in sectors such as telecommunications, power, banking, insurance, air transport, shipping, and sugar. Ruling party-affiliated endowment companies have a strong presence in the ground transport, fertilizer, and textile sectors. Both state-owned enterprises and endowment companies dominate

⁵³⁰ AFRODAD, 'Mapping Chinese Development Assistance in Africa: An Analysis of the Experiences of Ethiopia', African Forum and Network on Debt and Development, Harare, 2011, p24

⁵³¹ William Gumedde, 'Ethiopia's rapid growth: Miracle or mirage?', December 14 2014 , <http://nazret.com/blog/index.php/2014/12/16/ethiopia-s-rapid-growth-miracle>, accessed on 22 September 2015

⁵³² Dawit Ayele Haylemariam, 'How Real is the Ethiopia Rising Narrative', The World Post, 18 August 2015, http://www.huffingtonpost.com/dawit-ayele-haylemariam/how-real-is-the-ethiopia-_b_7985180.html, accessed on 12 November 2015

⁵³³ Department of State: 2014 Investment Climate Statement June 2014 <http://www.state.gov/documents/organization/228594.pdf>, p10, accessed on 14 February 2016

the cement sector.⁵³⁴ The small formal private sector economy is dominated by Govbus (government owned enterprises), Parbus (party-owned enterprises), and Polbus (politically connected private enterprises).⁵³⁵ The emerging capitalist economy in Ethiopia is thus embedded within these new forms of political relationships and these relationships play out within the state. For example, the EPRDF party machinery has grown from strength to strength as a result of its access to financial opportunities. As a result, opposition political parties in Ethiopia are too financially inferior to meaningfully challenge the EPRDF on the political stage.⁵³⁶ The EPRDF has even gone on to easily co-opt several opposition parties using its financial strength.

To facilitate this new ideological dispensation, new modalities of state intervention have been introduced including by way of institutional drivers. Such new institutions include the Ethiopian Investment Agency (EIA). According to the Food and Agriculture Organisation (FAO), the EIA is the principal government organ responsible for promoting and coordinating investment in Ethiopia in both the pre- and post-investment phases. About a year ago the agency, which used to be under the Ministry of Industry, began reporting straight to Prime Minister Hailemariam Desalegn and was renamed the Ethiopian Investment Commission (EIC).⁵³⁷ It also reviews investment transactions for compliance with FDI requirements and restrictions. Along with the Privatization and Public Enterprises Supervising Agency (PPESA), the EIA oversees the process of economic liberalization and the gradual

⁵³⁴ U.S. Department of State, 'Ethiopia 2015 Investment Climate Statement', May 2015, p14

⁵³⁵ Berhanu Abegaz, 'Political Parties in Business: Rent Seekers, Developmentalists, or Both?', *The Journal of Development Studies*, 49:11, 2013, pp 1467-1483

⁵³⁶ Lovise Aalen, 'Ethnic Federalism in a Dominant Party State: The Ethiopian Experience 1991-2000', Chr. Michelsen Institute, *Development Studies and Human Rights*, R 2002: 2, p8

⁵³⁷ Jacey Fortin, 'Investments: When Ethiopian giants dance', <http://www.theafricareport.com/East-Horn-Africa/investments-when-ethiopian-giants-dance.html>, accessed on 28 August 2016

shift to private ownership.⁵³⁸ The liberalisation reform agenda therefore demanded or required institutional drivers in Ethiopia. The state now assigns roles to specific institutions thereby devolving some of its functions.

The investment relationship with Chinese international capital has seen the Ethiopian state adopting measures through the EIC that would make it easy for Chinese capital to not only invest in Ethiopia, but expand as well. This has played out in various ways within the state. For example, indigenous or locally owned private companies have complained of favourable treatment of the SOEs in the governmental tender process. As the public sector is heavily involved in the economic development, this translates into a sizeable portion of the open tenders on the market.⁵³⁹ The creation of the EIA confirms the changing nature of the state as new modalities of this reform agenda work to produce an Ethiopian liberalism that strengthens state institutions.

In addition, the Economy and Business Directorate of Ministry of Foreign Affairs (MoFA), in collaboration with Ethiopian Missions in Brazil and China and the EIC promote collaboration mainly in terms of identifying sources of FDI.⁵⁴⁰ This involves the selection of appropriate investors, analysing data on assistance, loans and technical cooperation agreements, providing information on five government priorities and identifying partners to finance priority areas as appropriate, and investigating development assistance experience and trends of bilateral and multilateral foreign assistance.⁵⁴¹ This has – in line with the second image reversed argument – strengthened the role of government agents and bureaucrats. Ato

⁵³⁸ Foreign Agricultural Investment Country Profile: Ethiopia, FAO Investment Policy Support, <http://www.fao.org/tc/policy-support/investment-policy/databases-and-country-profiles/en/>, accessed on 12 January 2016

⁵³⁹ Department of State: 2014 Investment Climate Statement June 2014, p4

⁵⁴⁰ Dawit Alemu and Ian Scoones, 'Negotiating New Relationships: How the Ethiopian State is Involving China and Brazil in Agriculture and Rural Development', IDS Bulletin, 44.4, 2013, p4

⁵⁴¹ *ibid*

Redwan Hussien, EPRDF Secretariat Head and a member of the EPRDF executive committee, reiterated that the EPRDF and Ethiopian government attached importance to their ties with China and CPC, saying his party and country wanted to learn from China about poverty alleviation and national development.⁵⁴² The rhetoric ostensibly suggests a willingness on the part of the Ethiopian state to draw lessons from its Chinese counterpart.

Within the complex of the institutionalisation of Ethiopia's neoliberalism, much of Chinese investment in Ethiopia is negotiated and delivered through core executive institutions. As a result, the closer an entrepreneur is linked to the regime, the more chances of benefitting from investment deals that accrue.⁵⁴³ Due to the emphasis on strengthened collaboration with China, the Ministry of Finance and Economic Development (MoFED) has an independent office dealing only with China, which is called the Ethio-China Development Cooperation Office.⁵⁴⁴ As Lin and Farrell have argued, 'when entering African markets, Chinese Privately Owned Enterprises (CPOEs) are likely to be driven by economic rationality, whereas Chinese State Owned Enterprises (CSOEs) are likely to be driven by the domestic and geopolitical agenda of the Chinese government above and beyond economic motivation.'⁵⁴⁵ Crucially, this has strengthened and increased the political power of Ethiopian SOEs. Most joint venture opportunities that arise from Chinese investment, especially its state owned multinationals, are snapped up by players linked to the EPRDF regime.

⁵⁴² Nazret.com, 'Ethiopia: Communist China pledged to boost partnership with TPLF/EPRDF', 23 February 2011, <http://nazret.com/blog/index.php/2011/02/24/ethiopia-communist-china-pledged-to-boost-partnership-with-tplf-eprdf>, accessed on 17 September 2015

⁵⁴³ U.S. Department of State, 'Ethiopia 2015 Investment Climate Statement', May 2015, p14

⁵⁴⁴ Dawit Alemu and Ian Scoones, 'Negotiating New Relationships: How the Ethiopian State is Involving China and Brazil in Agriculture and Rural Development', IDS Bulletin, 44.4, 2013, p4

⁵⁴⁵ Xiaohua Lin and Carlyle Farrell, 'The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa', Journal of African Business, 14:2, 2013, pp 85-95, p1

The Ethiopian government thus links its SOEs as well as party-linked businesses for joint venture deals with Chinese state capital. This is happening in ways that demonstrate how the internationalisation of state capital reinforces the economic and political position of Ethiopian state capital. SOEs have considerable advantages over private firms, particularly in the realm of Ethiopia's regulatory and bureaucratic environment, including ease of access to credit and speedier customs clearance.⁵⁴⁶ This in turn is crucial to the political foundation of the regime. These deals are made possible by subcontracting since major investments in the country are those owned by some of China's biggest SOEs, such as Zhong Xing Telecom Corporation (ZTE) (responsible for the development and expansion of the mobile network in Ethiopia)⁵⁴⁷; the Jiangsu Changfa Group (which signed an agreement with the government of Ethiopia to invest in assembling agricultural machinery equipment in the Eastern Industrial Zone⁵⁴⁸); Zhongyuan Petroleum Exploration Bureau, a subsidiary company of China Petroleum and Chemical Corporation (Sinopec) (exploration for oil deposits); and Sino-Saudi Joint Investment Cements PLC and C. H. Clinker Manufacturer PLC (the two cement factories which are the two largest Chinese investments in Ethiopia in terms of capital).⁵⁴⁹ Another example is the China–Africa Development Fund office in Addis Ababa which has looked into the possibility of doing a joint venture with a Chinese company to invest in one of the ten sugar plantation and factory complexes planned by the Ethiopian government.⁵⁵⁰

⁵⁴⁶ Department of State: 2014 Investment Climate Statement June 2014, p10

⁵⁴⁷ Lishan Adam, 'Understanding what is happening in ICT in Ethiopia: A supply - and demand side analysis of the ICT sector', Evidence for ICT Policy Action Policy Paper 3, 2012, http://www.researchictafrica.net/publications/Evidence_for_ICT_Policy_Action/Policy_Paper_3_-_Understanding_what_is_happening_in_ICT_in_Ethiopia.pdf, accessed on 2 February 2015

⁵⁴⁸ Seifudein Adem, 'Diplomacy and Economics of Sino-optimism in Ethiopia', in Ph. D Adem, Ali A. Mazrui Afrasia: A Tale of Two Continents, University Press of America, 2013, p134

⁵⁴⁹ Global cement, 'Ethiopian cement focus', 24 January 2013, <http://www.globalcement.com/magazine/articles/747-ethiopian-cement-focus>, accessed on 18 March 2016

⁵⁵⁰ Deborah Brautigam and Xiaoyang Tang, 'An Overview of Chinese Agricultural and Rural Engagement in Ethiopia', IFPRI Discussion Paper 01185, May 2012, p16

Chinese capital links with local fractions of capital that are linked to the state such as party-owned businesses and this economic relationship solidifies the regime's political strength. In the Ethiopian economy, the formal sector is dominated by state enterprises (with dominant presence in finance, domestic air route, and telecom), party-owned companies, and a handful of multinationals (Saudi, Indian, Chinese, and Turkish).⁵⁵¹ More funding or more investment from China through its various investment or funding vehicles, either multilateral or bilateral, is easily a boost to the regime given its domination of the various key economic sectors. The governing EPRDF coalition of political parties runs a coterie of businesses in Ethiopia through its company vehicle known as Endowment Fund for the Rehabilitation of Tigray (EFFORT) set up in 1991 from the sales of hardware and ammunition at the end of the civil war. EFFORT, an endowment fund under Tigrayan people's liberation Front (TPLF) owns more than 60 companies.

EFFORT owns almost all the major industries in Ethiopia including Banking, Construction, Agribusiness, Mining, Communication, Insurance and other pillars of the economy that are vital to the well-being of the country.⁵⁵² Secrecy, however, shrouds the operations of EFFORT companies and this makes it difficult to know the exact details and give faces to the exact players involved. As Bonsa asserts, 'there is little information about EFFORT that is available for the general public... But Ethiopians know that the same groups of people who occupy government positions are also owners of the companies under EFFORT'.⁵⁵³ The regime is also linked to

⁵⁵¹ Berhanu Abegaz, 'Aid, accountability, and institution-building in Ethiopia A comparative analysis of donor practice', The World Institute for Development Economics Research (WIDER), Working Paper No. 2013/083, p18

⁵⁵² Asress Mulugeta, 'Privatizing EFFORT and all Other EPRDF Controlled Companies to Build Abay Dam', July 19, 2013, <http://ecadforum.com/2013/07/19/privatizing-effort-and-eprdf-controlled-companies/>, accessed on 18 September 2015

⁵⁵³ J. Bonsa, 'Ethiopia: Foreign Investment in Ethiopia: a Blessing or a Curse?', 3 March 2016, <http://allafrica.com/stories/201603040859.html>, accessed 27 August 2016

Mohammed International Development Research and Organisation Companies (MIDROC).

MIDROC Ethiopia is a private investment company with about 70 group and affiliate companies that are engaged in multifaceted business sectors across the country.⁵⁵⁴ It is owned by Ethiopian-born Saudi business tycoon Sheik Mohammed Al Amoudi. In the words of Bensa, MIDROC has been used by the EPRDF as a ‘joker card’ in mutually advantageous ways. According to the United Nations Conference on Trade and Development (UNCTAD), 60 percent of the overall FDI approved in Ethiopia was related to MIDROC.⁵⁵⁵ And as of late another unlikely business monopoly has emerged in the form of the military establishment, the same military whose top leadership is either loyal to or under the indirect control of TPLF. METeC, a company run by the national army, is having an elaborate business interest from production of computers and flat screen TVs to heavy metals, car assembly and hotels. Once again, there is no or little information available to the public on the exact nature of METeC's business empire.⁵⁵⁶

In an interview with Geda, an expert on the political economy of China-Ethiopia relations, with regard to a question of the priority linkages between the state and Chinese investors, he opined that ‘Government only wants financing of its major projects and these are directed by the military guys ruling the state with the result that such decisions are not based on economics’.⁵⁵⁷ The government is thus perceived as taking advantage of China’s state focused approach to investments to ensure some narrow, significant party projects get to be done in the guise of hosting FDI for the

⁵⁵⁴ MIDROC Ethiopia, <http://www.midroc-ethiopia.com.et/>, accessed on 8 April 2016

⁵⁵⁵ J. Bensa, ‘Crony Capitalism and the Myth Behind Ethiopia’s Economic Miracle’, TesfaNews, <http://www.tesfanews.net/crony-capitalism-and-the-myth-behind-ethiopias-economic-miracle/>, accessed on 8 April 2016

⁵⁵⁶ *ibid*

⁵⁵⁷ Alemayehu Geda, *Interview*, Professor of Macro and International Economics, Addis Ababa University, Addis Ababa, May 2014

benefit of the Ethiopian people. Critics of the regime contend that EFFORT epitomizes that unholy marriage between business and politics in a way not seen before in Ethiopian history.⁵⁵⁸ As Bonsa notes, The overlap between the operations of domestic oligopolistic companies and their foreign counterparts is so much that it is difficult to know where one ends and the other begins.⁵⁵⁹ The blurring of the boundary between economic and political agencies within the state has never been more apparent because China-Ethiopian investment relations are bound within undefined political, social and economic boundaries.

The EPRDF as a party and government has methodically used its close relationship with Chinese political and economic elites in ensuring that in the process of economic cooperation courtesy of the internationalisation of Chinese capital, the regime is simultaneously strengthened. In 2015, the ruling EPRDF, and its allies won every single parliamentary seat in the May elections, including the one seat held by an opposition politician following the 2010 poll.⁵⁶⁰ Having been in power since 1991, the EPRDF has thus just entrenched its 24 year stranglehold on the Ethiopian political scene but this time even more emphatically. It was ‘the CCP, which advised the EPRDF in its drive to recruit five million new members between 2005 and 2010 and has developed deep party-to-party ties’.⁵⁶¹ The cumulative effect has been the regime’s steady consolidation of political power and recent events confirm that. The 2015 electoral sweep is a historic first since the first national election in 1995

⁵⁵⁸ Ayyaantuu News, ‘Crony capitalism and the myth behind Ethiopia’s economic miracle’, July 15, 2014, <http://ayyaantuu.com/horn-of-africa-news/crony-capitalism-and-the-myth-behind-ethiopias-economic-miracle/>, accessed on 9 April 2016

⁵⁵⁹ J. Bonsa, ‘Crony Capitalism and the Myth Behind Ethiopia’s Economic Miracle’, TesfaNews, <http://www.tesfanews.net/crony-capitalism-and-the-myth-behind-ethiopias-economic-miracle/>, accessed on 8 April 2016

⁵⁶⁰ BBC, ‘Ethiopia election: EPRDF wins every seat in parliament’, 22 June 2015, <http://www.bbc.com/news/world-africa-33228207>, accessed on 22 August 2015

⁵⁶¹ Harry Verhoeven, ‘Africa’s Next Hegemon: Behind Ethiopia’s Power Plays’, Foreign Affairs, 12 April 2015, <https://www.foreignaffairs.com/articles/ethiopia/2015-04-12/africas-next-hegemon>, accessed on 03 March 2016

following the adoption of the current constitution. Such a landslide electoral sweep by the EPRDF coalition is reminiscent of the one-party state of its CCP counterpart in China.

Through the window of opportunity availed by Chinese capital, the EPRDF is carving out business opportunities for itself especially through party cadres as its proxies. Several analysts including Xu and Fields have argued that whilst the Kuomintang (KMT) is the richest party in the world, the EPRDF is Africa's richest party with a net peak wealth of US \$1.0 –1.5 billion between 1991–2010.⁵⁶² Since 1995, the TPLF has been using the parastatals under EFFORT as a 'cash cow' to accumulate immense amounts of wealth to pursue its ethnically motivated political and economic domination of Ethiopia.⁵⁶³ The regime's reach is found in almost every facet of the Ethiopian economy. The government is engaged in various businesses ranging from production of consumer goods such as cigarettes, sugar and beer production to assembling of motor vehicles.⁵⁶⁴ According to Mulugeta, the TPLF economic empire has monopolized the private sector of the Ethiopian economy to the extent never seen anywhere in the African continent.⁵⁶⁵ This could probably explain why when Li Changchun, a member of the Standing Committee of the Political Bureau of the CPC Central Committee was giving vote of thanks after meeting a EPRDF delegation in 2011, he 'hailed the steady development of Sino-Ethiopian relations over the years, citing active cooperation in the areas of

⁵⁶² Berhanu Abegaz, 'Political Parties in Business: Rent Seekers, Developmentalists, or Both?', *The Journal of Development Studies*, 49:11, 2013, pp 1467-1483

⁵⁶³ Ethiopian Times, 'Ethiopia is looted by EFFORT and The TPLF Business Empire', 30 July 2012, <https://ethiopianimes.wordpress.com/2012/07/30/ethiopia-is-looted-by-effort-and-the-tplf-business-empire/>, accessed 22 January 2016

⁵⁶⁴ Afribiz, 'Ethiopia: Trade and Economic Partnerships 2011', August 20, 2011, <http://www.afribiz.info/content/2011/ethiopia-trade-and-economic-partnerships-2011>, accessed on 11 December 2015

⁵⁶⁵ Asress Mulugeta, 'Privatizing EFFORT and all Other EPRDF Controlled Companies to Build Abay Dam', July 19, 2013, <http://ecadforum.com/2013/07/19/privatizing-effort-and-eprdf-controlled-companies/>, accessed on 18 September 2015

politics, trade, culture and public health, and close coordination in international affairs'.⁵⁶⁶ The distinction between the economic and the political have become difficult to identify.

There is a clear case to be made that the expansion of Chinese capital and Chinese-led investments has benefitted the local working population with massive employment opportunities especially the urban unskilled in Ethiopia. In the leather industry, for example, 'formal Chinese firms employed almost 3 million workers while Ethiopia's formal firms employed a mere 7,600 workers',⁵⁶⁷ as of 2012. However, despite this positive outcome for the general population, the real benefits will continue, in the words of Geda, to be concentrated in the 'big tent'.⁵⁶⁸ China's preference for top-down bilateral dealings with the EPRDF – instead of engaging with wider society, its non-conditioned 'non-interference' approach to aid and development assistance, and the non-transparent behind-closed-door nature of policy-making and business arrangements in Ethiopia in general opened the door to accusations of collusion with the ruling regime and its cadres.⁵⁶⁹ A pivotal implication of this is that it has concentrated influence in the EPRDF regime and 'insulated' key decision making powers and centres from civil society.

The key point from the thesis' second image reversed analogy is that these internal configurations of Ethiopian capital – including capital linked to the dominant party -

⁵⁶⁶Nazret, 'Ethiopia: Communist China pledged to boost partnership with TPLF/EPRDF', <http://nazret.com/blog/index.php/2011/02/24/ethiopia-communist-china-pledged-to-boost-partnership-with-tplf-eprdf>, 23 February 2011, accessed on 17 September 215

⁵⁶⁷ Deborah Brautigam, Margaret McMillan and Xiaoyang Tang, 'The Role of Foreign Investment in Ethiopia's Leather Value Chain', PEDL Research Note - ERG project 106: Flying Geese in Ethiopia's Leather Cluster? Understanding Asian/Chinese Impact, p1

⁵⁶⁸ Geda explained the 'Big tent' as a euphemism to refer to the highly politically and economically connected class with the EPRDF party as the centre. The 'big tent' shelters the close knit networks of Ethiopia's elite, specifically politicians in the EPRDF government in collusion with military officials as well as powerful party cadre businesspersons

⁵⁶⁹ Steve Hess and Richard Aidoo, 'Charting the Roots of Anti-Chinese Populism in Africa', Springer, 2015, p102

are matched by a set of external diplomatic institutions. The business arrangements are facilitated through various institutions and arenas of diplomacy that have now been created in direct response to the country's need for FDI in general, and the special relationship with China in particular. A good example would be the newly created Business Diplomacy department in the MoFA. Its mission is to 'facilitate an effective and efficient flow of information between the Ministry, Ethiopian missions abroad and relevant national bodies, to centralize process and disseminate economic and business information in a consistent and sustainable way.'⁵⁷⁰ Officials interviewed in the MoFA (Asia and Oceanic Affairs Department) emphasized the importance of 'shared national priorities' and the importance attached to exchange visits for the facilitation of business diplomacy.⁵⁷¹

China is providing the largest number of investments in Ethiopia, although by value, the biggest investors are Turkey and India. The country is also seeing investment from Europe and the US.⁵⁷² The thesis did not set out to do a comparative assessment, it is worth looking at how non-Chinese capital also plays a role in reinforcing the EPRDF regime. Unlike Chinese capital, there is very little evidence that other foreign capital directly collaborates with the ruling party to entrench its rule. Rather, what comes out clearly is that Western countries' policy (especially the US, and the EU) towards Ethiopia is to desist from criticizing the East African country as a bulwark in its fight against terrorism. United States policy is also influenced by Ethiopia's perceived status as the most stable country in the Horn of Africa and by its cooperation in Washington's "global war on terror."⁵⁷³ This has led them to turn a blind on political repression in Ethiopia prompting Human Rights

⁵⁷⁰ <http://www.mfa.gov.et/abtMnstrMore.php?pg=43>

⁵⁷¹ Official at the Ministry of Foreign Affairs, *Interview*, Addis Ababa, May 2014

⁵⁷² Katrina Manson, 'Ethiopia predicts record \$1.5bn overseas direct investment in 2015', 26 April 2015, <http://www.ft.com/cms/s/0/0faa1dac-ea88-11e4-a701-00144feab7de.html#axzz4lop30g4i>, accessed on 29 August 2016

⁵⁷³ Human Rights Watch, 'The International Response and Official Reactions of the Ethiopian Government to Criticism about its Human Rights Record', <https://www.hrw.org/reports/2005/ethiopia0505/7.htm>, accessed on 30 August 2016

Watch (HRW) to declare that ‘aid underwrites repression in Ethiopia’.⁵⁷⁴ Ethiopia receives around \$3 billion dollars in long-term development aid each year (second only to Indonesia); this is more than a third of the country’s total annual budget.⁵⁷⁵

6.3 Internationalisation of Chinese capital and Ethiopian state – Some case studies

The distinct nature of Chinese capital and globalisation with Chinese characteristics is reflected in several ways. This section has selected four case studies as examples to illustrate the key argument about the interlocking relationship between the international strategies of Chinese capital and the political and economic foundations of the EPRDF regime. The selected case studies have been carefully chosen as they are sectors where Chinese capital is dominant. These include the leather sector, agriculture, infrastructure as well as Special Economic Zones (SEZs).

i) Leather and shoe industry

Chinese capital is gaining a foothold in some of Ethiopia’s most important, sensitive and therefore decisive economic sectors. The leather and shoe industry is one of the traditionally most important and strategic sub-sectors in Ethiopia’s economy. Ethiopia is first in Africa and ninth in the world for its livestock population.⁵⁷⁶ The influx and expansion of Chinese capital and especially its relative advantage has seen it winning more contracts and business opportunities through political and financial

⁵⁷⁴ Human Rights Watch, ‘Development without Freedom: How Aid underwrites repression in Ethiopia’, 19 October 2010, <https://www.hrw.org/report/2010/10/19/development-without-freedom/how-aid-underwrites-repression-ethiopia>, accessed on 30 August 2016

⁵⁷⁵ [Graham Peebles, ‘Donor Dollars aiding political repression in Ethiopia’, <http://www.grahampeebles.org/55841915e4b0573d1ff97536/2015/6/22/donor-dollars-aiding-political-repression-in-ethiopia>, accessed on 29 August 2016](http://www.grahampeebles.org/55841915e4b0573d1ff97536/2015/6/22/donor-dollars-aiding-political-repression-in-ethiopia)

⁵⁷⁶ Andualem Sisay Gessesse, ‘Better local price challenges Ethiopia’s shoes export’, 19 September 2014, <http://www.newbusinessethiopia.com/index.php/manufacturing/item/78-better-local-price-challenges-ethiopia-s-shoes-export>, accessed on 2 May 2015

backing from Beijing and the Ethiopian government's readiness to accommodate it. China-Africa Overseas Leather Products S.C., under the umbrella of a joint Chinese venture; XinXiang Kudroda and Mingliang Leather Co. Ltd, and China Africa Development Fund (CADFund) inaugurated a US \$27 million factory in Ethiopia in 2010.⁵⁷⁷ The sheer size of these transnational firms, as well as their technological and financial clout, in and of itself raises immediate questions especially on whether this sets the government on a collision course with local small businesses in particular or local, private capital in general as a social force with a lot to lose from such international competition.

However, despite the heavy presence of Chinese capital in the shoe and leather sector, the government has avoided confrontation with the local traders who could have a very significant voice with political consequences in this highly sensitive economic sector. Instead, the government argues the economic narrative that Ethiopian firms involved in the leather sector are benefitting from exposure to tough competition from Chinese capital that has invaded the sector and they have the government to thank. Just as China's '*Go Out*' strategy was designed, among other factors, to expose Chinese companies to global competition so as to strengthen them, these giant Chinese companies are said to have the same impact on Ethiopia's middle-sized companies. This is in line with Gebre-Egziabher's argument that competition does not always displace competitors, but as classical economics tell us, competition can enhance the productivity of those firms exposed to a competitive environment.⁵⁷⁸ Instead of displacing local entrepreneurs, the Ethiopian government advances the rhetoric that the internationalisation of Chinese capital is contributing to much needed technology transfer resulting in local companies learning a lot about product quality as well as design.

⁵⁷⁷ Desalegn Sisay, "Ethiopia gets a US \$27m Chinese leather factory", 25 November 2010, <http://www.afrik-news.com/article18486.html>, accessed on 15 April 2015

⁵⁷⁸ Tegegne Gebre-Egziabher, 'The Developmental Impact of Asian Drivers on Ethiopia with Emphasis on Small-scale Footwear Producers', *The World Economy*, 2009, p1

The Huajian Group could exemplify this very clearly. The Chinese company commenced operations in Ethiopia in 2012 and employs 3 500 workers who produce 2 million pairs of shoes annually.⁵⁷⁹ Helen Hai, the vice president of the Huajian Group makes it clear that she does not intend for this new industrial hub to compete with local businesses. Rather, she wants it to help give the local economy a boost and foster entrepreneurial spirit in Ethiopia through the idea of ‘skill transfer’, because ‘when local producers grow, the whole market is growing.’⁵⁸⁰ According to the deputy communication director at the Ministry of Industry of Ethiopia, today Ethiopia’s shoes products are exported to different countries including China. Other destinations include the United States, England, China, Italy, Germany, Kenya, Uganda and Tanzania.⁵⁸¹ This has insulated the EPRDF from attacks or criticism from the small to medium enterprise (SME) interests in the leather sector and consequently safeguarded its political position. The EPRDF thus facilitates Chinese capital’s access to the leather market and at the same time takes the credit for bringing in labour-intensive manufactures into the country which helps to address the unemployment crisis. The influx of Chinese capital in the leather and shoe industry has thus provided more ammunition to the investment and development rhetoric that the government is orchestrating.

⁵⁷⁹ Miria Pigato and Wenxia Tang, ‘China and Africa: Expanding Economic Ties in an Evolving Global Context’, March 2015, Addis Ababa, Ethiopia, Paper presented at the Invest in Africa Forum, p19, <http://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing%20in%20Africa%20Forum/2015/investing-in-africa-forum-china-and-africa-expanding-economic-ties-in-an-evolving-global-context.pdf>, accessed on 8 April 2016

⁵⁸⁰ Borgen Magazine, ‘Huajian Group Solves Poverty in Ethiopia’, June 12, 2013, <http://www.borgenmagazine.com/huajian-group-solves-poverty-in-ethiopia/>, accessed on 20 March 2016

⁵⁸¹ Andualem Sisay, ‘Ethiopian leather shoes find markets across the world’, Africa Review, 16 September 2014, <http://www.africareview.com/Special-Reports/Ethiopian-leather-shoes-finding-markets-across-the-world/-/979182/2456816/-/qp3cyj/-/index.html>, accessed on 11 September 2015

i) Agriculture: Liberalisation with state control

Approximately 85% of Ethiopia's 90 million people work in agriculture.⁵⁸² Since coming to power, the EPRDF's development strategy has been based on the argument that since the overwhelming majority of the population depends primarily on agriculture, development requires rapid agricultural growth. To achieve this, since 1993 the government has adhered to a strategy of 'Agricultural Development Led Industrialisation' (ADLI).⁵⁸³ The key aspect of ADLI is that the state will maintain control of land ownership and the guarantee of usufruct rights for smallholders. Despite allowing for large scale agricultural investment from Chinese capital, the government has also only allowed this to happen to the extent that it does not threaten smallholder agriculture. The thinking behind this approach is twofold: to defend and promote the smallholder sector as a fulfilment of the economic blueprint, the Growth and Transformation Plan (GTP), and secondly, as a political bulwark given the crucial role of smallholder farmers as a majority section of the population. In Ethiopia, increased investment is not merely the result of increased demand. Because of state ownership, investors cannot access land through market transactions; instead the government manages and promotes investment, selecting investors and investments in line with the objectives set out in the agricultural development strategy.⁵⁸⁴ Although international investors possess more financial and technological clout, it is important to note that in terms of numbers local producers outnumber international capital.

The Ethiopian economy remains heavily reliant on agriculture. According to the EIA, the sector accounted for about 43 percent of the GDP in 2008/2009 and 86

⁵⁸² The Pakistan Business Council, '2015 The Africa Country Series: Federal Democratic Republic of Ethiopia', <http://pbc.org.pk/wp-content/uploads/2015/12/Federal-Democratic-Republic-of-Ethiopia-Report-min.pdf>, p51, accessed on 9 April 2016

⁵⁸³ Tom Lavers, 'Land grab' as development strategy? The political economy of agricultural investment in Ethiopia', *The Journal of Peasant Studies*, 39:1, 2012, p109

⁵⁸⁴ *ibid*

percent of foreign currency earnings.⁵⁸⁵ Several agricultural products are key in the sector, but the sesame seed (popular with the Chinese market as a snack which can be eaten at any mealtime), is now Ethiopia's second most exported commodity after coffee. However, the growth of the sesame production is a complex result not only of its huge market in China, but also of an intricate arrangement between the Ethiopian state and local farmers. This has seen the reorganisation of the sector with the sesame traders getting a role by influencing the economic arrangement with China. At the same time, the sesame producers remain highly dependent on the government for political support in securing the huge and lucrative Chinese market. In January 2015, the China Development Bank provided a \$25m loan to finance agricultural enterprises.⁵⁸⁶ The sesame is being used to finance and service these loans facilitated through Chinese capital. Foreign currency earned by selling sesame is passed over to the state-owned Commercial Bank of Ethiopia and used to secure and repay loans provided by China.⁵⁸⁷

It is to the Gambella region that most of the major international agricultural investments are flocking. In other areas such as Benishangul-Gumuz, where people rely on shifting cultivation in which land is abandoned after being used for about five to eight years to regain fertility, the state has hitherto had difficulty collecting taxes and organising extension services. The question is how does agricultural investment affect the ability and desire of the state to construct the administrative apparatus required to effectively administer its territory and exert its authority?⁵⁸⁸ It is clear that

⁵⁸⁵ 'Foreign Agricultural Investment Country Profile', FAO Investment Policy Support, retrieved from http://www.fao.org/fileadmin/user_upload/tcsp/docs/ETHIOPIA_COUNTRY_PROFILE.pdf, 02 September 2015, p5

⁵⁸⁶ Tom Levitt, 'Ethiopia's sesame trade with China – a partnership of equals?', The Guardian, <http://www.theguardian.com/global-development/poverty-matters/2013/jul/10/ethiopia-sesame-seed-trade-china>, 10 July 2013

⁵⁸⁷ The Pakistan Business Council, '2015 The Africa Country Series: Federal Democratic Republic of Ethiopia', p47

⁵⁸⁸ Tom Lavers, 'Implications of the Land Grab for State society relations in Africa: Changing land tenure regimes and processes of state formation', Draft paper to be presented at the African Studies Association 56th Annual Meeting, Baltimore, November 2013 Researchgate, p5

the new government's thrust of attracting foreign investors onto the land is benefitting local administrations in the federal state as they collect land use fees. These *weredas* had for the most part been largely dependent on federal subsidies. Furthermore, the recentralisation of authority over the allocation of investment land by the federal government not only constitutes an assertion of power by the federal government over regional administrations, but also indicates that this is a process driven primarily by the federal government.⁵⁸⁹ International capital has thus led to a situation where there is rescaling of the state where the federal government is now much more involved in the governance of land and property allocation. Power is being rearranged and shared with social forces such as local investors, international capital as well as peasants but with the state retaining control.

Although Indian and Israeli capital dominates foreign agricultural investment in Ethiopia, Chinese capital is involved extensively in the Aksum region. Other Chinese engagements in agriculture involve China Development Bank (CDB) and China Export-Import Bank (Eximbank), both of which provide commercial development finance and export credits.⁵⁹⁰ However, although the legal framework surrounding land prohibits foreign capital from owning land as it all belongs to the state, there are indications that the arrangement, once again, neatly meshes simultaneously with Chinese investment and EPRDF regime interests. China, a growing nation of more than 1.3 billion people that is concerned about its ability to feed its own population today and into the future, is buying up Ethiopian-grown cabbage, carrots, onions, and other crops to ship back home.⁵⁹¹ Likewise, the EPRDF has an interest in ensuring a market for local Ethiopian farmers in line with the government's agricultural plan to modernize agriculture under the ADTL. This pacifies a large constituency that makes

⁵⁸⁹ *ibid*

⁵⁹⁰ Deborah Brautigam and Xiaoyang Tang, 'An Overview of Chinese Agricultural and Rural Engagement in Ethiopia', IFPRI Discussion Paper 01185, May 2012, p2

⁵⁹¹ Bernard Pollack and Danielle Nierenberg, 'Ethiopia: China Invests in Ethiopia', The Huffington Post, October 29, 2009, <http://ecadforum.com/News/ethiopia-china-invests-in-ethiopia/>, accessed on 14 July 2015

up the single most important numerical political factor in peasant, small-scale farmers. At the same time, Chinese capital's involvement in the agricultural sector also comprises specific construction of road and communication networks to and from agricultural areas. This contributes to the food security of China from abroad. In all this, the state has still maintained its overriding objective of controlling land politics despite 'liberalising' the land economy. The agricultural sector is the backbone of Ethiopian economy and therefore of vital importance to the survival of the EPRDF regime.

ii) Chinese investment in Ethiopian Infrastructure: Mutual accommodation, Shared benefits

There should be a special reason as to why it is Chinese capital, more than any other source of foreign capital, that is dominating all the most important and lucrative investment sectors in Ethiopia. Construction and infrastructural development is probably the key sector in Ethiopia today. For example,

In September 2015, the Addis government opened the \$475 million metro rail project in Addis Ababa, and announced the joint construction of a pipeline from Djibouti at a cost of \$1.5 billion. The submission for financial advisory service is set to be tendered in 2016. In 2014, it awarded road contracts worth \$320 million.⁵⁹²

In all these, Chinese companies have become a dominant force, building highways and bridges, power stations, mobile-phone networks, schools and pharmaceutical plants. More recently, they have begun exploring for oil and building at least one Ethiopian military installation.⁵⁹³ The study observes that these are also the very investment areas that Chinese firms are seeking, without which they would have

⁵⁹² Allan Olingo, 'East Africa: Ethiopia's Huge Infrastructure Projects Whet Continental Banks' Appetite', *The East African*, <http://allafrica.com/stories/201511090663.html>, accessed on 19 March 2016

⁵⁹³ Karby Legget, 'China's influence in Ethiopia', http://nazret.com/blog/index.php/2005/03/29/china_s_influence_in_ethiopia, accessed on 15 September 2015

nowhere to thrive. Seeking an escape from the pressure cooker of domestic competition and surplus production, China's private firms find some relief overseas in Africa's large markets and relatively less intense market competition from local firms.⁵⁹⁴ China is thus creating its own opportunities in Ethiopia and the Ethiopian state is playing a facilitatory role to make this happen.

Ethiopia has been known for an infrastructural crisis that includes informal urban settlements, congestion, poor road and bridge networks, water and sanitation challenges.⁵⁹⁵ This could have offered its own domestic private sector massive, lucrative opportunities in clinching huge joint venture investment deals with Chinese capital that is heavily involved in varied projects including housing, roads, bridges and other vital rural and urban infrastructure. Instead, the infrastructural gap has only opened another revenue source for the regime's aligned companies (private) and parastatals that are working with Chinese capital in the construction sector. This has important repercussions for state-society relations in the Ethiopian state with the distinction between government/public versus the private sectors is no longer clear. Mainly through its state owned enterprises, the Ethiopian government has engaged with Chinese capital in rehabilitating the sorry infrastructure with the domestic 'private sector' virtually frozen out.

The awarding of contracts to Chinese investors for infrastructural projects is directly linked to the strong political relationship between the Chinese government and its Ethiopian counterpart. Today, China's influence in Ethiopia is overwhelming. Interestingly, the World Bank through its lead economist and programme leader at

⁵⁹⁴ Gu Jing, 'China's Private Enterprises in Africa and the Implications for African Development, Institute of Development Studies, European Journal of Development Research Special Issue, Vol. 24, No. 1, 2009 (Forthcoming)

⁵⁹⁵ M. Mahadeva, 'Managing Cities in Developing Countries: The Theory and Practice of Urban Management', Journal of Social and Economic Development. 11.1, January-June 2009

the World Bank Ethiopia office Lars Christian Moller has thrown its weight behind this approach in Ethiopia, stating that;

‘As a big government following developmental state path, we intervene aggressively in development of infrastructure, road, railway, power generations and sugar. We waited for decades for the private sector to invest in these sectors but they didn’t come.’⁵⁹⁶

Chinese firms in Ethiopia dominate both rural and urban road construction. In 2011 alone, there were about ten Chinese firms engaged in the construction of roads throughout the country, representing about 60% of the total. Four of the firms dominated the field with nearly 70% of the Chinese engagement in the sector.⁵⁹⁷ Lately, Beijing has begun winning projects that have geopolitical relevance, such as Ethiopia's Takazee Dam -- a massive, \$300 million hydropower station that is rising on the headwaters of the Blue Nile River.⁵⁹⁸ China has built Sub-Sahara’s first modern tramway in Addis Ababa, Ethiopia. The two line, 34-kilometre (21 mile) system was built by the China Railway Engineering Corporation (CREC). The project cost \$475 million, 85 percent of which has been covered by China's Exim bank.⁵⁹⁹ The Ethiopian government, more than the private sector, is playing a central role in facilitating the operations and engagements of Chinese investment in Ethiopia.

The Ethiopian government is taking a cue from the Chinese distinct capitalist model where the state plays a central role in the key sectors of the economy. The public

⁵⁹⁶ Andualem Sisay Gessesse, ‘Where will huge state investments lead Ethiopia?’, <http://www.newbusinessethiopia.com/index.php/manufacturing/item/191-where-will-huge-state-investments-lead-ethiopia>, adapted on November 2, 2014

⁵⁹⁷ Ethiopia: Trade and Economic Partnerships 2011, August 20, 2011, <http://www.afribiz.info/content/2011/ethiopia-trade-and-economic-partnerships-2011>, accessed on 21 January 2016

⁵⁹⁸ Karby Legget, ‘China's influence in Ethiopia’, http://nazret.com/blog/index.php/2005/03/29/china_s_influence_in_ethiopia retrieved on 15 September 2015

⁵⁹⁹ AFP, ‘China in driving seat as Ethiopian capital gets new tramway’ Yahoo News, 21 September 2015, <http://news.yahoo.com/china-driving-seat-ethiopian-capital-gets-tramway-171023649.html>, accessed on 21 September 2015

authorities must therefore keep control of ‘the so-called commanding heights of the economy’.⁶⁰⁰ The government is therefore crowding out the private sector which has no link with regime elites in the construction boom. This has weakened the local private sector as an economic and political force in Ethiopia as its failure or exclusion has robbed it of an opportunity to amass substantial financial and political capital.

There have been numerous authors as well as media commentary that has suggested that China imposes its will on African countries as a ‘new form of imperialism.’⁶⁰¹ The major criticism against African government's’ engagement with China is that China imposes its own will on them. However, evidence from this study suggests that such notions be dismissed. In its commercial arrangements with China, Ethiopia is accorded what Geda described as enough ‘policy space’.⁶⁰² This means Ethiopia is allowed to design its own policy in relation to how it wishes to engage with Chinese capital from investment deals based on mutual advantage. This is also corroborated by state officials who in interviews stressed that ‘there is non-interference and no imposition.’⁶⁰³ As we have shown, these external imperatives are played out within internal contests inside the state. In interviews with Ministry of Foreign Affairs officials in Addis Ababa, the researcher enquired if Ethiopia was getting what it deserved from its touted relationship with China: ‘The main challenge is that Ethiopia is still a developing country and therefore still learning hence minimum benefits, for now’⁶⁰⁴ was the main response. However, this is being addressed in various ways. The ruling parties from the two countries (the CCP and the EPRDF), legislature and government meet regularly in formal exchange visits and other areas

⁶⁰⁰ René Lefort, ‘Free market economy, ‘developmental state’ and party-state hegemony in Ethiopia: the case of the ‘model farmers’, *The Journal of Modern African Studies*, 12/2012; 50 (04)

⁶⁰¹ Stephen Marks, ‘China in Africa: The new imperialism?’, *Pambazuka News*, 2006

⁶⁰² Alemayehu Geda, *Interview*, Economics and Politics expert on China, Addis Ababa, May 2014

⁶⁰³ Alemayehu Geda, *Interview*, Economics and Politics expert on China, Addis Ababa, May 2014

⁶⁰⁴ Ministry of Foreign Affairs and MOFED Officials, *Interviews*, Addis Ababa, April 2014

of bilateral technical cooperation.⁶⁰⁵ It is via these fora that the government of Ethiopia is being influenced, rather than forced, by China to take certain positions in its economic decision making that are ultimately attractive to Chinese investment.

A good example to illustrate how these relationships are internalised within the Ethiopian state is the 2011 stance by China to ‘propose’ a ‘three-point proposal to boost ties with Ethiopia’.⁶⁰⁶ A closer examination of just one of these proposals reveals that Chinese capital suggests, promotes and exploits economic policy and direction in Ethiopia to suit its own globalisation interests.

Wu Bangguo, chairman of the Standing Committee of China's National People's Congress (NPC), also proposed the two nations focus on three key projects that he believed would be vital to foster the bilateral cooperation, referring to an agriculture technology demonstration centre, an all-packed economic and trade project including the construction of hydropower stations and the establishment of an oriental industrial zone to attract investment from Chinese companies.⁶⁰⁷

According to the EIA, the areas with the most promising potential for investment are agriculture, agro-processing, textiles and garment, leather and leather products, tourism, mining and hydropower.⁶⁰⁸ These are investment areas in which Chinese companies have an interest in and have comparative advantage over their competitors and indeed are now heavily involved in.

⁶⁰⁵ Embassy of the People's Republic of China in the Federal Democratic Republic of Ethiopia, ‘Vice Foreign Minister Zhang Ming Meets with Cadre Delegation of the Ethiopian People's Revolutionary Democratic’, 26 February 2016, <http://et.china-embassy.org/eng/zagx/t1343924.htm>, accessed on 2 March 2016

⁶⁰⁶ Communist Party of China, ‘China offers three-point proposal to boost its ties with Ethiopia’, 12 November 2008, <http://english.cpc.people.com.cn/66102/6532163.html>, accessed 22 December 2015

⁶⁰⁷ Amanuel Mekonnen Workneh, ‘Factors Affecting FDI Flow in Ethiopia: An Empirical Investigation’, *European Journal of Business and Management*, Vol.6, No.31, 2014

⁶⁰⁸ ‘Foreign Agricultural Investment Country Profile’, FAO Investment Policy Support, http://www.fao.org/fileadmin/user_upload/tcsp/docs/ETHIOPIA_COUNTRY_PROFILE.pdf, 02 September 2015

That the Ethiopian government, more than the Chinese themselves, is the one at the forefront of promoting Chinese investment in the country must be emphasized because it goes to the heart of the thesis' main argument. This lobbying can be attributed to the massive diplomatic and business exchanges taking place between the two countries as alluded to above. As with any other government policy, criticism of, or resistance to, investment is considered a political challenge to the EPRDF.⁶⁰⁹ Senior officials and diplomats on both sides have visited each other, often inviting business leaders on promotional tours and conferences they organize in Chinese and African cities.⁶¹⁰ In the same interviews and enquiries, key informants maintained that whilst while the Chinese seemed quite adept and unrelenting on what they wanted from their relationship with Ethiopia, the same could not be said from an Ethiopian perspective.

Another way in which this is playing out, and partly in response to Ethiopia's inadequate human capital vis-a-vis its engagement with China is through the offering of scholarships. The Chinese government is providing many scholarships to young, talented Ethiopians for study in China including studying the Chinese language. The Ethiopian regime takes this initiative seriously as it gears to ensure renewal of the same politico-economic ideology practiced in China and closely related to Ethiopian neoliberalism. As for the older generation, just like in China, the process of sending the old guards of EPRDF to semi-retirement has begun with the second generation of the party leaders beginning their carefully staged and choreographed entrance into the limelight of political power.⁶¹¹ The exchanges and capacity building are also

⁶⁰⁹ Tom Lavers, 'The role of foreign investment in Ethiopia's smallholder-focused agricultural development strategy', LDPI Working Paper 2, The Land Deal Politics Initiative, Institute of Social Studies, The Hague, p5

⁶¹⁰ "China offers three-point proposal to boost ties with Ethiopia", 11 November 2011, <http://english.sina.com/china/2008/1111/197776.html>, accessed on 11 September 2015

⁶¹¹ Zekarias Ezra, 'Contemporary Dictatorship: The Grim Reality of Succession Politics in Ethiopia', 25 April 2013, retrieved from <http://ecadforum.com/blog/the-grim-reality-of-succession-politics-in-ethiopia/> accessed on 11 September 2015

expanding in the economic sphere. For example, as part of the Chinese program to send 100 senior agricultural experts to Africa, Ethiopia hosted two Chinese experts between 2009 and 2010. The experts focused on horticulture, fruit, and vegetables, and wrote two training manuals.⁶¹² There is thus a focus on education with particular reference to business diplomacy borne out of Ethiopia's realisation of its inability to draw maximum advantage from its relationship with China. This has become a breeding ground for the regime to produce party-oriented bureaucrats for the future of the regime and the perpetuation of its economic ideology.

The internationalisation of Chinese capital in Ethiopia and its effect on local politics thus alerts us to the fact that Chinese capital has distinct interests in shaping forms of governance. Chinese capital ensures an enabling environment to operate in African countries that it seeks to operate in. This is especially so given the harsh investment climate associated with most African economies.⁶¹³ Despite their satisfaction with stability and consistency in Ethiopia's political economy, an abundant and trainable labour force, adequate guarantees and protections, including wide domestic, regional and international market opportunity,⁶¹⁴ (factors that were instrumental in drawing them to the country in the first place), both Chinese private and state capital has found ways to get the best operating environment possible in the process impacting state transformation in Ethiopia.

One of the areas that Chinese capital has sought to have addressed is the complexity as well as the amount of time needed to get business transactions done due to red tape in Ethiopia. Due to their representations however, there have been positive

⁶¹² Deborah Brautigam and Xiaoyang Tang, 'An Overview of Chinese Agricultural and Rural Engagement in Ethiopia', IFPRI Discussion Paper 01185, May 2012, p8

⁶¹³ Jacques Morisset, 'Foreign Direct Investment in Africa: Policies Also Matter', Policy Research Working Paper 2481, The World Bank and the International Finance Corporation Foreign Investment Advisory Services, November 2000

⁶¹⁴ The World Bank, 'Chinese FDI in Ethiopia: A World Bank Survey', Africa Region, November 2012

results. The Chairman of the Chinese Business Association recently commented that ‘the government is making efforts to accommodate investors’ needs’⁶¹⁵ showing how much traction they have brought to bear on the state. Chinese capital plays an advocacy role within the Ethiopian state in trying to shape guarantees for its investment. Once in Ethiopia, Chinese capital tends to establish local links and has shown its ability to independently engage with local fractions of capital and other social forces without necessarily relying on the Chinese government in Beijing. This view is elaborated by Gu, who explained that ‘as these enterprises have moved to Africa, they have resulted in the creation of a Chinese support infrastructure such as business associations, community groups, as well as expanding embassy and consular facilities.’⁶¹⁶ According to Shen, the Chinese Business Association’s 150 voluntary members, mostly manufacturers, met once a month, to discuss common issues, such as taxation, labour management, customs procedures, etc.⁶¹⁷ The Association communicated regularly with relevant ministries and government agencies on behalf of its members. Ministers of Finance, Industry and Transportation have come to meet with the members to hear their complaints and discuss their suggestions. Statements like ‘the government has shown that it is serious about us’⁶¹⁸ coming from the association's Chairman are indicative of Chinese capital’s embeddedness in economic governance in Ethiopia.

The influence on domestic economic policy in Ethiopia is therefore now being shaped in part by international Chinese capital, confirming the second image reversed perspective. This emphasizes Chinese capital’s distinctive modes of international engagement. China’s distinctive capitalist transformation, specifically

⁶¹⁵ Xiaofang Shen, ‘Private Chinese Investment in Africa Myths and Realities’, Policy Research Working Paper 6311, The World Bank, 2013, p25

⁶¹⁶ Jing Gu, ‘China’s Private Enterprises in Africa and the Implications for African Development’, *European Journal of Development Research* 21, 2009, pp 570–587

⁶¹⁷ Xiaofang Shen, ‘Private Chinese Investment in Africa Myths and Realities’, Policy Research Working Paper 6311, The World Bank, 2013, p25

⁶¹⁸ Xiaofang Shen, ‘Private Chinese Investment in Africa Myths and Realities’, p25

its ‘statist neoliberalism’ has been internationalised and this explains its unique mode of engagement with Ethiopia. In particular, it requires an environment that facilitates its distinctive political component particularly in the case of Chinese state capital. Chinese authorities therefore are making Ethiopia conducive for Chinese international capital and there is evidence that this message is getting across to their Ethiopian counterparts. La Yifan, (the Chinese ambassador in Ethiopia) told the (EPRDF) ruling elite—behind firmly closed doors—that it must discard the isolationism of the past and open up an economy in which the flow of money and information is still restricted.⁶¹⁹ The distinctive nature of China’s capitalist transformation creates and necessitates a particular distinctive pathway of internationalisation.

In line with the neoliberal agenda, state institutions have been undergoing drastic reform in Ethiopia. Since 2008, all public institutions in Ethiopia had gone through the so-called ‘Business-Process-Reengineering’ (BPR) through which they are meant to reconsider the way they operate to ensure improved public services. The key methodology in the BPR process⁶¹⁹ was benchmarking best practices and most of the public institutions have been benchmarking a number of countries in the South, mainly China, India, Thailand, and Brazil. By making countries in the South, primarily China, the benchmark for remodelling state institutions, the internationalisation of Chinese capital is enhanced. Secondly, precisely because state institutions in China are heavily controlled by the ruling party, this essentially makes such institutional reform in Ethiopia an exercise in the strengthening of the EPRDF’s grip on the state.

⁶¹⁹ The Economist, ‘Ethiopia’s economy: Neither a sprint nor a marathon: Africa’s most impressive economic managers suffer from excessive caution’, 30 May 2015, Addis Ababa, <http://www.economist.com/news/middle-east-and-africa/21652307-africas-most-impressive-economic-managers-suffer-excessive-caution-neither>, accessed on 21 September 2015

6.3 Models of public administration and the Ethiopian state: Ideological affinities with Chinese neoliberalism

The new modalities of state intervention that are now emerging are resulting in the blurring of the distinction between economic (through state enterprises) and political arenas (key regime interests) of the Ethiopian state. This is itself a characteristic of the configuration of Ethiopian and Chinese neoliberalism. The EPRDF regime does not see any contradiction between this blurring of the economic and political and its rhetoric on transparency and democratisation. This is despite the fact that when it came to power in 1991, it had clearly articulated the need for and ‘embarked on a range of reform measures in three areas: democratisation, decentralisation and economic liberalisation’.⁶²⁰ The interdependence of economy and polity is such that the state plays a vitally important role at all levels in removing structural impediments to development and building necessary infrastructures for manufacturing industry, commerce, and trade. The mixed pattern is certainly not a socialist planned economy, nor is it a Western capitalist system.⁶²¹ As a result, some commentators in Ethiopia are questioning the direction which state transformation is taking: ‘Are we moving away from ‘the social-political contract’ towards Chinese style of governance?’⁶²² Ever since economic engagement with China intensified from 2005, Ethiopia’s political leaders from Meles Zenawi to Haile Mariam Desalegne have steadily realigned Ethiopia’s governance model with the (Chinese) developmental state paradigm.

One arena in which governance is reflecting an enmeshment of Chinese and Ethiopian neoliberalisms is the treatment of the media sector in Ethiopia. Here, in

⁶²⁰ Sarah Vaughan and Mesfin Gebremichael, ‘Rethinking business and politics in Ethiopia The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray’, Research Report 2011

⁶²¹ Max Boisot and John Child, ‘From Fiefs to Clans and Network Capitalism: Explaining China’s Emerging Economic Order’, *Administrative Science Quarterly*, Vol. 41, No. 4 (Dec., 1996), pp. 600-628

⁶²² Lemam2010@gmail.com , ‘The Chinese Influence and the Ethiopian Dilemma’, <http://aigaforum.com/articles/The-Chinese-Influence-and-the-Ethiopian-Dilemma.pdf>, accessed on 03 September 2015

line with China's CCP ideology on media censorship, there is overwhelming evidence that attempts are being made to coerce the media into being an instrument of the 'developmental state'. To begin with, it is well established that, despite media 'freedom' in China, 'the opacity of Chinese media regulations allows authorities to crack down on news stories by claiming that they expose state secrets and endanger the country'.⁶²³ China thus ranks 176 out of 180 countries on the 2014 Reporters without Borders index of Press Freedom.⁶²⁴ Similarly, despite constitutional guarantees of press freedom in Ethiopia, the 2005 criminal code contains many provisions that limit this right, including restrictions on 'obscene' communication, criminal defamation, and criticism of public officials.⁶²⁵ This is a direct consequence of Ethiopia realigning itself with the Chinese governance model in line with the EPRDF's aspirations of a similarly developmental state in Ethiopia, 'whereby the government controls, manages and regulates the economy'.⁶²⁶ Ever since this realignment, Ethiopia has redefined the role of the media, forcing it through various institutional and legislative tools to either be a mouthpiece of the government or to desist from criticising it, or both.

To illustrate the above, there are many reported incidents of the Ethiopian government's unrelenting crackdown on the private media. However, a couple of prominent examples may suffice. Two Ethiopian journalists, freelancers Zelalem Kibret and Edom Kassaye were beaten and imprisoned in late April 2014 for more than a year for their blog posts criticizing the government.⁶²⁷ They were arrested

⁶²³ Beina Xu, 'Media Censorship in China', 7 April 2015, <http://www.cfr.org/china/media-censorship-china/p11515>, accessed on 17 September 2015

⁶²⁴ 2015 World Press Freedom Index, <https://index.rsf.org/#/>, accessed on 12 March 2016

⁶²⁵ 'Freedom of the Press 2014: Ethiopia', <https://freedomhouse.org/report/freedom-press/2014/ethiopia>, accessed on 17 September 2015

⁶²⁶ Masimba Tafirenyika, 'The changing face of Ethiopia', Africa Renewal, August 2015, <http://www.un.org/africarenewal/magazine/august-2015/changing-face-ethiopia#sthash.EkMCgrtU.dpuf>, accessed on 11 September 2015

⁶²⁷ Human Rights Watch, 'Journalism is not a crime: Violations of Media Freedom in Ethiopia', 21 January 2015,

together with bloggers Mahlet Fantahun, Abel Wabella, Atnaf Berhane, Befekadu Hailu, and Natnail Feleke. All were charged with incitement and terrorism, according to news reports.⁶²⁸ In December, Asfaw Berhanu, a journalist with the *Reporter* newspaper, was convicted of ‘spreading false rumours’ and sentenced to two years and nine months in prison for a story he wrote about the dismissal of three state government officials that later proved to be untrue.⁶²⁹ Observing this trend in the treatment of the media and contributing to the debate on Chinese influence in Ethiopia, Lemam has remarked:

Yet we hear that what EPRDF envisages as a role of the media is to serve as an ‘agent of developmental state’. Abandoning its other critical roles the media is required to be *limatawi* – reporting merely the developmental achievements of EPRDF. The journalists are nicknamed *limatawi gazetegna* reporting only developmental news.⁶³⁰

Paradoxically, Ethiopia does not only constitutionally provide for media plurality, but is also a multi-party democracy. The fact that constitutionalism is being ignored in pursuit of the ‘developmental state’ attests to China’s growing influence in Ethiopia. It is impacting on state-society relations and betrays a Chinese-induced ideological shift in the East African country that has been transmitted through Chinese capital and its underlying political ideology.

In pursuit of the developmental state, civil society in Ethiopia has also not been spared. In 2009, the country adopted the Charities and Societies Proclamation 621/2009, which prohibits foreign NGOs from working on issues related to human

<https://www.hrw.org/report/2015/01/21/journalism-not-crime/violations-media-freedoms-ethiopia>, accessed on 7 April 2016

⁶²⁸ Committee to protect Journalists, ‘Ethiopia releases five journalists, drops all charges against them’, July 8, 2015, <https://cpj.org/2015/07/ethiopia-releases-five-journalists-drops-all-charg.php>, accessed on 22 July 2015

⁶²⁹ Freedom of the Press 2014: Ethiopia’, <https://freedomhouse.org/report/freedom-press/2014/ethiopia>, accessed on 17 September 2015

⁶³⁰ Lemam2010@gmail.com , ‘The Chinese Influence and the Ethiopian Dilemma’, <http://aigaforum.com/articles/The-Chinese-Influence-and-the-Ethiopian-Dilemma.pdf>, accessed on 03 September 2015

rights, democratic governance, or conflict resolution.⁶³¹ Ethiopia now has the most journalists in exile of any country in the world other than Iran, according to Committee to Protect Journalists' statistics and Human Rights Watch research.⁶³² The crackdown on the media should be viewed through the lenses of the shifting nature of constitutional development and political economy in Ethiopia. The changing modalities of state intervention is intertwined with Ethiopia's economic and political relations with China.

6.4 Conclusion

This chapter has analysed the extent to which Chinese investment has immersed itself in the political economy of the Ethiopian state. The overriding observation is that China has exported, through various forms of capital, an ideology of public governance and economic organisation that meshes with Chinese investment and the regime interests of the EPRDF. In the process, certain kinds of interests and power are being reinforced, reproduced or created by Chinese investment relations. State-society relations are therefore being impacted within the Ethiopian state due to the blurring of the lines between economic and political agencies within the state again reinforcing Chinese globalisation strategies and Ethiopian neoliberalism. The similarities between China and Ethiopia are now striking and this is due to the fact that both countries now share common ideology and rhetoric of state-society relations and governance that reflects the way Chinese globalisation has interacted with and reinforced forms of Ethiopian neoliberalism. Most importantly, it has

⁶³¹ Hilary Matfess, 'Ethiopia's economy is roaring but its democratic process continues to whimper', Quartz Africa, 29 May 2015, <http://qz.com/414480/ethiopias-economy-is-roaring-but-its-democratic-process-continues-to-whimper/>, accessed on 18 September 2015

⁶³² Human Rights Watch, 'Journalism is not a crime: Violations of Media Freedom in Ethiopia', 21 January 2015, <https://www.hrw.org/report/2015/01/21/journalism-not-crime/violations-media-freedom-ethiopia>, accessed on 7 April 2016

strengthened state institutions and in the next chapter, the thesis examines how some state-society relations have been impacted as a consequence of this.

Chapter 7: The impact of Chinese investment in Ethiopia: Party capitalism and the informalisation of institutions

7.1 Introduction

This chapter focuses on the patterns of political power in Ethiopia that have come about as a result of the impact on state-society relations of Chinese investment in Ethiopia since the coming to power of the EPRDF in the early 1990s. Such impact is a direct result of the new modalities of state intervention in Ethiopia discussed in the previous chapter. The thesis has so far highlighted Ethiopia's increasing engagement with Chinese investment and particularly the role of the internationalization of Chinese capital. This internationalization has been felt – in line with the study's framework – in its internalization in the organization of social forces and the power they exercise within state institutions. In this chapter, the study examines the location of some key centers of authority, power and institutionalisation within the state in relation to how they have been impacted by Chinese capital. In this respect, two key interrelated processes are identified: the entrenchment of party oriented capitalism as well as the informalisation of institutions in Ethiopia. The thesis defines party-oriented capitalism as an economic system where the (ruling) party, oriented to capital and endowed with multiple vehicles of investment, both publicly known and unknown, is heavily involved in the major sectors of the economy as a player and regulator within a politico-economic system in which government and party have fused, duplicating in all major state institutions but with the party overall in command.

This chapter is organised into two sections. The first analyses the role of the ruling party as a key part of the changing institutions, closely examining the role of the EPRDF regime in Ethiopia as a key economic force within the state. The EPRDF has become crucial as the gatekeeper, enforcer and defender of Chinese investment

in Ethiopia. This is evidenced in many ways, including state preferential treatment towards Chinese capital. The specific aim is to show how this has not only strengthened the party, but also how this is contributing to an entrenched party oriented capitalism as a neoliberal model in Ethiopia. The second aspect of this process in the changing state-society complex is the informalisation of institutions. This is the focus of the second section. The key argument of the chapter then is that as forms of capitalism, Chinese and Ethiopian neoliberalisms are merging in Ethiopia. In other words, Chinese neoliberalism is shaping a mode of engagement which meshes with party-oriented capitalism in Ethiopia amid indications that the political interests of the EPRDF party are well served by Chinese investment and vice versa. This is resulting in new informal arrangements that operate outside the formal state institutions. In short, Chinese investment is reinforcing a system of party capitalism and creating and sustaining informalisation of politics and institutions in Ethiopia. It is also important to note that these two aspects are interrelated.

7.2 Chinese capital and the reinforcement and entrenchment of Party-oriented capitalism in Ethiopia

The EPRDF has ruled Ethiopia without a break since it deposed the Dergue regime in 1991. Throughout its twenty-five years at the helm of Ethiopian politics, the party has consistently faced spirited competition from rival political parties who see it as nothing but an elitist, tribal-centred and oppressive regime.⁶³³ Although the party has officially kept its hegemony through winning periodic elections, the electoral victories have often been controversial due to allegations of fraud and manipulation of the system.⁶³⁴ This thesis does not get entangled in the merits or demerits of the

⁶³³ Theodore M. Vestal, 'Human rights abuses in 'democratic' Ethiopia: Government-sponsored ethnic hatred', *Interethnic@-Revista de estudos em relações interétnicas* 3.2, 2013, pp 37-43

⁶³⁴ The 2005 elections in particular are cited as the clearest example yet of the EPRDF's intolerance for political opposition. The post election violence that took place was unprecedented and exposed the facade of the promised, new revolutionary democracy. Widespread harassment, intimidation, fraudulent counting and tabulation, violence and killings that ensued remain a dent on the political fabric of post-Derg Ethiopia

EPRDF's political legitimacy or lack thereof in Ethiopia. Rather, it advances the argument that this strong and entrenched role of the party and indeed its continued stay in power now has a global dimension given the role of Chinese capital. Further, it is an example of the relevance of Gourevitch's second image reversed perspective which should now be applied to contemporary Ethiopia political economy analysis.

It has been established that upon ascending to power in the early 1990s, the new EPRDF government opened up the economy to investors from all over the world. Crucially, and for the purposes of this thesis, Chinese investment became an important component of this investor class. Two decades later, China is Ethiopia's most important foreign economic partner⁶³⁵ and with much to show for it especially in terms of economic growth. At the same time, Chinese capital, both in its formal and informal links with the state has played a crucial role in reinforcing and entrenching the EPRDF's sustained stay in power, including its approach to governance. Chinese capital is meshing with some social forces linked to the EPRDF regime and this is reinforcing Ethiopia's distinctive party-oriented capitalism. Further, on the basis of this international dimension to Ethiopian domestic politics, the thesis disagrees with the notion that the new patronage is a product of primordial cultural processes steeped in Ethiopian 'authoritarian tradition'⁶³⁶ alone. Rather, it should now be viewed more as a condition that is constantly changed and reinforced by the evolving dynamics of foreign forces and domestic politics such as Ethiopian and Chinese economic and political links.

⁶³⁵ Merlin Linehan, 'Our Most Reliable Partner' China – Ethiopia Relations, *Rising Powers*, 28 November 2014, <https://rising-powers.com/2014/11/28/our-most-reliable-partner-china-ethiopia-relations/>, accessed on 11 April 2016

⁶³⁶ Jon Abbink, 'Discomfiture of democracy? The 2005 election crisis in Ethiopia and its aftermath', *African Affairs* 105.419, 2006, p173

By locating party capitalism in the context of broader changes in the global and national political economy, the thesis views the party-oriented capitalism that is emerging in Ethiopia as a distinct form of state-led capitalism. As a political party, the EPRDF owns, controls and is linked to a significant number of some of the most lucrative and essential businesses in the Ethiopian economy. Whilst some of them are owned publicly in the name of the party, it is believed that many more are held in trust of the party by discreet, party-linked cadres.⁶³⁷ The distinction between the party, state and government continues to blur. Management and share holding in the companies controlled by the different holding bodies are carefully handled through the intermediary of high officials of the central government and the Tigray national state, all members of the TPLF.⁶³⁸ The government is engaged in various businesses ranging from production of consumer goods such as cigarettes, sugar and beer production to assembling of motor vehicles.⁶³⁹ This type of capitalism is therefore taking root in Ethiopia where the party, through its wide array of companies and portfolio of investments, makes it the key economic player.

The chief mechanism through which the EPRDF is involved with Chinese capital is through the former's party owned businesses. A party-owned enterprise is a politically embedded, profit-seeking and rent-seeking firm wholly owned (or with a controlling interest) by a dominant party⁶⁴⁰. The EPRDF is probably now the single biggest economic player in the country and it is now well known that the EPRDF

⁶³⁷ Journalist, Interview, (The Ethiopian Reporter), 2 February 2016

⁶³⁸ Axel Klein, 'The Horn of Turbulence: Identifying the Root Causes of Conflict and the Appropriate Instruments for Peace Building as a Precondition for Sustainable Conflict Resolution', Institute for African Alternatives, 'Resource Scarcity and Conflict Management in the Horn of Africa', A Research Project organised by the Institute For African Alternatives (IFAA), UK, http://new.ifaanet.org/wp-content/uploads/2011/12/horn_of_turbulence1.htm, accessed 03 May 2016

⁶³⁹ Andualem Sisay Gessesse, 'Where will huge state investments lead Ethiopia?', 2 November 2014, <http://www.newbusinessethiopia.com/index.php/manufacturing/item/191-where-will-huge-state-investments-lead-ethiopia>, accessed on 13 October 2015

⁶⁴⁰ Berhanu Abegaz, 'Political Parties in Business: Rent Seekers, Developmentalists, or Both?', The Journal of Development Studies, 2013, p 1467

runs a huge business conglomerate at the moment. These routinely receive preferential treatment be it in licensing, credit facilities, etc. Some are said to benefit from direct and indirect state subsidies. No other political or ethnic groupings are allowed to create and operate similar enterprises.⁶⁴¹ It has huge fertilizer distribution, transportation, car assembly and other very lucrative businesses across Ethiopia.⁶⁴² It achieves this through the party apparatus but also by co-opting other influential social forces for overall state control.

According to Abegaz, there are four large umbrella party-owned business - holding endowments in Ethiopia today. The four constitute the heart of the EPRDF conglomerates which also include for-profit entities owned or co-owned by allied regional elites, and politically connected associations – aptly called para-NGOs; namely, the Endowment Fund for the Rehabilitation of Tigray (EFFORT or Tirit), owned by the TPLF (Tigray), Endeavour (Tiret) of ANDM (Amhara), Tumsa Endowment (formerly Dinsho) controlled by OPDO (Oromiya), and Wondo Group controlled by SEPDM (Southern).⁶⁴³ There is therefore a new capitalist class emerging that is linked to the party apparatus including ‘overtly non-governmental, charitable and self-help organisations.’⁶⁴⁴ In most cases as this study discovered, party-owned businesses get the advantage of working with the Chinese investments.

⁶⁴¹ Axel Klein, ‘The Horn of Turbulence: Identifying the Root Causes of Conflict and the Appropriate Instruments for Peace Building as a Precondition for Sustainable Conflict Resolution’, Institute for African Alternatives, ‘Resource Scarcity and Conflict Management in the Horn of Africa’, A Research Project organised by the Institute For African Alternatives (IFAA), UK, http://new.ifaanet.org/wp-content/uploads/2011/12/horn_of_turbulence1.htm, accessed 03 May 2016

⁶⁴² Jalale Getachew, *Interview*, Peace Project Officer, Peace and Development Center, Addis Ababa, Ethiopia, 10 April 2015

⁶⁴³ Berhanu Abegaz, ‘Political Parties in Business: Rent Seekers, Developmentalists, or Both?’, *The Journal of Development Studies*, 2013, p1478

⁶⁴⁴ Axel Klein, ‘The Horn of Turbulence: Identifying the Root Causes of Conflict and the Appropriate Instruments for Peace Building as a Precondition for Sustainable Conflict Resolution’, Institute for African Alternatives, ‘Resource Scarcity and Conflict Management in the Horn of Africa’, A Research Project organised by the Institute For African Alternatives (IFAA), UK, http://new.ifaanet.org/wp-content/uploads/2011/12/horn_of_turbulence1.htm, accessed 03 May 2016

⁶⁴⁵ The TPLF owns business enterprises that have an authorised capital of over birr 3.5 billion (E320 million). The major ones include Mesebo Building Materials Manufacturing SC, Almeda Textiles Manufacturing SC, Sur Construction Co., Trans Ethiopia SC, Addis Pharmaceutical Production SC, Sheba Tannery Factory and Mesfin Engineering.⁶⁴⁶

The study establishes that there are strategically positioned regime and party bureaucrats and expert ‘pro-China’⁶⁴⁷ officials who play key facilitatory roles in the implementation of Chinese projects in the country. They promote Chinese investment at both policy and political level. According to Gellaw, most of them are architects of EFFORT, the TPLF-controlled business conglomerate that is widely accused of symbolizing apartheid-like crony capitalism in Ethiopia.⁶⁴⁸ A good example is Arkebe Equbay, a former Addis Ababa Mayor and current advisor to the Ethiopian Prime Minister.⁶⁴⁹ EFFORT, for example, has five major divisions each of which is headed by a senior party cadre: Industry by Abadi Zemo, Mining by Tedros Hagos, Finance and Trade by Sebhat Nega, Construction and Transport by Arkebe Uqbay, and Agriculture by Tsegaye Taiyallew.⁶⁵⁰ This educated, capitalist class acts as a technocratic elite that advises the Ethiopian political leadership on how Chinese investment can benefit the EPRDF regime.

⁶⁴⁵ Berhanu Abegaz, *Interview*, Ethiopia and International Relations expert, College of William and Mary, Virginia, 12 February 2016

⁶⁴⁶ Paulos Chanie, ‘Clientelism and Ethiopia’s post-1991 decentralisation’, *The Journal of Modern African Studies*, 45, 2007, pp 355-384

⁶⁴⁷ This term has been employed here to refer to a collection of EPRDF regime-linked operatives whose mandate seems to be the articulation and promotion of Chinese capital investments in Ethiopia. Besides tapping on China’s growing influence in the world economy, these individuals essentially target the strengthening of party-party ties between the regimes in Beijing and Addis Ababa. Working more like pro-Chinese investment propagandists, they advise the government and also act as lobbyists to expand this relationship in a way that helps the EPRDF

⁶⁴⁸ Abebe Gellaw, ‘Doctor Arkebe Oqubay flying like a pig’, 10 December 2013, <http://www.ethiomeia.com/14store/5322.html>, accessed 18 January 2016

⁶⁴⁹ Journalist, ((Associated Press), *Interview*, , Addis Ababa, 13 October 2015

⁶⁵⁰ ‘The Ominous Clouds of Woyanne/EPRDF’s Business Empire’, 1 September 1999, <http://tegbar.org/52>, accessed on 11 March 2016

With Chinese investment in the country becoming extremely important, the EPRDF machinery, through its closely knit factions, has become the gatekeeper and the orchestrator-in-chief in the arrangement, facilitation and implementation of Chinese-linked projects in Ethiopia.⁶⁵¹ The EPRDF has two channels: the party which duplicates all major state institutions and positions (the commissar system of the USSR) on the one hand and the Government channel on the other.⁶⁵² The study noted that the two are now “fused” with the former in command. The Party’s control structures extend all the way to the urban neighbourhood and the rural hamlet—quite unprecedented for an officially non-communist state. Critics of the government argue that there virtually is no distinction here between Party and Government.⁶⁵³ In other words, the party attracts, promotes and protects Chinese investment in a very calculated way. At the same time, however, it should be emphasized that this Chinese investment in Ethiopia is differentiated.

There are broadly two classes of Chinese investors and contractors in Ethiopia: state linked enterprises and private enterprises. Both state owned and private enterprises benefit from the state-to-state relations under which Chinese businesses operate. The political cover provides them security and special access.⁶⁵⁴ According to data from the Ethiopian government, Chinese private operational investments to Ethiopia remained at \$16.2 billion from 1992 to 2015, a figure that is much bigger than any other foreign investments in the country.⁶⁵⁵ By ownership, however, they can be subdivided further. As of December 2015, the ownership type of Chinese firms in Ethiopia stood as follows: 69% Chinese private, Chinese-Ethiopian Private Joint

⁶⁵¹ Alemayehu Geda, Interview, Economics and Politics expert, University of Addis Ababa, 23 April 2014

⁶⁵² Berhanu Abegaz, Interview, Ethiopia and International Relations expert, College of William and Mary, Virginia, 12 February 2016

⁶⁵³ Merera Gudina, ‘Party Politics, Political Polarization and the Future of Ethiopian Democracy’, International Conference on African Development Archives, Center for African Development Policy Research, paper 108, August 2007

⁶⁵⁴ Policy Analyst, Interview, Center for Policy Research and Dialogue, Addis Ababa, 12 February 2016

⁶⁵⁵ Yi Zhang, ‘China’s investment in Ethiopia’, 19 November 2015, <http://www.healyconsultants.com/blog/chinas-investment-in-ethiopia/>, accessed 11 January 2016

venture (15%), State-owned (13%) and ‘others’ stands at 3%.⁶⁵⁶ Whilst the Chinese-Ethiopian private joint venture category can be said to be the clearest example of the government’s partnership with China’s international capital, this cannot and should not mask the government’s (through the agency of the party) other forms of engagement with Chinese capital especially through networks of informal arrangements.

Networks, especially informal ones, are an informal institution that have epitomised Chinese capital in Ethiopia. According to the Chinese Ministry of Commerce, FDI from China to Ethiopia increased from virtually zero in 2004 to an annual amount of US\$58.5 million in 2010 (US\$74 million in 2009).⁶⁵⁷ Behind these figures is a growing and vibrant Chinese business community represented by the Chinese Chamber of Commerce in Addis Ababa.⁶⁵⁸ In 2013, the First Chinese Goods, Technology and Services Expo (Africa) hosted by the Ministry of Commerce and organized by Foreign Trade Development Bureau, was held successfully in Addis Ababa⁶⁵⁹. This expo highlighted the extent to which networks and informal networking have become crucial as external and internal fractions of capital combine forces in Ethiopia. Due to such kinds of networks, Ethiopian neoliberalism is merging with Chinese investment via party apparatus in new informal arrangements that operate outside the formal state institutions.

⁶⁵⁶ Addis Fortune, ‘China Positive on Ethiopian Investment despite Some Concerns,’ <http://addisfortune.net/columns/china-positive-on-ethiopian-investment-despite-some-concerns/>, 2 January 2016

⁶⁵⁷ Chinese FDI in Ethiopia: A World Bank Survey, November 2012, Africa Region, World Bank, p9, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/12/14/000386194_20121214024800/Rendered/PDF/NonAsciiFileName0.pdf, accessed 10 April 2016

⁶⁵⁸ *ibid*

⁶⁵⁹ Ministry of Commerce People’s Republic of China, ‘The First Chinese Goods, Technology and Services Expo (Africa) Held Successfully in Addis Ababa,’ http://english.mofcom.gov.cn/article/zt_review2013/column4/201401/20140100455381.shtml, 11 December 2013, accessed on 12 December 2015

The networks can also be found in the numerous platforms that have been created to enhance such linkages. Keeping with the example above, from the (Africa) China Commodities, Technology, and Services Expo held in Addis Ababa in December 2013, interesting observations can be made. On the sidelines of the this expo, the China-Ethiopia Industrial and Commercial Cooperation Forum, China-Ethiopia Electronic Power and Energy Cooperation Forum, China-Ethiopia Agricultural Cooperation Forum and China-Ethiopia Cooperation Achievements Exhibition were also held.⁶⁶⁰ Over 150 Chinese companies came from cities like Beijing, Shanghai, Jiangsu, Guangdong, Zhejiang, Hunan, and Shandong to showcase their products and services. The expo hoped to promote bilateral exchanges and cooperation between Chinese and African enterprises while at the same time providing assistance to Chinese enterprises so that they can better know and explore African markets.⁶⁶¹ Some of these companies have already invested in Ethiopia.

The informal links that are being established are happening both internally and externally. One way this is manifesting is through new party alliances. Chinese and Ethiopian officials often visit each other's countries during state ceremonies and other celebrations. They often claim that this is due to the rapid state-to-state and party-to-party relationship that is in progress. China has sent experts to Ethiopia, and will continue to do so, to train Ethiopian development agents.⁶⁶² In different regions, Chinese experts have exchanged knowledge and set up an agricultural demonstration and training center, which they hope will serve other countries in Africa as well.⁶⁶³

⁶⁶⁰ Ministry of Commerce People's Republic of China, 'The First Chinese Goods, Technology and Services Expo (Africa) Held Successfully in Addis Ababa', 11 December 2013,

⁶⁶¹ Aderajew Asfaw, 'First China Expo in Africa held in Addis', Capital, 09 December 2013, http://www.capitalethiopia.com/index.php?option=com_content&view=article&id=3796:first-china-expo-in-africa-held-in-addis&catid=54:news&Itemid=27, accessed on 12 January 2016

⁶⁶² Margaux Schreurs, 'Ethiopia's economy grows with Chinese investment', 19 November 2013, Global Risk Insights, <http://globalriskinsights.com/2013/11/ethiopias-economy-grows-with-chinese-investment/>, accessed on 12 September 2015

⁶⁶³ *ibid*

The Ethiopian government seems very comfortable in having a development partner that is willing to do business with it without interfering in its internal affairs. However, Gonzalez alerts us to the fact that ‘non-interference should be understood as a semi-formal institution governing the PRC’s external engagements. It has features of informality, in that it is contingently applied and remains a social convention and legitimising discourse more than a written law.’⁶⁶⁴ In practice therefore, Chinese non-interference is interference by other means.

The internal-external link is best exemplified by the political economy of sesame in Ethiopia. Because sesame is grown in Ethiopia’s remote regions of Gambella and Benishangul Gumuz, its production for export is also a facilitation mechanism for the EPRDF to centralize state power and exercise authority over minority groups in areas where it previously had limited influence.⁶⁶⁵ The Oakland Institute, a progressive California-based think tank, maintains that Ethiopian state control of sesame production is ‘associated with the likely further marginalization/disempowerment of the indigenous people.’⁶⁶⁶ In this way, Ethiopia’s relations with China play to the regime’s ongoing state-building and centrist domestic political agenda.⁶⁶⁷ Sesame is very popular in China and China today is the world’s largest net importer of Ethiopian sesame. Foreign currency earned through the sales is appropriated by Ethiopia’s state-owned Commercial Bank and used to fund Chinese

⁶⁶⁴ Ruben Gonzalez-Vicente, ‘The limits to China’s non-interference foreign policy: pro-state interventionism and the rescaling of economic governance’, *Australian Journal of International Affairs*, 69:2, 2015, pp 205-223

⁶⁶⁵ Aleksandra W. Gadzala, ‘The silliness of China in Africa: African states aren’t passively surrendering to Chinese dominance’, *The National Interest*, 19 November 2013, <http://nationalinterest.org/commentary/the-silliness-china-africa-9422>, accessed on 21 February 2016

⁶⁶⁶ The Oakland Institute, ‘Understanding Land Investment Deals in Africa. Country Report: Ethiopia’, The Oakland Institute, Oakland, 2011, pp 1-65

⁶⁶⁷ Aleksandra W. Gadzala, ‘The silliness of China in Africa: African states aren’t passively surrendering to Chinese dominance’, 19 November 2013, <http://nationalinterest.org/commentary/the-silliness-china-africa-9422>, accessed on 21 February 2016

projects in what effectively amounts to a revolving credit facility.⁶⁶⁸ In such cases, Chinese capital in Ethiopia operates with little government restrictions and its industrial or labour transgressions are easily insulated by political protection. This is reinforced by the fact that one of the distinctive aspects of Chinese capital in Ethiopia is that Chinese investors completely fund their projects, bringing in their own professional labour whilst Ethiopia provides only unskilled labour.⁶⁶⁹ This explains why the Ethiopian government does not possess veto power on projects funded by its Chinese partners.

Although Chinese capital is not the major visible foreign entity involved in the land acquisitions that are taking place in Ethiopia, it is increasingly becoming involved. Recent evidence suggests that a Chinese company is posed to sign a 25,000 ha concession to produce sugarcane in the Gambella region.⁶⁷⁰ This modest involvement is enough to include it in the state-society processes taking place in the agricultural sector. Renowned political economist and expert on Ethiopian affairs Berhanu Abegaz explained in detail in an interview how foreign capital in the agricultural sector has affected state-society relations;

Two-thirds of the Ethiopian peasantry (90% in the North, 60% in the Centre, and 30% in the South) was landed until 1975. There was no feudalism in Ethiopia but landlordism (in the Centre and South). The ruling class simply siphoned off the surplus in form of tributes and taxes and enriched itself by accumulating official appointments (titles) since accumulation of land was not possible. So, rural elites enjoyed a modest economic advantage over the landed smallholder (mostly armed) and they enjoyed high legitimacy. The virtual elimination of rural elites and the conversion of the landed and the landless peasantry into state tenants is what is facilitating the

⁶⁶⁸ *ibid*

⁶⁶⁹ Atnafu G. Meskel, [Interview](#), Ethiopian Economics and Politics expert, University of Addis Ababa, 23 April 2014

⁶⁷⁰ The Oakland Institute, 'Understanding Land Investment Deals in Africa. Country Report: Ethiopia', p23

hyper-centralization of the state and the political disempowerment of the peasantry today.⁶⁷¹

What is important to note is that, in the end, both parties' (the EPRDF and Chinese capital) interests are served. For the EPRDF party, the presence of Chinese investment has given it political leverage to its government, providing the investment and development rhetoric it is orchestrating at the moment. The investments have also helped lift millions out of poverty, helping the party to hold onto power.⁶⁷² This distinct form of Chinese capital therefore fits well with the regime's interests as it demonstrates how the internationalisation of Chinese capital reinforces the economic and political position of the EPRDF, which is crucial to the political fortunes of the party.

The study also took interest in understanding why, despite well known negative factors surrounding the investment climate in Ethiopia, there is an expansion of Chinese investment in the country. For instance, the World Bank and some scholars cite customs and trade regulations, tax rates, administration, and finance as just some of the major obstacles affecting formal institutions in the Ethiopian business climate.⁶⁷³ Surprisingly, such concerns have, interestingly, not slowed down but instead expanded Chinese investments. In an interview, an Ethiopian journalist opined that one explanation for this is that 'most Chinese investors have a special exemption from these rules because most of them have a written agreement with the foreign Ministry of Ethiopia'.⁶⁷⁴ While there are no conclusive reports of credit preference for these entities, there are indications that they receive incentives such as priority foreign exchange allocation, preferences in government tenders, and marketing

⁶⁷¹ Berhanu Abegaz, Interview, Ethiopia and International Relations expert, College of William and Mary, Virginia, 12 February 2016

⁶⁷² *ibid*

⁶⁷³ The World Bank, 'Chinese FDI in Ethiopia: A World Bank Survey', November 2012, Africa Region, p19, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/12/14/000386194_20121214024800/Rendered/PDF/NonAsciiFileName0.pdf, accessed on 11 November 2015

⁶⁷⁴ Interview, Journalist (Addis Fortune Magazine), Addis Ababa, 14 December 2015

assistance.⁶⁷⁵ Meanwhile, local business still have to follow all laws especially export laws and tax laws.

Local business owners as well as foreign investors complain of the lack of a level playing field when it comes to state-owned and party-owned businesses⁶⁷⁶ This is corroborated by a local small business entrepreneur who states in an interview that;

‘The Chinese are considered as ‘the first citizen’. For instance, since their cargo container doesn’t have to pass through stringent security, sometimes they bring in cheap goods, for example mobile phones even though the company is officially licenced to bring in only construction materials.’⁶⁷⁷

Even though these claims were difficult to verify, the sentiments were uniformly shared by local, small-business community. It is also alleged that even during border security checks, the Ethiopian citizen has to be physically searched while the Chinese are subjected to little or no checks at all.⁶⁷⁸

The capitalist order developing in Ethiopia – its internal social and economic relations- are embedded within new forms of political relationships between Ethiopia and China. Moreover, this pattern of party capitalism gives rise to new patterns of authoritarian politics and we note that forms of authoritarian politics are emerging in conjunction with party capitalism. Under a party-oriented capitalism, the power and influence of the party increases to the extent that this becomes hegemonic. By being at the centre of all economic activity as well as influencing the distribution and allocation of economic benefits, the EPRDF has become increasingly authoritarian.⁶⁷⁹

⁶⁷⁵ Department of State: 2014 Investment Climate Statement June 2014
<http://www.state.gov/documents/organization/228594.pdf>, p10, accessed on 14 February 2016

⁶⁷⁶ *ibid*

⁶⁷⁷ Yohannes Beshah, Small-business owner and Manager - The Ethiopian Honey and Beeswax Producers and Exporters Association, *Interview*, Addis Ababa, 13 April 2015

⁶⁷⁸ *ibid*

⁶⁷⁹ Marina Ottaway, ‘The Ethiopian Transition: Democratization or New Authoritarianism?’, *Northeast African Studies* 2 (3), Michigan State University Press, 1995, pp 67–84

This should be understood as a direct or added consequence of the party oriented capitalism model of neoliberalism instituted in Ethiopia. Just like its CCP counterpart, the EPRDF is carving out a neoliberalism where authoritarian politics and increasing centralisation thrives alongside party capitalism.

Freedom House, an international NGO which attempts to quantify repression by measuring political rights and civil liberties in states throughout the world confirms that ‘Ethiopia’s scores since 1991 have indicated a persistent lack of respect for civil and political rights.’⁶⁸⁰ Critics of the government say ‘the EPRDF is at the centre of an authoritarian regime that tries to assert its leadership through the various democratic-looking institutions that it has set up. The Human Rights Council, the Ombudsman Office, and the Anti- Corruption Commission are all examples of such institutions.’⁶⁸¹ Chinese investment is directly linked to increasing political repression in Ethiopia and in most cases this repression benefits both the Ethiopian regime (by suppressing citizens’ right to exercise dissent) and Chinese capital (investment opportunity in the ‘repression industry’). To highlight how Chinese technology is being used to pursue Ethiopian political authoritarianism whilst benefitting Chinese capital, the study considered the situation of government-media relations.

According to Rizzardi, dictators seeking sophisticated tools of repression need look no further than China, the authoritarian telecommunications hardware store.⁶⁸² Chinese investors are providing the Ethiopian government, through its state owned

⁶⁸⁰ Patrick Finnegan, ‘Rethinking Development Policy In Ethiopia: What Should NGOs Do?’, PA 8082 – Professional Paper Workshop, http://conservancy.umn.edu/bitstream/handle/11299/107491/1/Finnegan_Rethinking%20Development%20Policy%20in%20Ethiopia.pdf, accessed on 22 February 2016

⁶⁸¹ Kuruvilla Mathews, [Interview](#), Expert on China-Africa relations, Addis Ababa University, 13 May 2014

⁶⁸² Andrew Rizzardi, ‘The Authoritarian Black Market’, Freedom House, 7 June 2013, <https://freedomhouse.org/blog/authoritarian-black-market>, accessed on 10 December 2015

telecommunications monopoly Ethio-Telecom,⁶⁸³ with media infrastructure to jam frequencies and internet of independent media critical of the EPRDF government. The Ethiopian regime is working with Chinese capital in technical cooperation investment areas to achieve domestic political goals with far reaching effects on state-society relations. Human Rights Watch (HRW) notes that websites of opposition parties, independent media sites, blogs, and several international media outlets are routinely blocked by government censors. Radio and television stations are routinely jammed.⁶⁸⁴ Chinese companies like Huawei are said to be supplying the Ethiopian government with software for censorship and surveillance. Reed adds that ‘in Ethiopia, Chinese technical assistance to monitor Ethiopian citizens online was confirmed in June 2012 when the government openly held an ‘Internet Management’ media workshop with support from the Chinese Communist Party.’⁶⁸⁵ It can therefore be concluded that although the Ethiopian regime lacks the technological tools to aid its authoritarian rule but that handicap is adequately addressed by its political and economic relationship with Chinese capital.

Still on the media, another poignant example of targeted attacks was the Ethiopian Satellite Television Service (ESAT), an independent satellite television, radio, and online news media outlet run by members of the Ethiopian diaspora but critical of the government. In the space of two hours on 20 December 2013, an attacker made three separate attempts to target two ESAT employees with sophisticated computer spyware, designed to steal files and passwords, and intercept Skype calls and instant

⁶⁸³ Alfred Wong, ‘China’s Telecommunications Boom in Africa: Causes and Consequences’, 21 September 2015, E-International Relations Students, <http://www.e-ir.info/2015/09/21/chinas-telecommunications-boom-in-africa-causes-and-consequences/>, accessed on 2 April 2016

⁶⁸⁴ Human Rights Watch, ‘They Know Everything We Do’: Telecom and Internet Surveillance in Ethiopia, <https://www.hrw.org/sq/node/256532>, accessed on 2 February 2016

⁶⁸⁵ John Reed, 2013. “Africa’s big brother lives in Beijing: Is Huawei wiring Africa for surveillance? Or just for money?” Foreign Policy, July 30th, <http://foreignpolicy.com/2013/07/30/africas-big-brother-lives-in-beijing/>, accessed on 1 February 2016

messages.⁶⁸⁶ Most of the technologies used to monitor telecom activity in Ethiopia have been provided by the Chinese telecom giant ZTE, which has been in the country since at least 2000 and was its exclusive supplier of telecom equipment from 2006 to 2009.⁶⁸⁷ Chinese capital like state owned multinational giants like ZTE that have internationalised are thriving in African countries as they are getting lucrative investment opportunities to build telecommunication systems, networks and technology. In Ethiopia, their activities are intertwined and embedded in shared values of neoliberalism, and the ideology of the developmental state.

In the final analysis, as a result of the close party-to-party relations and China's persistent support to the Ethiopian economy, the EPRDF as a party gives top priority in the arrangement, facilitation and implementation of Chinese projects in Ethiopia. Government institutions in Ethiopia are dominated and worked as if they are political party institutions. Corporate governance of state-owned enterprises is structured and monitored by a board of directors composed of senior government officials and politically-affiliated individuals.⁶⁸⁸ Therefore, whatever government institutions do is automatically an extension of the ruling party's hegemony. The government, however, as shown below, also stands to benefit from this relationship as well. Among the many benefits is that it has helped the party solve the challenge of raising a lot of money for very large projects; carries little or no political conditionalities; and, if growth results, can provide a modicum of legitimacy in the absence of broad-based political representation.⁶⁸⁹ Chinese investment, by focusing on long-term

⁶⁸⁶ Citizenlab, 'Hacking Team and the Targeting of Ethiopian Journalists', 12 February 2014, <https://citizenlab.org/2014/02/hacking-team-targeting-ethiopian-journalists/>, accessed on 10 January 2015

⁶⁸⁷ Human Rights Watch, 'Ethiopia: Telecom Surveillance Chills Rights: Foreign Technology Used to Spy on Opposition inside Country, Abroad', 25 March 2014, <https://www.hrw.org/sq/node/253111>, accessed on 22 November 2015

⁶⁸⁸ Department of State: 2014 Investment Climate Statement June 2014 <http://www.state.gov/documents/organization/228594.pdf>, p10, accessed on 14 February 2016

⁶⁸⁹ Berhanu Abegaz, *Interview*, Ethiopia and International Relations expert, College of William and Mary, Virginia, 12 February 2016

financing of industrial investment and the building of infrastructure, strengthens EPRDF in many ways.

7.4 Chinese capital in Ethiopia: creation and reinforcement of informal institutions in Ethiopia

Institutional dynamics in any state play an important role in influencing how decisions are made as well as how power is exercised. In Africa, probably more than elsewhere, institutions cannot be separated from the political economy of the region.⁶⁹⁰ While formal institutions would normatively be the most ideal due to their predictability and structured orientation, in Africa, it is the way that formal and informal institutions interact that offers more insights into how society operates. At the same time, one of the advances of this thesis is that whilst acknowledging the role of institutions, it also encompasses social forces – and certainly the new social forces – that underlie these institutions. This section identifies and discusses how some key, specific enduring and new institutions specific to Ethiopia’s political economy have been affected as a result of Chinese capital within the state. From the thesis’ view, the informal institutions to be discussed hereunder should be viewed more through the lenses of wider patterns of global capitalism and not as a pre-modern framework.

According to Helmke and Levitsky, informal institutions can either be reactive or spontaneous. ‘Reactive informal institutions are established in direct response to incentives created by the formal rules’, whilst ‘spontaneous informal institutions emerge independently of (and frequently predate) formal institutional structures’.⁶⁹¹ Among these are social structures and social networks, customs, rules and

⁶⁹⁰ John Mukum Mbaku, *Institutions and Development in Africa*, Africa World Press, Asmara, 2004

⁶⁹¹ Gretchen Helmke and Steven Levitsky, ‘Informal Institutions and Comparative Politics: A Research Agenda’, The Hellen Kelleg Institute for International Affairs, Working Paper #307 – September 2003, pp 1-33

interactions, cultural norms, ethnicity and patrimonialism. Given the enormous volume and extent of Chinese capital in Ethiopia, the thesis hypothesised that on the one hand, existing institutional structures are severely tested and subsequently reinforced. On the other hand, if found to be weak, inefficient or unsuitable, new ones are created. Still thinking with Helmke and Levitsky, but now also incorporating Gourevitch's second image reversed, they may also just simply emerge out of interaction between domestic and international forces as they creatively respond to formal institutional insufficiency. This has taken place in Ethiopia.

It is instructive to first point out that, according to Wang, Chinese business networks are based on intensely personal connections and depend very much on the bonds between particular individuals.⁶⁹² On the basis of this assertion, if the internationalisation of Chinese capital is exporting globalisation with Chinese characteristics, it would be interesting to examine how this characteristic has been exported to Ethiopia. The basis of the chapter's argument is that Chinese capital and its globalisation is distinct and this shapes its forms of engagement in Ethiopia. Ethiopia is a typical Third World country where institutional development (formal) has been a challenge due to several factors including a long history of conflict, dictatorship and general economic malaise. With this background, the study elaborates on how Chinese capitalism is now embedded in Ethiopian neoliberalism and how this is reinforcing, or even creating new, informal institutions.

A 2012 World Bank survey noted the weakness of six formal institutions in Ethiopia. These were trade regulation and customs clearance efficiency, perceived foreign exchange rate risks, tax administration inconsistency and inefficiency, labor education impeding productivity and skill transfer, insufficient local access to

⁶⁹² Hongying Wang, 'Informal institutions and foreign investment in China', *The Pacific Review*, 13:4, 2000, pp 525-556

finance and government regulation.⁶⁹³ The study also particularly points out how Chinese FDI in Ethiopia is constrained by inefficient Ethiopian bureaucracy, companies spending valuable company time dealing with government officials and their regulation, where the government is taking over 30 percent of senior Chinese management time.⁶⁹⁴ Despite the perceived obstacles, Ethiopia is an attractive business destination for Chinese enterprises and even though some Chinese investors have shut shop, even many more are increasingly setting up business in Ethiopia.

However, given the weakness associated with the weak formal institutions highlighted above, the resultant low efficiency in resolving problems as well as lack of coordination among different government agencies across all levels results in even higher transaction costs. Institutional (formal) failure is a reality that Chinese capital deals with on a regular basis in Ethiopia. For example, Chinese car assembler Lifan Motors has learned this the hard way which has necessitated the need for it to use informal institutions. Mark Ma, deputy general manager at Lifan told *Fortune* magazine that, ‘The rules change regularly, and you do not get the same answer from different authority officials when you visit their offices.’⁶⁹⁵ Along with many other Chinese companies that were surveyed, ‘laws that were being applied retroactively; administrative limitations of the complaint hearing system; lack of access to legal receipts and the unpredictable timetable of government auditing’,⁶⁹⁶ were the main

⁶⁹³ The World Bank, ‘Chinese FDI in Ethiopia: A World Bank Survey’, November 2012, Africa Region, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/12/14/000386194_20121214024800/Rendered/PDF/NonAsciiFileName0.pdf, accessed 13 April 2015

⁶⁹⁴ Abebe Asamere, ‘Understanding Chinese investment in Ethiopia: A Critical Evaluation of the World Bank’s ‘Chinese FDI in Ethiopia’ Survey’, *Ethiopian Business Review*, <http://ethiopianbusinessreview.net/index.php/commentary/item/301-understanding-chinese-investment-in-ethiopia-a-critical-evaluation-of-the-world-bank%E2%80%99s-chinese-fdi-in-ethiopia-survey>, accessed on 22 February 2015

⁶⁹⁵ ‘China Positive on Ethiopian Investment Despite Some Concerns’, <http://addisfortune.net/columns/china-positive-on-ethiopian-investment-despite-some-concerns/>, accessed on 2 January 2016,

⁶⁹⁶ *ibid*

complaints. This is a clear failure of formal institutions to deal with the demands of enabling a conducive, predictable operating environment for international capital.

The World Bank conducted a 95 question survey on 71 Chinese companies investing in Ethiopia and used the data of all but two to make recommendations.⁶⁹⁷ To highlight the importance of informal institutions, most of these companies first heard of the investment climate in Ethiopia through the Chinese social network already established there. Families; relatives and friends who are already established in Ethiopia provide information and bring in additional FDI.⁶⁹⁸ As a result, nearly all of the Chinese companies surveyed are from three provinces, Zhejiang, Liaoning and Fujian.⁶⁹⁹ Inadequate education and lack of training of Ethiopian workers, especially those in the manufacturing and construction sectors, impede management communication and skill transfer (English is the working language in most cases). In order to fill in the gap of inadequate education of local workers, Chinese firms usually hire Chinese lead workers with 10–12 years' education and provided on-site trainings for Ethiopian employees.⁷⁰⁰ This ensures the creation and regeneration of skilled Ethiopians whose ideological orientation is shaped along the Chinese way of doing business. This is closely related to the emerging Ethiopian neoliberalism variant.

Chinese capital has reinforced the Ethiopian government's control over the economy, supporting the argument that globalisation does not necessarily erode the power of the state. This relates to Brenner's argument on the re-territorialisation of the state in contemporary globalisation. Brenner argued that 'crucially, this re-scaling of

⁶⁹⁷ *ibid*

⁶⁹⁸ *ibid*

⁶⁹⁹ *ibid*

⁷⁰⁰ The World Bank, 'Chinese FDI in Ethiopia: A World Bank Survey, November 2012, Africa Region', http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/12/14/000386194_20121214024800/Rendered/PDF/NonAsciiFileName0.pdf, p22

territoriality does not entail the state's erosion but rather its re-territorialization onto both sub- and supra-national scales.⁷⁰¹ In Ethiopia, Chinese globalisation is actually reinforcing the state even though it empowers the state to exercise some of its power through informal institutions.

As a form of informal institutionalism, corruption in all its forms, is prevalent in much of Africa.⁷⁰² Current academic research assesses corruption as the prominent mechanism of informal influence.⁷⁰³ The question for this thesis is how has Chinese capital influenced some forms of corruption in Ethiopia? According to a policy analyst who closely watches Chinese investment in Ethiopia, 'The investors deal with high government officials to get their business done and for influence. They also manage to collaborate with local officials for the execution of their works. This is the case in many of the road projects that they are carrying out at the moment.'⁷⁰⁴ In a report on 100 multinational corporations in emerging markets, Transparency International, an anti-corruption organization, shows that Chinese multinationals perform poorly. 'Results show that companies from China lag behind in every dimension with an overall score of 20 percent (2 out of a maximum of 10),' the report said. 'Considering their growing influence in markets around the world, this poor performance is of concern.'⁷⁰⁵ This is why it is important to consider Chinese capital and its arrangements in Ethiopia.

⁷⁰¹ Neil Brenner, 'Beyond state-centrism? Space, territoriality, and geographical scale in globalization studies', *Theory and society* 28.1, 1999, p53

⁷⁰² John Mukum Mbaku, *Corruption in Africa: Causes, Consequences, and Cleanups*, Lexington Books, New York, 2007

⁷⁰³ Hans-Joachim Lauth, 'Informal Institutions and Democracy', *Democratization*, 7: 4, 2000, pp 21-50

⁷⁰⁴ Policy Analyst, Interview, Horn Economic and Social Policy Institute, Addis Ababa, 5 December 2015

⁷⁰⁵ Tyler Falk, 'Chinese massive foreign investment in one map', 22 October 2013, <http://www.zdnet.com/article/chinas-massive-foreign-investment-in-one-map/> accessed on 11 December 2015

According to the Ethiopian Revenues and Customs Authority Investigation Directorate database from 2008-2012, around 20 Chinese investors have been sued in court by the Authority because of contraband, tax evasion, trade fraud, capital flight, money laundering and illegal transfer of wild animal skin.⁷⁰⁶ There is therefore a case to be made that Chinese capital and its mode of liberalism either breeds the informal institution of corruption in Ethiopia or feeds into it. Where it meets stringent formal rules in the complex of bureaucracy in Ethiopia, Chinese capital's relationship with the EPRDF through party-party links risks being labelled as corrupt since corruption is also a matter of perception too.⁷⁰⁷ It is thus apparent that Chinese liberalism is meshing with the domestic informal institution of corruption and that this is finding mutual accommodation. This corruption, I argue, is merely symptomatic of wider process of informalisation of politics that is driven by the structural relationship between Chinese investment and the ruling party in Ethiopia.

Even though there is a thin line between corruption and networking given the close party-party relations between the EPRDF and the CCP, the distinct nature of Chinese capital, including the fact that it does not insist on strict pre-conditions like zero corruption, in and of itself reinforces corruption as an informal institution in Ethiopia. The construction sector is a case in point. According to Mariam, 'the Ethiopian 'government' is not only the single dominant construction client but also the singular policy maker and regulator of the construction sector.'⁷⁰⁸ Chinese firms are engaged highly in Ethiopia infrastructural development including road,

⁷⁰⁶ Dawit Tadesse Tiruneh, 'An Analysis of Chinese FDI in Sub Saharan Africa, with a Particular Focus on Ethiopia', Responsible Development in a Polycentric World Inequality, Citizenship and the Middle Classes 14th EADI General Conference 23-26 June 2014, Bonn

⁷⁰⁷ Staffan Andersson and Paul M. Heywood, 'The Politics of Perception: Use and Abuse of Transparency International's Approach to Measuring Corruption. *Political Studies*, 57, 2009, pp 746–767

⁷⁰⁸ Alemayehu G. Mariam, 'Deconstructing Construction Corruption in Ethiopia', July 21, 2013, <http://ecadforum.com/2013/07/21/deconstructing-construction-corruption-in-ethiopia/>, accessed 13 April 2016

telecommunication, power and railway projects.⁷⁰⁹ According to a World Bank report, ‘many stakeholders are concerned about the possibility of a connection between the dominant role of Chinese contractors in the road sector and high-level links between the Ethiopian and Chinese governments’ and the ‘lack of effective competition, with Chinese contractors dominating the international market and a limited set of domestic contractors dominating the national market.’⁷¹⁰

For example, the largest commercial bank in Ethiopia, Commercial Bank of Ethiopia (CBE), has inked a deal with the China State Construction Engineering Corporation (CSCEC) to build its headquarters in Addis Ababa. The building is said to be the tallest structure in East Africa once completed.⁷¹¹ Mariam adds that the Ethiopian government ‘controls the price of construction materials, access to finance, and access to equipment. It controls professional and company registrations. It maintains high-level, bilateral infrastructure deals with China and lacks independent performance audits.’⁷¹² Mariam insists that the type of corruption in the Ethiopian construction sector covers the whole gamut including the policy making and budgetary process, project selection, tender specifications, procurement outcomes, contract negotiations and renegotiations and payments.⁷¹³ The judiciary and anti-corruption commission are also systematically dependent or subject to executive intervention.⁷¹⁴ Worsening corruption is therefore a likely, if not inevitable, consequence in Ethiopia given the involvement of huge capital with wide

⁷⁰⁹ Dawit Tadesse Tiruneh, ‘An Analysis of Chinese FDI in Sub Saharan Africa, with a Particular Focus on Ethiopia’, Responsible Development in a Polycentric World Inequality, Citizenship and the Middle Classes 14th EADI General Conference 23-26 June 2014, Bonn

⁷¹⁰ Alemayehu D. Mariam, ‘Deconstructing Construction Corruption in Ethiopia’, accessed 12 September 2015

⁷¹¹ ‘CBE, Chinese company ink deal for headquarters construction’, 2 May 2015, <http://www.thereporterethiopia.com/index.php/news-headlines/item/3465-cbe-chinese-company-ink-deal-for-headquarters-construction>, accessed 12 January 2015

⁷¹² *ibid*

⁷¹³ Alemayehu G. Mariam, ‘Deconstructing Construction Corruption in Ethiopia’, accessed 14 April 2016

⁷¹⁴ *ibid*

discretionary power of government officials in a country with no or limited freedom of expression.

In response to a question on where most of the perception of Chinese capital corruption in Ethiopia lies, a civil society activist stated that ‘Chinese private investors, in comparison with Chinese state capital, reflecting their lack of international experience in corporate social responsibility, tend to be associated with higher levels of fraud and bribery than state-owned capital.’⁷¹⁵ Earlier it was discussed how Chinese companies also provide the Ethiopian government with advanced technological tools to suppress political opponents’ digital communication in Ethiopia. By aiding dictatorship, corruption is nurtured and where some of the corruption happens between Chinese capital and Ethiopian government officials, interests of both parties are served in this mutually beneficial relationship. As an effect of the informalisation of institutions, the thesis argues that corruption has been reinforced either directly or indirectly by Chinese capital in Ethiopia. To that end, corruption in Ethiopia needs to be seen in the context of the wider process of enmeshment of Chinese capital, Ethiopian party capitalism and informal networks.

Policy networks are a form of informal institution that can be included in the analysis of the impact of Chinese capital in Ethiopia. By definition, policy networks can be understood as a set of relationships between heterogeneous and interdependent actors who work in the same policy subsystem on the basis of a particular governance structure, consisting of formal and informal rules and forms and ways of interpreting and implement them.⁷¹⁶ As individual Chinese companies intensify investment in Ethiopia’s several economic sectors especially construction, energy, finance and

⁷¹⁵ Ministry of Finance and Economic Development (MoFED) official, [Interview](#), Addis Ababa, May 2014

⁷¹⁶ Paulo C. P Calmon and Arthur. T. M. Costa, *Redes e Governança de Políticas Públicas*. Revista de Pesquisa em Políticas Públicas, 2013, v. 1, pp 1-29

aviation, they are opening their own lines of communication and arenas of cooperation with individual domestic institutions in specific areas of investment. For example, the Ethiopian Roads Authority engages with Chinese road construction companies and sets up the project parameters; the China Development Bank and the Export-Import Banks for example also work with individual Chinese companies for funding of certain projects in Ethiopia, for example the China Railway Engineering Corporation (CREC) carried out the \$475m Addis Ababa railway project through a loan from the latter.⁷¹⁷ This sets up new, separate platforms of negotiation, structures and mechanisms of cooperation in what increasingly becomes an informal setting which would otherwise be the preserve of the central government.

From this perspective, this leads to a process of informalisation which, according to Rinke and Schneckener, describes not a political style but a qualitative change in the institutional framework in which the business of world politics is conducted.⁷¹⁸ In the above example, whereas the EIA would be the one entity that Chinese investors would need to liaise with, individual Chinese investors instead deal directly with companies. Some of the reasons include the fact that Chinese investors are not keen on bureaucratic bottlenecks, and once they sign a contract today, they expect to be on site the following morning.⁷¹⁹ To facilitate Chinese investment in Ethiopia, some of the crucial decision-making process takes place outside formal institutions. Because of the deep seated enmeshment of Chinese and Ethiopian economic and political ideologies, the Ethiopian government seems keen to ensure that Chinese capital gets the investment opportunities ahead of most foreign bidders. However, it is constrained from guaranteeing such outcomes if bidding is done formally since

⁷¹⁷ Martyn Davies *et al*, 'How China delivers development assistance to Africa', A research undertaking by the Centre for Chinese Studies, prepared for the Department for International Development (DFID), Beijing, February 2008, pp 1-86

⁷¹⁸ Bernhard Rinke and Ulrich Schneckener, 'Informalisation of World Politics? Global Governance by Clubs', *World Orders and Peace, Informalisation of World Politics? Global Governance by Clubs*, p22

⁷¹⁹ Abebe Aynete, [Interview](#), Researcher, Ethiopian International Institute for Peace and Development, Addis Ababa, 5 May 2014

non-Chinese investors can propose more competitive bids. This is where Chinese capital is meshing with local forces especially the ruling EPRDF party through informal arrangements entered into at party-party level.

To exemplify this point, the Chinese global telecom corporation ZTE beat out Western competitors in 2006 for a major telecom project by offering \$1.5 billion in low-interest financing, funded by Chinese state-run banks.⁷²⁰ A World Bank investigation found that the Ethiopian government appeared to ignore its own procurement rules requiring competitive bidding when it awarded the contract, which gave ZTE a monopoly on supplying telecom equipment for several years.⁷²¹ This may probably be explained in terms of the informal networking that takes place between the two governments, often behind the scenes. In explaining such informal networking, a policy analyst in Addis Ababa explained how the arrangements sometimes work;

The State (EPRDF) higher officials will be invited to China and have a private meeting... and they will discuss how they can establish a private business which could cooperate with the Chinese companies or with which private company they can work with. Most of these private companies are owned by either the higher official or by the family.⁷²²

Owners and controllers of Chinese capital make use of various networks, connections and links with top government officials as a political and social muscle to crowd out domestic firms and other foreign competition. In some instances, the authorities in Ethiopia may prefer to deal with the Chinese than domestic firms in

⁷²⁰ Matthew Dalton, 'Telecom Deal by China's ZTE, Huawei in Ethiopia Faces Criticism for Ethiopians, a Chinese Telecom Project Changes Lives but Draws Scrutiny', 6 January 2014, <http://www.wsj.com/articles/SB10001424052702303653004579212092223818288>, accessed 23 March 2016

⁷²¹ *ibid*

⁷²² Policy Analyst, *Interview*, Horn Economic and Social Policy Institute, Addis Ababa, 5 December 2015

order to remain unnoticed in whatever they are doing.⁷²³ Invariably, Chinese firms that won big contracts are seen remaining in Ethiopia by opening offices and local subsidiaries of their company in the course of their first project in Ethiopia.⁷²⁴ The networking has also extended into philanthropy, with local and external fractions of capital engaging in some community and humanitarian projects. The Chinese government (through a Chinese humanitarian organization, the Red Cross Society of China (RCSC), has picked Ethiopia as a model country to expand its presence in the humanitarian sector in the continent in addition to the already cemented relations in area of trade and investment.⁷²⁵

Due to several issues connected to Chinese investors such as business practice and environmental concerns, there have been a lot of complaints against Chinese investors including from citizens in general and locals employed by Chinese capital. Besides language barriers, there is a world of cultural difference and work ethic between Chinese investors and the locals they employ as labour.⁷²⁶ This has led to disputes. In a study on one Chinese construction project in Ethiopia, Mo *et al* found out that ‘Ethiopian people traditionally value freedom, dynamism and individual creativity. The Ethiopians found their Chinese partners place more emphasis on trust, discipline and teamwork, as shaped by the thousand-year-long Confucius doctrine.’⁷²⁷ Geda and Meskel have summarized some of the major reasons behind the complaints against Chinese investors in Ethiopia. Some of the complaints are related to:

⁷²³ Interview, Atnafu Meskel, Economist and researcher on China-Africa relations, Addis Ababa University, 13 May 2014

⁷²⁴ Alemayehu Geda and Atnafu G. Meskel, ‘Impact of China-Africa Investment Relations: Case Study of Ethiopia’, Conference Paper, ERC Collaborative Research on the Impact of China on Africa, Mombasa, Kenya, 2009, p21

⁷²⁵ Yonas Abiye, ‘Ethiopia: China Joins Humanitarian Sector in Ethiopia’, The Reporter (Addis Ababa), 11 April 2015, <http://allafrica.com/stories/201504131868.html>, accessed 15 September 2015

⁷²⁶ Kuruvilla Mathews, Interview, Expert on China-Africa relations, Addis Ababa University, 13 May 2014

⁷²⁷ Peng Mo, Ryan J. Orr and Jianzhong Luo, ‘Addis Ababa Ring Road Project: A Case Study of a Chinese Construction Project in Ethiopia’, International; Conference on Multi-national Construction Projects, ‘Securing high Performance through Cultural awareness and Dispute Avoidance” SHANGHAI, CHINA November 21-23, 2008 , p8

1) the quality of the construction undertaking itself; 2) the remuneration to the local labor which is far below the standard expected from such construction work; 3) the high employment opportunities for local unskilled labor that may be expected as one of the benefits whenever there are such big construction projects are rare from Chinese construction projects; and 4) equipment and machinery for construction purpose are imported free of import duties and tariffs owing to the incentive scheme the government set out to develop infrastructure. Chinese capital uses this opportunity to import technically outdated equipment which after the projects in Ethiopia are completed, invariably does not give significant service. Finally, (5) regarding the Chinese projects, it is reported that the standard of the Chinese labor (and also products) is by far below the international standard (for example, in terms of sanitation, and water supply facilities)).⁷²⁸

All these are complaints that formal institutions should typically be expected to not only prevent from happening in the first place, but deal with when they happen according to specific laws and regulations. Instead, alternative institutions have emerged to fill the gap created by relevant formal institutions. To maintain perspective, the study will discuss an example of an informal institution that has emerged to play a monitoring role in direct response to the cultural clashes and lack of transparency involving Chinese capital in the construction sector despite the presence of formal arrangements already in place.

A non-state initiative, the Construction Sector Transparency Initiative (CoST) was established and seeks to improve transparency and accountability in publicly financed construction projects through the public disclosure of information in a form that is accessible to a range of stakeholders.⁷²⁹ This will however coexist with existing official/formal arrangements. This has even also received state support. The Ethiopian Government has committed to CoST beyond the pilot with its inclusion in the National Growth and Transformation Plan and the Roads Sector Development

⁷²⁸ Alemayehu Geda and Atnafu G.Meskel, 'Impact of China-Africa Investment Relations: Case Study of Ethiopia, African Economic Research Consortium. AERC, Nairobi, 2009

⁷²⁹ CoST Pilot Experience in Ethiopia, Briefing Note 1, 2011

Plan.⁷³⁰ The Ethiopian MSG is now aiming to institutionalise CoST by supporting the Public Procurement and Property Administration Agency website to facilitate the disclosure process and scale-up disclosure of project information from the procuring entities which participated in the pilot.⁷³¹ This is an example of an informal arrangement operating outside the state that has been created as a dispute resolution mechanism arising out of the questions surrounding Chinese capital in the construction sector. This falls neatly into Seyoum's argument that informal institutions also facilitate dispute resolution or contract enforcement through incentive structures such as loss of reputation or exclusion from business associations.⁷³² This is part of the the changing state-society changes taking place in Ethiopia for CoST now not only focuses on Chinese projects but monitors all construction projects in the country.

7.5 Conclusion

This chapter has drawn the nexus between the internal (social forces) and the external (Chinese capital) to show the changing nature of the state as well the impact on state-society relations. It is quite clear that the changing nature of significant aspects of the state are a result of the distinctive nature of Chinese capital in Ethiopia. The evidence for this can be traced from the previous chapter where Chinese capital was linked to the strengthening of state institutions. This chapter followed on from that by showing the effect of this on state-society relations. It did this by discussing two broad outcomes: the emergence of a party-oriented liberalism, as well as the informalisation of institutions that are taking place in Ethiopia. Party-oriented capitalism is now not only a part of, but central to, the broader changes in Ethiopia's political economy. The chapter has also shown that old informal institutions as well as emerging ones are affecting and being affected by

⁷³⁰ <http://www.constructiontransparency.org/ethiopia>, accessed 10 January 2016

⁷³¹ *ibid*

⁷³² Belay Seyoum, 'Informal Institutions and Foreign Direct Investment', *Journal of Economic Issues*, 45:4, 2011, pp 917-940

Chinese capital as an outcome of its distinctive forms of political and economic engagement.

Chapter 8: CONCLUSIONS

Driven primarily by the Chinese state, the internationalisation of Chinese capital is one of the most important international political economy developments of the last decade. The analysis of the same, especially its varied ramifications around the world is also now featuring prominently in scholarly literature. Although China has long had very close ties with Africa, the current relationship is significant in that it happens in the context of China having assumed a new found global prominence underpinned and driven by phenomenal economic growth and by the links of its corporate entities' to the capitalist global economy. Moreover, this relationship is developing at time when China has clearly carved out a distinct, home-grown neoliberalism different from Western neoliberalism or the 'Washington Consensus'. The fundamental variations between Chinese and Western neoliberalisms can be seen through institutional differences, the guiding principles they follow and the role of the government in economic activities. However, the analysis of the China-Africa relationship has tended to be narrowly confined to the broad binary of whether Chinese investment is good or bad for Africa. Whilst it is important to know if China is a 'good' or 'bad' partner, this binary unfortunately stands in the way of a focus on some important issues linked to the internationalisation of Chinese capital in Africa. By identifying the impact of Chinese capital on state-society relations in Ethiopia as one such research gap, this thesis has offered an alternative to this binary as its main contribution.

An alternative: Beyond a binary analysis of China-Africa relations

The thesis' analysis challenges this conventional binary view which is often framed on whether China is the new imperialist power plundering Africa's resources. There has been growing debate in the international relations literature on the impact of rising powers and particularly China on the global order. Much of this literature is

concerned with the impact of China on the rules and institutions that govern the global order. Many scholars have explained that China's interests and actions in Africa are guided by several interests including but not limited to extractive resource diplomacy,⁷³³ political and soft power,⁷³⁴ the developmental or the internationalisation of the Chinese state abroad,⁷³⁵ and China's 'Going global',⁷³⁶ strategy, among others. Taken together, no matter how diverse these views are, they have a common denominator: which is a suggestion that China imposes itself on African countries. There are scholars such as Lee that have advanced such a view and have concluded that China's growing presence in Africa represents 'the twenty-first Century Scramble for Africa'. Lee asks: 'While the Chinese are actively involved in developing the continent, what is the cost to Africa? Given the way the Chinese do business in Africa, it can be argued that the face of China's scramble is also one of naked imperialism.'⁷³⁷ This is the first of the binary analysis of China-Africa relations.

Not everyone though, views China as pursuing predatory tendencies in Africa by virtue of its new found economic and political power. On the other side of the conventional China in Africa lens is the second view. Here, China is hailed as an alternative model of economic development ushering in a model of economics and politics more suited to African needs and dreams. According to Konings, for example, who is representative of this view, China and Africa are building a strategic relationship and 'what is particularly attractive for many African rulers is the alternative development paradigm propagated by China: non-interference in state

⁷³³Ian Taylor, 'Unpacking China's Resource Diplomacy in Africa', Center on China's Transnational Relations Working Paper No. 19, The Hong Kong University of Science and Technology

⁷³⁴Łukasz Fijałkowski, 'China's 'soft power' in Africa?', *Journal of Contemporary African Studies*, 29:2, 2011, pp 223-232

⁷³⁵Ruben Gonzalez-Vicente, 'The internationalization of the Chinese state', *Political Geography* 30, 2011, pp 402-411

⁷³⁶Mike W. Peng, 'The Global strategy of emerging multinationals from China', *Global Strategy Journal* 2, 2012, pp 97-107

⁷³⁷Margaret C. Lee, 'The 21st Century Scramble for Africa', *Journal of Contemporary African Studies*, 24:3, 2006, p325

sovereignty, freedom from western hegemony, and an absence of any conditions in giving aid (with the exception of the ‘One-China’ principle).⁷³⁸ Clearly, in this binary analysis, one is a pessimistic scenario and the other quite an optimistic one. By focusing on debating whether China is the ‘new imperialist’ or ‘Africa’s saviour’, scholarship on China-Africa relations has missed out on some very key issues that can only be brought out by frameworks that avoid state-centricity but encompass the role of social forces in the dynamics of state-society relations complex. This thesis is squarely drawn into this literature and, taking the Ethiopian case study as an example, sheds light on the pressing theoretical and empirical topic to argue that viewing China in Africa as such is problematic. From the foregoing, after identifying that a wrong problematic was standing in the way of an important question, the study proposed an ‘inside out’ model in search of a formula where domestic and external relations are mutually constituted.

It is important to emphasize how this approach was conceptualised and deployed as well as how its application has been used to interpret the results. Firstly, this binary problematic belies a belief in the state-centric model of the relationship between Africa and China which is driven solely by Chinese interests whether predatory or beneficent. Secondly, it assumes a state centric model of geopolitical rivalry based on Eurocentric models of interstate rivalry. One of the crucial arguments of this thesis is to suggest that these are answers to the wrong question or set of problems. This study thus sought to challenge the conventional approach to the impact of China on Africa. It went on to identify those theoretical frameworks that accommodate social forces in their analysis of internal processes of transformations within states as well approaches that can theorise the impact of international sources on domestic politics.

⁷³⁸ Piet Konings, ‘China and Africa: Building a Strategic Partnership’, *Journal of Developing Societies* 23, 3, 2007, pp 341–367

The first leg on which the proposed ‘inside out’ perspective rests on is Migdal *et al*’s state-society framework. As the study ‘eschew(s) a ‘state-versus society perspective that rests on a view of power as a zero-sum conflict between the state and society’,⁷³⁹ Migdal’s state-society perspective is used to highlight the limits of this state centricity. Political struggles occur within and between apparatuses of the state, so that to posit the state as a unified set of institutions precludes it being seen as a terrain in which political struggle occurs.⁷⁴⁰ Whilst the state-society framework allows an analysis of the vital internal contestations, alliances and compromises within the Ethiopian state, there remains a need to theorise the external force (Chinese capital) which is now internalised with the various social forces and processes organised within the Ethiopian state. Gourevitch ‘second image’ approach has been used for this purpose and to complete the proposed ‘inside out’ approach.

In considering the linkages between internal and external players and their influence on domestic politics, Gourevitch asks the crucial question relevant to this thesis: ‘Can we find general arguments which posit systematic relationships between such forces and certain configurations of regime type and coalition pattern?’⁷⁴¹ This thesis has tried to address this question by elaborating on the alliances Chinese capital has formed with internal forces in Ethiopia. This model advances the argument that there is a relationship between the external and the internal that needs to be better conceptualised. The state is not unquestioningly taken as a distinct institutional category or thing in itself, but conceived as a form of social relations through which capitalism is expressed.⁷⁴² The overriding question from the standpoint of Africa is:

⁷³⁹ Joel S. Migdal *et al*, ‘State Power and Social Forces: Domination and Transformation in the Third World’, Cambridge University Press, Cambridge, 1994, p4

⁷⁴⁰ Richard Bryan, ‘The state and the internationalisation of capital: An approach to analysis’, *Journal of Contemporary Asia*, 17:3, 1987, pp 253-275

⁷⁴¹ Peter Gourevitch, ‘The second image reversed: the international sources of domestic politics’, *International Organization*, 32, 1978, p884

⁷⁴² Andreas Bieler and Adam David Morton, ‘Globalisation, the state and class struggle: a ‘Critical Economy’ engagement with Open Marxism’, *British Journal of Politics and International Relations*, Vol. 5, No. 4, November 2003, pp. 467–499

What does this mean to the African condition? This question is loaded and answers to it will vary. This study has attempted to answer this question in a way that contributes to new knowledge from a state-society angle.

With the aid of the ‘state-society’ framework (Migdal *et al*), ‘second image reversed’ (Gourevitch) as well as the ‘relational model of power’ (Bryan), the thesis has advanced a key argument that progressively from 1995, the state-society complex in Ethiopia is not a product of internal factors (state and society) alone, or external factors (foreign capital) alone; but a result of the interaction between both the external and internal variables. Throughout, the thesis does not lose sight of the fact that the distinctive nature of Chinese capital is at the core of the engagements.

The thesis covers the period between 1991 to 2016. In other words, it is an analysis from the time the EPRDF government took over up to date. Although serious economic relations in this phase of China-Ethiopia relations began effectively in 1995, this twenty-five year period sufficiently captures both the internationalisation of Chinese capital in Ethiopia and the reform era in Ethiopia that made it possible. However, the period immediately preceding the coming to power of the EPRDF in 1991 is crucial for particularly two reasons. Firstly, it provides the background to understanding some enduring state-society aspects and contending issues in Ethiopia that have a bearing on the present such as ethnic rivalry, regionalism, conflict, distribution of economic opportunities as well as the foundation of the state’s foreign policy directions. Secondly, it gives the best basis for understanding the big break from a socialist to a neoliberal mode of production, the latter of which is at the core of the thesis. For this reason, Chapter Three covers the crisis and contradictions in Ethiopia since 1974 under the Dergue, but in so far as they set the stage for Chinese investment when the EPRDF took over in 1991.

The implications of the study's framework and the crucial role of party capitalism and informal networks is to highlight how social relations and contests are embedded within the state. It makes the point that we need to understand the state in relational terms. The exercise of political power by the EPRDF in Ethiopia is related to the mutual dependency that sustains both the rulers and the ruled or between the regime and other various actors, including Chinese capital. Social relations commonly entail ties of mutual dependence between the parties. As Emerson put it, 'A depends upon B if he aspires to goals or gratifications whose achievement is facilitated by appropriate actions on B's part.'⁷⁴³ The relationships that are developing in Ethiopia between the state and social forces as a result of Chinese capital are mutually empowering and it is misleading to therefore assume that the state is acting on, and by itself. By adopting Migdal's state-society approach, the thesis contends that in Ethiopia, the state can only be best understood in relational terms as a 'social contract' rather than 'black-boxing' it by taking it for granted that it acts autonomously with China or that China simply and easily pursues its interest through it without any roles for the internal social forces in Ethiopia. Whilst the basis of the relational dependence may take different forms, for example based on ethnicity, access to land resources or business opportunities, the bottom line is that the Ethiopian state does not act alone. The thesis has shown that this relational understanding of power is applicable in analysing Ethiopia not only under the current EPRDF regime, but also during the Dergue period.

The relational understanding of power is very much connected to the basic argument underpinning the state-society framework. There could be many ways of analysing China-Ethiopia relations but this study has done so by focusing not only on the state, but also the social forces organised through it. It has explored the internal social and economic relations underpinning the emerging capitalist order in Ethiopia. It

⁷⁴³ Richard M. Emerson, 'Power-Dependence Relations', *American Sociological Review* Vol. 27, No. 1 (Feb., 1962), p32

concludes that they are embedded within new forms of political relationships between Ethiopia and China. By applying a framework that brings the society into the China-Africa debate, the thesis has shown the state in relational terms as an institutional complex through which different social forces act. As Migdal states, ‘creating the conditions for domination in society and maintaining dominance – the reproduction of power within society – are the products of the multiple ongoing arena struggles and accommodations.’⁷⁴⁴ The state-society framework helps us to understand that when analysing China in Africa, the whole point is not that whether it is a ‘good’ or ‘bad’ relationship. Instead, the framework helps us come to grips with the way in which contestation takes place inside the state. This even has the potential to alter the balance of power between state and society. The thesis discussed how various social forces such as party-linked capitalists, business associations, peasants, the ruling EPRDF party and its alliances as well as informal institutions operating outside or alongside the state are a crucial factor within the context of China-Ethiopia relations. The Chinese mode of engagement is reflected through its impact on new and old social forces as they operate within the state.

The main contention of the thesis, therefore, is that China’s impact in Africa is not limited to economic and political effects alone, but goes beyond to include state-society relations as well. In this quest, three objectives had to be met. The first objective was to make the case for a theoretical framework that accommodates society, especially social forces organised through the state into the discussion. This supported one of the thesis’ core aims, that is to advance a relational view of the Ethiopian state. Together with the relational concept of power, several theories have been used and all of them have underlined the importance of going beyond the myth of the ‘black box’ state. The second objective was to show the linkages between the

⁷⁴⁴ Joel S. Migdal, ‘The state in society: an approach to struggles for domination’, in Joel S. Migdal *et al*, *State Power and Social Forces: Domination and Transformation in the Third World*, Cambridge University Press, Cambridge, 1994, p22

external and internal forces that are connected to Chinese capital in Ethiopia. Theorising the domestic impact of Chinese capital using Gourevitch's 'second image reversed' framework, the thesis advanced an inside-out approach. This led to the third and last objective, which was to bring out the evidence of the state transformation through state-society relations obtaining in Ethiopia as a result of China's distinct mode of capitalism.

A summary of the main Findings and contributions to IR literature

The thesis' hypothesis was that China's huge presence in Africa, just like any other globalisation, has state-society implications because of the complex linkages involved. To that end, the thesis underlines the important observation that the impact of the internationalisation of China's distinctive capitalism goes beyond the questions of economic development, dependency or imperialism. Rather, from the Ethiopian case study, it is discerned that the internationalisation of Chinese capital is made possible by intricate processes involving the forging of relationships between Chinese capital and local social forces linked to the state. In short, it is the linkages between the internal and external factors analysed via an 'inside out' approach that set this work apart.

Africa is however composed of different polities each with a unique set of often complex internal dynamics. By electing to use an in-depth focus on Ethiopia, the study has avoided generalizations but produced Ethiopia-specific outcomes of Chinese globalization. One such outcome is the growing authoritarianism that for long has been conceived or understood merely as a product of the EPRDF regime's political power project in Ethiopia tied around a patrimonial 'historical legacy'⁷⁴⁵,

⁷⁴⁵ Zewde, Bahru, 'Historical Legacy and the Democratisation Process in Ethiopia', *Afrika Zamani* 2, 1994, pp 145-156

inherent ‘authoritarian political tradition’⁷⁴⁶ and ‘ethnic domination’⁷⁴⁷. This study has demonstrated that the authoritarianism in Ethiopia especially in this digital age cannot be explained by these enduring legacies alone. In Chapter 7, for example, the relationship between Chinese capital in the telecommunications sector such as ZTE and the Ethiopian regime shows how the latter has sought to deal with opposition forces by closing and compromising digital outlets with the sole help of the former. This is all part and parcel of the centrality of the ‘inter-party linkages especially between the CCP and the EPRDF’⁷⁴⁸ in the organisation of a mutually beneficial relationship spearheaded by Chinese capital in Ethiopia.

The distinctive mode of Chinese neoliberalism is behind the internationalisation of Chinese capital which in turn is guiding its engagement with other parts of the globe like Ethiopia. This is brought clearly by the drivers of Chinese investment in Ethiopia covered in Chapter 5. Whilst the usual frameworks for China-Africa analysis acknowledge the distinctive nature of Chinese capital, they hardly interrogate how this distinctiveness is at the centre of its engagement, let alone its impact on state-society relations in individual African countries. This study has sought to demonstrate the existence of this gap in International Relations literature.

A variety of neoliberalisation: The link between ‘Ethiopian neoliberalism’ and Chinese investment

In theoretical terms, this thesis also contributes to the ‘variegated neoliberalisation’⁷⁴⁹ scholarship. In her reviews of scholarship on India- Africa studies, Chacko observes

⁷⁴⁶ Jon Abbink, ‘Discomfiture of democracy? The 2005 election crisis in Ethiopia and its aftermath’, *African Affairs* 105, 419, 2006, p173

⁷⁴⁷ Aalen, Lovise. ‘Ethnic federalism and self-determination for nationalities in a semi-authoritarian state: the case of Ethiopia’, *International Journal on Minority and Group Rights* 13.2/3, 2006: 243

⁷⁴⁸ Jean-Pierre Cabestan, ‘China and Ethiopia: Authoritarian affinities and economic co-operation’, *China Perspectives*, No. 2012/4, p55

⁷⁴⁹ Neil Brenner, Jamie Peck, and Nik Theodore, ‘Variegated neoliberalization: Geographies, modalities, pathways’, *Global Networks*, 10 (2), 2010, 182 –222

and identifies opportunities for further research. In particular, Chacko urges a focus on ‘emergent varieties of neoliberalism that are taking shape as the product of processes of neoliberalisation and state transformation in India and Africa and the growing interlinkages between them’.⁷⁵⁰ Whilst India and China may be employing different approaches in their contemporary relations with Africa, Chacko’s observation is very relevant when also applied to China-Africa relations. Just like India-Africa relations, Africa’s relationship with China is also producing varieties of neoliberalism. The party-oriented neoliberalism coming out of this Ethiopia case study finds a place in this scholarship. This analysis has identified particularly that party capitalism and the informalisation of politics in Ethiopia are processes of internal transformation whose external element is linked to distinctive Chinese capital and its internationalization in Ethiopia.

One such clear outcome is the strengthening of Ethiopian state institutions, which in turn has been linked to this party-oriented capitalism variant that is taking shape in Ethiopia alongside the informalisation of institutions. This fits squarely with Peck *et al*’s argument that neoliberalism can take different forms depending with the contextual conditions. They view neoliberalism ‘as a set of intertwined processes, neoliberalization acts on and through state and institutional forms; its character and consequences necessarily evolve over time, while varying geographically along with contextual and institutional conditions, as well as with the evolution of crisis tendencies, both of accumulation and of regulation.’⁷⁵¹ The neoliberal variant taking root in Ethiopia cannot be detached from the diplomatic, economic and political relationship between the two countries.

⁷⁵⁰ Priya Chacko, ‘Variegated neoliberalisation in India and Africa: towards a new research agenda’, *Commonwealth & Comparative Politics*, 52:4, 2014, p563

⁷⁵¹ Jamie Peck, Nik Theodore, and Neil Brenner, ‘Neoliberalism Resurgent? Market Rule after the Great Recession’, *The South Atlantic Quarterly*, Spring 2012, p275

Linked to the above, the study highlighted the close cooperation and linkages between all of these aspects of the relationship by discussing the amount, frequency and importance of exchange visits ever since Meles Zenawi's first visit to China as Prime Minister of Ethiopia in 1995. Exchanges of visits are not limited to the two sides' top leaders but also include delegations of all kinds – commercial, cultural, medical, and military and increasingly visits from provinces, all of which highlights the diversity of co-operation.⁷⁵² The party-party affinities are a major contributory factor to the politicisation of the economic relationship and this explains the features that Ethiopian neoliberalism is taking. The institutionalisation of commercial, political, social and diplomatic relations with Ethiopia by the EPRDF government are all aspects of the internal-external linkages that has produced an Ethiopian party-oriented neoliberalism.

Party capitalism: Ethiopia's model of neoliberalism

As a result of its interaction with Chinese capital, a distinct form of capitalism is developing in Ethiopia. We concluded that a party-oriented variant of capitalism has emerged in Ethiopia and although it is tied to patrimonialism, this should no longer be viewed as part of a historical, cultural continuity but an outcome of the changing dynamics of the China-Ethiopia relationship. Firstly, the ties that link Ethiopia and China are rooted in the party-party relationship between the CCP and the EPRDF. This link is playing out within the state as the government and party have fused in Ethiopia. The EPRDF is now one of the richest political parties in the world and certainly 'the largest business conglomerate in the Horn of Africa if not in

⁷⁵² Jean-Pierre Cabestan, 'China and Ethiopia: Authoritarian affinities and economic co-operation', *China Perspectives*, No. 2012/4, p54

sub-Saharan Africa'.⁷⁵³ This cannot be explained fully without understanding the role that Chinese capital has played.

With a well-oiled strata of party cadre business people, a party investment vehicle (EFFORT), as well as SOEs, the EPRDF is the biggest beneficiary of Chinese investment in Ethiopia. Because the state is now so immersed in the economy, it is using its position to pick winners (social forces linked to it) and losers when it comes to opportunities offered by Chinese capital such as lucrative joint venture contracts. In 2011, the Ethiopian Airlines (was) establishing a joint venture company with Hainan Air of China and China Africa Development Fund (CADF) to build and own the five-star hotel Ethiopian plans to build near the Addis Ababa Bole International Airport.⁷⁵⁴ Beneficiaries have been identified as social forces with very close links to the state. The implications for this are discussed shortly.

The subject of institutions is quite topical in African political and economic analysis. It is often said the tragedy of Africa is the failure of institutions.⁷⁵⁵ This study contends that focus should not be on formal institutions only but that the relationship between formal and informal institutions of power is central to the analysis of politics. With Ethiopia, the emphasis is on institutional transformation as a result of its enmeshment with Chinese capital. The way that this has transformed state

⁷⁵³ Axel Klein, 'The Horn of Turbulence: Identifying the Root Causes of Conflict and the Appropriate Instruments for Peace Building as a Precondition for Sustainable Conflict Resolution', Institute for African Alternatives, 'Resource Scarcity and Conflict Management in the Horn of Africa', A Research Project organised by the Institute For African Alternatives (IFAA), UK, http://new.ifaanet.org/wp-content/uploads/2011/12/horn_of_turbulence1.htm, accessed 03 May 2016

⁷⁵⁴ 'Ethiopian establishes a joint venture with Chinese company for hotel construction', <http://nazret.com/blog/index.php/2011/03/14/ethiopian-establishes-a-joint-venture-with-chinese-company-for-hotel-construction>, accessed on 23 February 2016

⁷⁵⁵ Daniel Branch and Nic Cheeseman, 'Democratization, sequencing, and state failure in Africa: Lessons from Kenya', *African Affairs*, Vol. 108, Issue 430, pp1-26

institutions provides a context for explaining the impact of Chinese investment. In the Chapter 7 for example, it was shown how the EPRDF regime works to ensure that Chinese capital gets all the lucrative investment projects in the country. This emphasizes that regime interests are well defended and advanced by Chinese capital. This has led to the emergence of informal networks.

The informalisation of institutions becomes part of wider patterns of global capitalism. Ethiopia has some of the worst investment and bureaucratic regulations that ordinarily scares away investors. However, Chinese capital is instead expanding in Ethiopia. The explanation for this is found in the informal arrangements that are entered into at the political party level between the CCP and the EPRDF. When done informally, the understanding is that rules and regulations are either relaxed or ignored as both parties share a common desire to see the transaction through. This even extends to the level of corruption but which is however very hard to detect because it has been institutionalised.

Informal institutions are a crucial component of the political economy of many African countries due to the underdevelopment or inadequacy of formal institutions. A significant amount of interaction between Chinese and Ethiopian officials happens behind closed doors which clearly brings out the fact that perhaps the best way to analyse African politics is by paying close attention to informal institutions. Officials are aware of the institutional adequacy in their own countries whilst the Chinese investors are ready to bribe their way out. One long term possible impact is that if local officials and foreign capitalists find new ways of engaging, for example via informal institutions, it could mean that the importance and integrity of formal institutions is neglected and these formal institutions weaken further over time. Informal institutions do not exert many additional costs as they result in, for example, speedier transactions. The problem, however, is that in the long term, it is

impossible to predict what will become of the Chinese economy. Already, there is talk of the Chinese economy slowing down.⁷⁵⁶ If, for example, China were to retreat from the continent for one reason or another, it is possible that Africa will once again be dealing with non-Chinese countries. If for argument's sake one gives the European Union (EU) as an example, Africa will have difficulty maintaining or this relationship if it is still found with weak or non-existent institutions. Ethiopia should therefore not neglect building and strengthening formal institutions just because the informal ones can do the job.

China-Africa relations in the 21st Century: some new research agendas

There are some insights emanating from this thesis to indicate some directions for future China-Africa research. Most African countries have maintained strong ties with the West despite expanding relations with China. Given the marked differences between Chinese and Western neoliberalism in general, some research questions can be developed. There are many factors that 'fundamentally distinguish the Chinese path from neoliberalism, which takes the capitalist political system and private ownership as its basic political and economic foundations, and which advocates 'small government' that is governments that do not intervene in the economy'.⁷⁵⁷ Give such a scenario of two, powerful main forms of globalisation, all playing out within individual states in Africa, researchers could examine how such countries are managing or handling Chinese influence and Western influence at the same time?

This thesis' analysis has focused on Ethiopia but within the general context of China-Africa relations. As argued earlier, China impacts different countries

⁷⁵⁶ Mark Magnier, 'China's Economic Growth in 2015 Is Slowest in 25 Years', 19 January 2016, <http://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398>, accessed 6 May 2016

⁷⁵⁷ Online University of the Left, 'The Chinese Path: An Answer to a Series of Problems Developing Countries Face in Modernization', Journal of the CC of the Chinese Communist Party Vol. 6 No.3 July 1, 2014

differently and in its internationalisation effort, it has specific ways of engaging different countries. China prefers to deal at a bilateral level where it can exploit opportunities as well as deal with challenges provided by each individual country. This focus on bilateral relations is notwithstanding the existence of ‘a high-profile Africa Policy, adopted in early 2006’.⁷⁵⁸ The level, of Chinese capital, both private and state, differs from state to state in Africa. In order to illustrate this point, it is worth examining snap investment figures. The total Chinese investment into Zimbabwe to date between 2005- 2016 stands at \$8.76 billion, Botswana \$1.44 billion whilst in our Ethiopian case study, it is a whopping \$17.62 billion.⁷⁵⁹ This variation demonstrates that the level of the internationalisation, and ultimately the influence of Chinese capital in Africa differs from state to state. However, China still does share special relationships with some African countries in a different way. While Ethiopia may share some characteristics with other sub-Saharan African countries, for example ethnic and/or religious tensions, widespread poverty, underdevelopment, official corruption among others, the conclusions reached in this thesis may not necessarily be truly reflective of the impact of Chinese capital on other African countries. This, therefore, leads to the next future research suggestion.

There is a need for thorough analysis on the specific neoliberalisms that are emerging in specific African countries as a result of their relationship with Chinese capital. This analysis could be informed by Brenner’s variegated neoliberalism analogy. Brenner *et al* have worked on variegated neoliberalism and among a variety of conclusions, they explain that neoliberalism takes various forms including that it can be a regime-type. For example, to elaborate on this, they explain that ‘what Albert (1991) termed ‘neo-Americanism’ was the foil against which to define a

⁷⁵⁸ Dorothy McCormick, ‘China and India as Africa’s New Donors: The Impact of Aid on Development’, *Review of African Political Economy*, Vol. 35, Iss. 115, 2008

⁷⁵⁹ China Global Investment Tracker, ‘Worldwide Chinese Investments & Construction (2005 - 2016)’, American Enterprise Institute, <http://www.aei.org/china-global-investment-tracker/?gclid=CIHnse2S3MUCFQRwvAodDEMATg>, accessed on 13 March 2016

normatively and socioeconomically superior ‘Rhinish’ model, an ideal-typical formulation strongly influenced by the German case, along with trace elements from Japan and Scandinavia.’⁷⁶⁰ This thesis analysed the way in which the political and economic relationship between the EPRDF regime and the CCP has been linked to the emergence of an Ethiopian liberalism. The thesis has concluded that this Ethiopian liberalism can best be described as a party-oriented capitalism. As a future research agenda, the question that may confront researchers on China-Africa relations is: what forms/varieties or types capitalism are emerging in individual African countries that are engaging with Chinese capital? This question opens up avenues for expanding on the variegated neoliberalisation school. Specific, in-depth case studies will make this very clear. There is a lot to be gained therefore from more studies of this nature and with the same focus but from a variety of case studies.

Having achieved its research objectives by applying an ‘inside out’ perspective, this thesis suggests that the type of neoliberalism that eventually emerges is a result of two key processes. First of all, is the external variable which for the present purposes remains Chinese capital. Second is the internal interaction between the state and social forces within the African state. This relationship (in the Ethiopian state relational) determines the way in which Chinese distinct capital influences the emergence of a regime type neo-liberalism. This is quite reminiscent of the Marxist Socialist era of the 1960s to 1980s in Africa. There emerged African socialism⁷⁶¹ *ujamaa* (Tanzanian Socialism)⁷⁶² among many others. The way in which Marxist or Socialist modes of production from mainly the then United Soviet Socialist Republic (USSR) or China engaged and interacted with social forces of the time such as

⁷⁶⁰ Neil Brenner *et al*, ‘Variegated neoliberalization: geographies, modalities, pathways’, *Global Networks* 10, 2, 2010, p185

⁷⁶¹ Robin Cohen and Harry Goulbourne (Eds.), *Democracy and socialism in Africa*. African modernization and development series, Boulder, Westview Press, 1994

⁷⁶² James H. Weaver and Alexander Kronemer ‘Tanzanian and African Socialism’, *World Development*, 1981.Vol.9, No.9/10, pp 839-849

African liberation war parties influenced the type of Marxist or Socialist model in different countries. To this end, future research could adopt this ‘inside out’ approach to examine the role of social forces within some African countries against the background of foreign capital, be it Chinese capital, Western capital or otherwise.

The impact of social forces will differ in different African countries. These future research suggestions may therefore find ‘inside out’ approaches such as the one adopted in this thesis useful. In other words, the suggested research on variegated neoliberalisation may bring out better outcomes when a thorough consideration is also given to specific social forces within specific African countries and how they interact with the state. In general terms, Chinese investment is received with mixed feelings across Sub Saharan Africa. It would be interesting to get an indication of the role and influence of social forces within these countries in accommodating or limiting Chinese capital with its distinct form of neoliberalism. A crucial dimension of this study has been to explore the way in which new and old social forces are reconstituted within the state as result of Chinese investment.

Findings from the study can be useful in alerting the wider African research community that in examining South-South cooperation between China and individual African countries, it is quite important to go beyond the ‘political’ issues underpinning the history of the cooperation as there are certainly new categories of analyses arising and worthy of academic attention as well. Whilst the geopolitics and geoeconomics of China-Africa cooperation have attracted the attention of many a scholar, this study hopes to inspire future researchers to venture into the under-researched role of social forces and their interaction with global capital in shaping state transformational processes. Such enquiries however require effective approaches like the state-society perspective due to the inadequacy of the usual

theoretical frameworks that have guided African discussions such as modernisation, dependency and underdevelopment theories.

Limitations of the study

This is a conceptually innovative study that came about after a thorough review of different but interrelated literatures. The literature spanned various concepts including space, politics, South-South cooperation, liberalism, the political economy of Africa, internationalisation of the Chinese state among others. This provided a platform for the development of the research idea. It involved reviewing the literature and then identifying a gap. Although Ethiopia is taken as the case study, particular sectors of the economy where Chinese investment is concentrated were used. The study would have done with more case studies to cover the whole gamut of Chinese capital in Ethiopia. However, having carefully selected the empirical data, the validity of the findings remains strong.

A number of key interviewees were identified for this study based on their professions as well as proximity to specific aspects of the study. Nearly all of them live and work in Ethiopia. Most of the interviewees who agreed to participate in the study as informants have elected to remain anonymous. In other words, they only accepted to participate in the study on condition that their anonymity was guaranteed. As the researcher was to discover, free speech and freedom of expression is highly restricted in Ethiopia. Elsewhere in Chapter six, the study discusses in detail the level of government control over the control of information, especially free speech. Several informants were therefore unwilling to discuss important aspects of this study, leaving the researcher to rely on limited primary data for some portions of the study. There were instances where respondents elected not to answer some questions, while stating that this did not mean that they did not know the answers. In some extreme cases, interviewees would cancel pre-arranged appointments simply

after changing their minds. To counter this, the researcher embarked on vigorous secondary data collection. This was very helpful in validating, emphasizing and even querying some empirical findings enhancing the quality of the study.

To summarize, the internationalisation of Chinese capital is not without method. As the Ethiopian case study has shown, it seeks strategic alliances that are mutually beneficial. Because of the distinctive nature of Chinese neoliberalism, this shapes its distinctive forms of engagement. Chinese capital is thus very flexible and would accordingly adjust to the prevailing set of conditions in various countries with varying conditions. In Ethiopia, the EPRDF regime pursuing a ‘developmental state agenda’ easily finds accommodation with the Chinese capital especially state owned or state linked capital. The Ethiopian regime having fused and meshed together with China in ideological terms, seeks to intensify party-party political networks in ways that mutually reinforce each other’s interests. The best example of this is how the Ethiopian government awards major technological contracts to Chinese investors. At the same time, Chinese capital is in turn expected to help the Ethiopian government with technological tools to spy on citizens, especially those dissenting voices demanding political reform, freedom of speech and a decisive stand on official corruption. In the final analysis, we note that this does transform state-society relations in Ethiopia. Broadly, the evidence presented in the thesis is on its reinforcement of party-oriented capitalism as well its role in the informalisation of institutions.

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