The Dynamics of Chinese Private Outward Foreign Direct Investment in Ethiopia: A Comparison of the Light Manufacturing Industry and the Construction Materials Industry

WEIWEI CHEN

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Department of Development Studies

SOAS, University of London

Abstract

Chinese outward foreign direct investment (OFDI) in Africa has increased significantly following the turn of the century. With the increasingly supportive 'Going Out' (*zou chu qu*) policy promoted by the Chinese government, ferocious competition in the domestic market due to rising globalisation and the experience and skills that Chinese private firms have accumulated, private OFDI in Africa is becoming less one-dimensional and growing increasingly dynamic.

This research will take Ethiopia as a case study, employing a comparative analysis of the light manufacturing industry and construction materials industry to explore the nature and dynamics of Chinese private investment. To do so, it assesses the micro-firm level through the perspectives of economic geography, economic sociology and political economy, taking a mixed research methods approach. For the most part, qualitative research (e.g. comparative ethnographic studies) and quantitative research (e.g. statistical analysis) will be employed to ensure its in-depth coverage of not only the behaviour of Chinese private investors and other actors, but also the relevant linkages with sector structures and dynamics (in particular in relation to markets and products) and global/domestic production networks, as well as national (and sub-national) policies, institutions and organisations.

This thesis offers new empirical evidence on the nature of Chinese private investment in Ethiopia, its diversity and its evolution since its inception in the early 2010s. This thesis argues that Chinese private investment in Ethiopia is highly diverse, fluid and complex, not liable to simple characterisations. There are varieties of Chinese private capital that have emerged and developed in the past four decades. Their investments in Ethiopia follow different trajectories. Nonetheless, Chinese private firms are, above all, capitalist enterprises moving overseas, and, like global private capital, their 'Going Out' primarily follows a profit-seeking and market-seeking logic. Their trajectories towards these broader goals vary and depend on the type of firm (in terms of origin, history and scale), the entrepreneur's background (family, education and work experience) and *guanxi* networks. Moreover, both national and sub-national political economy conditions of the home and host country shape these diverse trajectories.

Firms' improvisation and adaptation on the ground establish new forms of capital, labour, state and institutional relations. These firms are also subject to the host country's political and social pressures to a greater degree.

Moreover, the relations between Chinese private businesses and the state (host country state in particular) are not always harmonious. Rather, they are complex and subject to contradictions. These

connections are manifested in various forms (both formal and informal) and indicate an ongoing learning process for all actors, which continually generates new conflicts, contractions, opportunities and cooperation.

Keywords: Chinese private FDI, Ethiopia, political economy, manufacturing industry

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Abbreviations

ADLI - Agricultural Development-led Industrialisation

AGOA - The African Growth and Opportunity Act

AIP - Adama Industry Park

BRI - Belt and Road Initiative

CAD -Comparative advantage defying

CADFund - China–Africa Development Fund

CAF -Comparative advantage following

CCCE - China Chamber of Commerce in Ethiopia

CCPIT - China Council for the Promotion of International Trade

CCPPNR - The Promotion of the Peaceful National Reunification

CME - Coordinated market economies

CPC – The Communist Party of China

DS - Developmental state

EBA - Everything But Arms

EIC - Ethiopian Investment Commission

EIP - Eastern Industry Park

EIPMC - Eastern Industry Park Management Committee

EIZCG - Eastern Industry Zone Committee of Guidance

EIZIA - Eastern Industry Zone Investors Association

ELF - Eritrean Liberation Front

EM_MNES - Emerging market multinational enterprises

EPRDF - The Ethiopian People's Revolutionary Democratic Front

EZs – Economic zones

FDRE - Federal Democratic Republic of Ethiopia

FoEs - Foreign-owned enterprises

Forex - Foreign exchange

FOCAC - Forum on China–Africa Cooperation

FSAs - Firm-specific advantages

FYP - Five-Year Plan

GoE - the Ethiopian government

GPNs - Global production networks

GVCs - Global value chains

GTP - Growth and Transformation Plan

HIP - Hawassa Industry Park

IDS - Industrial Development Strategy

IFDI - Inward foreign direct investment

IP - Industrial policy

IPP- Industry Park Proclamation

IPDC - Industrial Parks Development Corporation

ISI - Import substitution industry

ITC - Information, technology and communication

ITC -International Trade Center

IZ- Industry zone

LDCs - Least developed countries

LME - Liberal market economies

MOFCOM - Chinese Ministry of Commerce

MOTI - The Ministry of Trade and Industry

MSEs - Micro and small-scale enterprises

MUDHO - The Ministry of Urban Development, Housing and Construction

NCE - Neo-classical economics

NIDL - New international division of labour

NIE - New institutional economics

NSE - New structural economics

OEM - Original Equipment Manufacturer

OETCZs - Overseas Economic and Trade Cooperation Zone

OFDI - Outward foreign direct investment

PASDEP - Plan of Action for Sustainable Development and Eradication of Poverty

PEs - Private Enterprises

PoEs - Private-Owned Enterprises

PRD - Pearl River Delta

PS - Political settlements

RCM - Reciprocal control mechanism

R&D - Research and development

SMEs - Small and medium-sized enterprises

SEZs - Special Economic Zones

SBRs - State-business relations

SOEs - State-owned enterprises

SSA - Sub-Saharan Africa

TNCs - Transnational corporations

TGE- The Transitional Government of Ethiopia

TVEs - Township village enterprises

VC - Variegated capitalism

VoC - Varieties of capitalism

YRD - Yangtze River Delta

Preface

Terminology

Before exploring the nature of Chinese private outward foreign direct investment (OFDI) in Ethiopia, it is necessary to define the key phenomena that this thesis will be addressing, namely FDI.

Although terms such as small-medium enterprises (SMEs) are used widely throughout the academic literature and policy documents, there is a marked lack of consistency about what this term defines. Moreover, it is necessary to define the light manufacturing industry and the construction material industry in a particular context. It is, therefore, vital at the outset to explicitly determine these terms in the context of the thesis and the research that underpins it.

FDI

FDI refers to 'an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)' (UNCTAD, 2012, p.3).

Chinese Definition of SMEs

SMEs refers to 'non-subsidiary, independent firms which employ fewer than a given number of employees' (IFC, 2012, p.1.). This number varies across countries. The official classification of SMEs in China differs from that of the IFC one; the Chinese definition of SMEs also varies slightly from time to time (ibid).

In 2011, the Ministry of Industry and Information Technology (MIIT) amended the SME criteria by 'removing the total asset criteria, lowering the upper limit of the number of employees to 1,000 and changing the total revenue limit to RMB 400 million' (ibid) (see Table 1). In this research, the term SME refers to the notion defined by the MIIT.

Table 1: Definition of SMEs in China

Criteria	**Chinese MIIT (2011)** **(Meeting 1 of the three criteria)**		**Chinese CETC (2003)** **(Meeting 1 of the three criteria)**		**The World Bank Group** **(Meeting 2 of the three criteria)**
	Small	*Medium*	*Small*	*Medium*	
Number of employees	*<300*	*300-1,000*	*<300*	*300-2,000*	*<300*
Total Asset	*NA*	*NA*	*<RMB 40 million*	*RMB40-400 million*	*<RMB 100 million*
Total Annual Sales Revenue	*< RMB 20 million*	*RMB 20-400 million*	*<RMB 30 million*	*RMB 30-300 million*	*<RMB 100 million*

Source: IFC, (2012, p.1.)

Light Manufacturing Industry in this thesis refers to textile/garment, leather and leather products.

Construction Material Industry in this thesis refers to cement, steel products, gypsum boards, aluminium and plastic products.

Interview Code Instruction

In this thesis, interview sources can be referred to according to the following coding system. The first two or three letters of each code indicate the interviewee's profile, and the numbers indicate the order of interviews (e.g. CG1). All interviews were coded in Ethiopia between 2017 and 2018. The letter codes have the following interpretations: CG=Chinese Government; CCM=Chinese Company Management; IO=International Organisation; FCM=(non-Chinese) Foreign Company Management; CBA=Chinese Business Association; EG=Ethiopian Government; and PI=Potential Investor. This system is designed to preserve the anonymity of respondents. See Appendix B Interview Code for more details.

Participant Observation Code Instruction

Similar to the interview coding system, participant observation sources were coded in this thesis. Participant observation was conducted between 2017 and 2018 and coded in 2019. The letter codes have the following interpretations: PO=Participant Observation; PO-EG-CCM=Participant Observation-Ethiopian Government-Chinese Company Management. See Appendix C Participant Observation Code for more details.

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1. Introduction

1.1. Introduction

China's outward foreign direct investment (OFDI)[1] has increased significantly since the turn of the century. In 2014, China's OFDI surpassed its inward foreign direct investment (IFDI) for the first time. Its OFDI flows exceeded Japan's and ranked second, behind the USA, in 2015, reaching US$145.67 billion, with 18.3% growth compared to the previous year (*Statistics Bulletin*, 2016). Further, as is widely known, the majority of OFDI in Hong Kong is from subsidiaries of mainland Chinese companies (Lo, 2016b). Thus, taking this additional amount of FDI from Hong Kong into account, the total amount would be greater.

The private sector plays an increasingly important role and has been a key force in rejuvenating China's economy. Over the past four decades, the private sector in the traditional manufacturing industry has absorbed and then created vast surpluses of capital and output. As a result, China has entered a more mature stage of industrialisation with competitive industries and surplus capacity (Xinhua, 2015a). Consequently, China's economy is entering a new phase, often referred to as the 'New Normal' (*xin chang tai*) of slower growth, industrial upgrades and greater reliance on domestic demand compared to exports. Traditional manufacturing industries such as the light industry (textile, garment and footwear) and the construction materials industry (cement, steel and flat glass) have been identified as 'overcapacity' (*chan'neng guosheng*) industries in the government's 12th Five-Year Plan (FYP) (2010–2015).

To relieve a relatively saturated domestic market and improve the efficiency and quality of the Chinese economy, the relocation of surplus capacity abroad is an important step (Xinhua, 2015a). These industries have been prioritised for seeking a 'spatial fix', defined as the relocation of surplus capital and output (Harvey, 2016). The Chinese government is eager to move its low-tech, labour-intensive industries to other developing economies, preferably those in Africa (Lin, 2012). The most apparent manifestation of Chinese private OFDI can be seen in the Belt and Road Initiative (BRI), which started in 2013 (Yueh, 2019). Since then, the central government has further promoted it as a form of proactive diplomacy to encourage the private sector to invest abroad (CICCPS, 2016).

[1] See Preface for the full definition of FDI.

Private enterprises are also critical for the realisation of China's economic aspiration of 'industrial capacity cooperation' (*chan'neng hezuo*) and 'strategic complementarity' (*zhanlve duijie*) in Africa (Sun, 2015). The dawn of the twenty-first century marked the emergent phase of Chinese interaction with Sub-Saharan Africa (SSA) as one involving private firms that are predominately SMEs.[2] According to Sun, Jayaram and Kassiri (2017), private firms account for nearly 90% of Chinese firms in Africa, and the majority are SMEs. Private firms are playing a more significant role in extending investment outside of the resources sectors into the manufacturing and other areas. Indeed, the motives for Chinese OFDI have become more diverse (Naughton, 2018, p.439).

Official statistics of China's OFDI in Africa reveal a paradoxical picture, illustrating its small but rapidly growing and robust dynamic character (Chen, Dollar and Tang, 2015). China's OFDI is small in the sense that its businesses are latecomers in the African context. As noted by Brautigam et al. (2017, p.i), 'African countries make up less than 3% of China's global FDI flows and stocks'. However, the pace of Chinese OFDI growth in Africa is swiftly increasing: investment stock in African countries exceeded US$30 billion to the end of 2014, representing an increase 60 times greater than the amount invested up until 2000 (IMF cited in Xinhua, 2015). Although Chinese FDI stock in Africa accounted for only 2.4% of China's global FDI stock by the end of 2017 (MOFCOM, 2018, p.68), its investment (flow) to the continent reached US$ 4.11 billion, with an annual growth of 70.8%. African countries represent the fastest-growing target markets of Chinese FDI among the five continents (ibid).

In a speech given at the Forum on China–Africa Cooperation (FOCAC) in Johannesburg on December 4th, 2015, Chinese President Xi Jinping indicated that China has a strong desire to continue to strengthen its strategic partnership with African countries (Xinhua, 2015a). China has pledged US$60 billion in funding support and

> US$ 5 billion of additional capital was pledged for the China–Africa Development Fund and the Special Loan for the Development of African small, medium enterprises (SMEs) respectively, and an initial capital of US$ 10 billion of China–Africa production capacity cooperation fund to be given to the continent over the next three years. (ibid)

Although the above reference does not refer to FDI, it is striking to note that natural resources have almost disappeared from China's Africa agenda (Sun, 2015). The 2015 FOCAC encouraged Chinese trade with African countries and urged Chinese firms to invest and engage in manufacturing and thereby facilitate employment and the transfer of technology and skills. The African Growth and Opportunity Act (AGOGA), for instance, has also given Chinese firms a platform to export to the US via

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[2] See Preface for the full definition of SMEs.

duty-free access. This act is particularly important given the current Sino-US trade tensions and may push China to invest more aggressively throughout the African continent to have continued access to export markets and to strengthen economic, social and political ties in the face of turbulence elsewhere (Eom, Brautigam and Benabdallah, 2018, p.5).

The changing role of China and its growing private OFDI towards the continent has had profound implications for Ethiopia and other African countries. The Ethiopian government (GoE), for example, has expressed its eagerness to transition its economy from agriculture-led growth to light manufacturing-led growth. This strategic direction was explicitly stated in its first Growth and Transformation Plan (GTP), and it has been further promoted in the Second Growth and Transformation Plan (GTPII) (2015/16–2019/20) (National Planning Commission, 2015).

'[T]he emphasis of Ethiopia's GTPII on making the country a manufacturing hub and its sustained process of growth-promoting structural transformation are well-matched by the diversification of Chinese FDI away from natural resources (and natural resource-rich countries) in favour of manufacturing investments' (Crescenzi and Limodio, 2021, pp7-8). With its abundant and young workforce (young labour force of approx. 45 million growing annually by around 2.3 million according to Oqubay and cited in Xinhua Africa, 2017) and cheap production costs and the preferential access to the EU and US markets (Cheru and Rekisa, 2019, p.129), Ethiopia is a well-placed 'partner' for China to fulfil its economic aspiration of comprehensive strategic cooperation (Xinhuanet, 2017). Related to the goal of *Vision 2025*, Ethiopia's FDI flows have increased from US$265.11 million in 2005 to US$4.1 billion in 2017, with China becoming Ethiopia's largest investment partner (UNCTAD, 2015a; EIC, 2019). In 2019, nearly 60% of newly approved FDI projects in Ethiopia came from China (UNCTAD, 2019, p.5).

This research will take Ethiopia as a case study, employing a comparative analysis of the light manufacturing industry and construction materials industry to explore the nature and dynamics of Chinese private investment. Starting at a micro-firm level, this research will identify different types of private firms that are present in Ethiopia, investigating their main characteristics, core interests and accumulation logic of investing in Ethiopia, and their improvisation and relations with state actors (the host government in particular).

Section One of this introduction provides the general background of the research topic. Section Two identifies the most important problems in the existing theoretical and empirical literature on Chinese investment in Africa and specifically Ethiopia and discusses the gap this research will fill. It also proposes research questions this study will address. Section Three briefly describes the significance of the study. Finally, Section Four outlines the structure of the thesis.

1.2. Statement of the Problem and Research Questions

Conventional perceptions of Chinese investment in Africa are often simplistic and sometimes biased. Chinese state-owned enterprises (SOEs) have traditionally been seen as playing a large role throughout the continent (Lee, 2017). Lee critically points out that 'popular discourse and consciousness do not distinguish between state and private Chinese investors, who were all lumped together as "Chinese companies"' (2017, p.93). The 'methodological nationalism' inherent in these popular narratives not only conceals the highly significant heterogeneity and diversity of Chinese capital investment in Africa but also combines African countries into a single fragile, homogenous entity that is incapable of managing Chinese investment. In reality, Chinese investment in Africa is complex, fluid and diverse, and it is thus impossible to classify investors by nationality or apply private-public ownership as guiding criteria.

Although the importance of Chinese private OFDI in Africa has been widely recognised (Xia, 2019; Brautigam et al., 2017; Sun, 2017; Shen, 2015; Wang, 2014; Wang and Wang, 2011; Song, 2011; Gu, 2011, 2009), rigorous, extensive and fieldwork-grounded comparative research on this topic remains insufficient and incomplete. Three problems come to light when looking at existing studies on Chinese private investment in Ethiopia. The first is that these projects lack comparisons across different types of Chinese firms. The second is that there is a lack of multi-layered analysis to link micro firm-level behaviour to sector specificities; global/domestic production networks; and national and sub-national government policies, institutional context and politics to present an integrated analysis. The third issue is that little data exists, and what does is problematic (see Chapter Three for the full elaboration).

This research addresses these problems by comparing different types of Chinese private firms that are prominent in Ethiopia (the light manufacturing industry and the construction materials industry) to explore their distinct logics and core drivers of accumulation, accumulation trajectories and dynamic relations with the host country government. Its starting point and unit of analysis takes place at the micro-firm level, centred upon the firm and firm management. However, the study applies a multi-layered analytical framework to ensure that not only the behaviour of Chinese private investors and other actors is explored, but also the relevant linkages with sector structures and dynamics (in particular in relation to markets and products) and global/domestic production networks, as well as national (and sub-national) policies, institutions and organisations. In short, the thesis offers a broader analysis, grounded in political economy, of the characteristics and dynamics of Chinese private investment in Ethiopia.

A mixed research methods approach is employed in this project, drawing mainly on qualitative research, and particularly comparative ethnographies of firms, complemented with limited quantitative research. In exploring the nature and dynamics of Chinese private OFDI in Ethiopia's manufacturing sector, it asks the following research questions:

1: Why are Chinese private firms investing in Ethiopia?

2: How have Chinese private firms consolidated their investments in Ethiopia, and to what extent have their accumulation trajectories varied and why?

3: What are the dynamic relations between Chinese private businesses and the Ethiopian state?

Each question is accompanied by several subsidiary questions designed to operationalise the research design (see Chapter Three for a detailed elaboration). These three questions are also thought as interlinked since the drivers and motivations of firms contribute to a variety of accumulation logics and strategies, which are in turn also shaped by and result in different institutional bargaining mechanisms connecting state and capital.

1.3. Significance of the Research

This section examines why these questions and the research are significant for an understanding of Africa-China relations.

This thesis argues that Chinese private investment in Ethiopia is highly diverse, fluid and complex, and thus not irreducible to simple characterisations. There are varieties of Chinese private capital that have emerged and developed in the past four decades. Their investments in Ethiopia follow different trajectories. Nonetheless, Chinese private firms are, above all, capitalist enterprises moving overseas, and, like global private capital, their 'Going Out' primarily follows a profit- and market-seeking logic. Their trajectories towards these broader goals vary and depend on the type of firm (in terms of origin, history and scale), the entrepreneur's background (family, education and work experience) and *guanxi*[3] networks. Moreover, both national and sub-national political economy conditions of the home and host country shape these diverse trajectories.

[3] *Guanxi*, which is translated as 'relationships' and 'connections' (Luo, 1997; Seligman, 1999), refers to 'the concept of drawing connections to secure favours in personal relations '(Luo, 2007, p.1). The term encompasses Chinese attitudes towards social and business relationships and includes implicit assurances and mutual obligations between people. *Guanxi* includes interpersonal linkages with the implication of continued mutual favours, assistance and reciprocal obligations. It should be noted that *guanxi* is not the same as interfirm networking in the West, as *guanxi* refers to implicit reciprocity, without time limits and is only socially binding (ibid, pp.1–2). See Chapter Two, Section2.2.1.2 Footnote 7 for the full elaboration.

A firm's improvisation and adaptation on the ground establishes new forms of capital, labour, state and institutional relationships. Firms are also subject to the host country's political and social pressures. Moreover, the relations between Chinese private businesses and the state are not always harmonious. Rather, they are complex and often full of contradictions. Such relations are manifested in various forms (both formal and informal) and indicate an ongoing learning process for all actors, which continually generates new conflicts, contradictions, opportunities and cooperation.

According to Brautigam et al., 'Chinese investment in Africa is not large enough to be either a calamity or panacea, but the evidence from Ethiopia indicates that countries harness its potential to achieve meaningful growth in jobs and productivity' (2017, p.i). Hence, a deeper understanding of the nature and dynamics of Chinese private OFDI in Ethiopia's manufacturing industry is of substantial empirical, analytical and policy importance, given that these investments have been considered the catalyst of the recent drive towards industrialisation in the country (Cheru and Oqubay, 2019).

1.3.1. Understanding the Variety of Chinese Private Capital in Africa

First, this study is significant in that it attempts to explore, understand and explain the dynamics and complexity of Chinese private investment in Ethiopia. Greater knowledge of this complexity helps not only refute some prior beliefs about these investments but also contributes to the understanding of Africa's economic potential (job creation, technology/knowledge transfer and productivity growth) in the manufacturing sector.

The literature on Chinese OFDI, especially towards Africa, is still in its infancy. In fact, Chinese OFDI is a relatively new topic compared to international trade and IFDI in China, as China's overseas investment only really started when it joined the World Trade Organisation (WTO) in 2001. Chinese private OFDI initially began to increase after 2008, and rapidly so after 2013. Therefore, it is an emerging phenomenon that is still not fully understood, especially in relation to private firms.

Moreover, while much of the literature on China–Africa business ties has focused on SOEs, infrastructure building and investments in resource-rich states such as Nigeria, Angola and Zambia (Fei, 2020), perhaps one of the most remarkable aspects of increasing Chinese engagement in Africa is the increasing presence of Chinese investment. Understanding African agency is crucial in this respect, hence the focus of this thesis on the ways the Ethiopian government has shaped Chinese private OFDI and integrated these opportunities for the strategic transfer of capital and know-how into Ethiopia's plans for national economic development and industrialisation. This research provides a more nuanced and balanced view of the dynamics of Chinese private investment in Ethiopia, which serves as an example case for SSA.

By considering the diversity of Chinese investors, their different trajectories and the contingency of state-business relations, this thesis also challenges the tendency to homogenise any discussion of 'China' in 'Africa'. The results of this study do question the 'methodological nationalism' that often characterises much of the literature on Chinese investments in Africa, as argued by Lee (2017).

1.3.2. Unpacking the Dynamics of Chinese Capital 'Going Out' and Contingent Accumulation Trajectories

This research also aims to contribute to and enrich existing analytical debates in relation to the drivers of private capital 'Going Out', 'push' and 'pull' factors and the centrality of politics in understanding these fast-paced dynamics. First, this project undertakes a comparative analysis to look at private firms across sectors and also at the sub-sector and same-sector level. By doing so, the main differences and similarities between different types of private firms and entrepreneurs can be captured. This enables one to understand how the processes of accumulation and business development occur in new markets according to a wide range of different contextual factors and how 'push' and 'pull' factors operate in practice for different types of firms.

Moreover, this research does not stop at the level of micro-decision-making by company owners and managers. Instead, the analysis is conducted at different layers, considering the meso-level analysis of sector specificities and global/domestic production networks, and the macro-level of national (and sub-national) government policy, institutional context and politics to provide a broad picture of this economic development. Consequently, it captures the eventful nature of capitalism,[4] as Lee (2017) argues regarding moments of capital (namely, accumulation, production and ethos).

Methodologically, comparative ethnographic studies are rare in the study of Chinese private investments in Africa (some exceptions include Tang, 2019a, 2019b; Fei, 2017, 2020) as it is not only time-consuming but also requires a significant level of *guanxi* and trust from the informants, something that can be hard to obtain for academic researchers. However, the depth and variety of insights that such an approach yields is crucial to tackle the objective of filling some of the gaps in the literature and informing ongoing and future work by other scholars.

1.3.3. Understanding the Links Between the State and Chinese Private Capital

As a final contribution, this research has potentially significant policy lessons. It is claimed that although the private sector has been encouraged to 'go out', support from the government has been

[4] Lee draws from William H. Sewell Jr.'s ideal of eventful capitalism and states that 'China in Africa can be analysed as an "event"' (2017, p.10). This is elaborated upon further in Chapter Two.

relatively limited and symbolic (Huang, 2013; Song, 2011). For example, severe information asymmetry exists between (Chinese) provincial governments and Chinese private overseas investors (Brautigam, 2013). However, the lack of concrete knowledge regarding private OFDI in Africa creates more difficulties for the Chinese government, especially for provincial/local governments trying to launch or adjust their policies to provide much-needed support for investors. The information asymmetry also discourages potential private investors from engaging in projects in African countries.

China's particular combination of centralised control and decentralised improvisation implies that both the national and sub-national context matter significantly in understanding different Chinese firms' 'Going Out' or deciding to stay (Lee, 2017; Milanovic, 2019; Ang, 2015, 2020). The heterogeneity and diversity of private firms imply that policymaking has to be sensitive to sector-specific and region-specific attributes. By taking a comparative analysis that evaluates private OFDI in Ethiopia from the three most representative coastal regions (namely, Zhejiang, Jiangsu and Guangdong provinces), this project can yield policy-relevant insights. Not only firms' behaviour but also linkages with government policies (at both the central, provincial and local levels), state intervention and investment dynamics will be studied in-depth.

Additionally, Chinese private firms need more comprehensive, in-depth and objective research to understand the country-specific and sector-specific risks that exist and how a firm might prevent or mitigate such risks. By reviewing the analysis of existing firms' accumulation trajectories and their interactions with various actors, this study can provide practical recommendations for businesses (both existing and potential investors).

For Ethiopian policymakers, the absence of rigorous, grounded comparative evidence on the varieties of Chinese private OFDI in Ethiopia impedes their (policymakers) ability to design, amend and implement a more effective policy in managing FDI. This lack of evidence (or use of) also postpones actions for the host country government to help Chinese firms remove binding constraints that hamper their regular operation, promoting concrete linkages with indigenous firms for industrial upgrades and technology transfer. This research can help Ethiopian policymakers view Chinese investment from a multifaceted perspective, allowing them to make informed decisions in their attempt to prevent and resolve problems that firms encounter and ensure that investments run smoothly.

1.4. Structure of the Thesis

This thesis is divided into eight chapters, of which this introduction is the first. Chapter Two provides the theoretical review. It reassesses a variety of existing theoretical and analytical debates on the role and trajectories of FDI, conceptualisations of 'Chinese capital' in the fast-growing China–Africa sub-field, firms' local adaptation and relations with the host country government (broadly state–business relations) and the existing literature on Chinese engagement in Africa. A conceptual framework is also included.

Chapter Three describes the research methodology. It gives an overview of the main choices of research design, techniques of data collection and analysis, and justifies the use of a mixed research methods approach with a leading comparative ethnographic component.

Chapter Four offers the background context for this study. It provides an overview of China's and Ethiopia's political economy contexts, which is essential for any understanding of China's 'Going Out' approach and how the Ethiopian government has shaped overseas investment such as Chinese FDI and turned these opportunities and resources into an advantage.

Chapters Five, Six and Seven represent the core empirical chapters. Chapter Five explores the motives and determinants of Chinese private OFDI in Ethiopia and variations therein. It first presents what kinds of Chinese private firms are present in Ethiopia and then reviews their main characteristics. A typology of firms is developed accordingly. Next, it explores the motives and determinants of Chinese private firms' OFDI to Ethiopia's light manufacturing and construction materials industries.

Chapter Six assesses different types of private accumulation trajectories that Chinese private firms have followed as they move to Ethiopia. By undertaking a comparative ethnographic study, this chapter explores how three selected firms consolidated their investments in Ethiopia, and to what extent their accumulation trajectories differ, and why. The analysis will be deployed in two key stages of accumulation. The first stage refers to how firms achieved their original accumulation in China and succeeded in the *early* phases of investment in Ethiopia. The second stage will look at what kinds of constraints firms encountered during the process of operationalisation given the dominant managerial ethos, and how they overcame these problems.

Chapter Seven uses the Eastern Industry Park (EIP) as a case study to explore the dynamics of state–business relations (SBRs) between the host country government agencies (the Ethiopian Investment Commission, or EIC, in particular) and Chinese private businesses, with a particular focus on the existing Chinese business institutional bargaining mechanisms and the role of tacit networks in Chinese private firms.

Chapter Eight concludes. Based upon the results of the inquiry, the study proposes policy recommendations and the possibility for future research.

2. Literature and Theoretical Review

2.1. Introduction

'Neo-colonialism' and 'neo-imperialism' have frequently appeared in the Western press to describe China's involvement in Africa (see Cheru and Oqubay, 2019; Lo, 2019; Brautigam, 2018; Sautmman and Yan, 2008). Typical headlines include: 'Into Africa: China's Wild Rush', 'Chinese colonialism?' (BBC, 2012) and 'China, The new colonialism' (*The Economist*, 2008). As can be seen from these headlines, the 'Going Out' of Chinese firms has always been generalised as one homogenous entity with a single interest in Africa, despite their prominent diversity and heterogeneity (Klinger and Muldavin, 2019).

In reality, neither the Chinese state nor Chinese businesses can be thought of as homogenous (Gu et al., 2016). Power, Mohan and Mullins (2012) emphasise that China–Africa relations and interactions are no longer entirely directed by the Chinese. In particular, Chinese players in African countries vary depending on their motives, size and when they arrived on the continent. Lee (2017, p.6) stresses that how Chinese firms behave in foreign countries largely depends on their local improvisation and ability to bargain with host country states (especially in the least developing economies). The flawed, generalised use of 'China' in 'Africa' neglects the heterogeneous nature of a variety of Chinese actors (especially private firms), their divergent interests, strategies and improvisation as well as their socio-economic and political impact on the host country.

Meanwhile, Africa, a continent with 54 officially recognised states, has often been portrayed as a fragile, vulnerable single entity that has been exploited by China (Lee, 2017; Chan, 2008). China's engagement in Africa has often been falsely utilised as a political weapon by certain western politicians to add suspicion to the increasing influence of China in Africa. For example, then-Secretary of State Hillary Clinton warned Africans to beware of 'new colonialism' (Clinton, 2011). Criticising China's engagement with Africa seems to be used to score political points for certain politicians regardless of facts. As one author has noted, 'in Washington, Republicans and Democrats generally look at China as a new imperial power in Africa: bad news for Africans' (Brautigam cited in *Washington Post*, 2018).

Another former Secretary of State, Rex Tillerson, stated that they (China)

> do not bring significant job creation locally; they don't bring significant training programs that enable African citizens to participate more fully in the future; and oftentimes, the financing models are structured in a way that the country, when it gets into trouble financially, loses control of its own infrastructure or its own resources through default. (Tillerson, 2018)

Similarly, UK Prime Minister Boris Johnson claimed China's engagement with Africa is 'extraordinarily one-sided', and that China brought there a 'vast imported workshop' (*Foreign Policy*, 2019).

Nonetheless, such hypocritical accusations not only neglect the heterogeneity of individual African states and their historical ties with China but also overlook the ongoing evolving state capability of African nations (Cheru and Oqubay, 2019; Lee, 2017). As argued elsewhere, 'African countries as equally important players, are not passive or impotent but have active agency' (Mohan and Lampert, 2013; Scoones, Amanor, Favareto and Qi, 2016 cited in Gu et al. 2016, p.32). In addition to historical ties with China, the role and nature of each individual African state and its political leadership matter enormously when encountering Chinese investors (Cheru and Oqubay, 2019). Gisselquist (2017, p.80) argues that African countries have different state settings, and industrial policy can support structural transformation throughout the continent, though this holds more promise for some countries than others. At least some African countries have managed OFDI by launching policies to influence economic processes and outcomes (Behuria, 2019).

Cheru and Oqubay (2019, p.284) correctly point out that 'the rise of China neither necessarily produces a new "colonial-type" relationship nor does it automatically guarantee African countries the freedom to determine their own development path without external intrusion'. Despite rampant groundless scepticism, little concrete evidence is available to support or disprove critics (Oya, 2019a). In recent years, more systematic, rigorous and objective research conducted by various academics indicates that most of the claims mentioned above are untrue (e.g. Shaefer and Oya, 2019a, 2019b; Tang, 2019a, 2019b; Brautigam et al., 2017; Lee, 2017; Yan and Sautman, 2015).

One particularly sensitive issue is labour practices. Many popular claims about the lack of local job creation or exploitative working conditions have been based on flimsy evidence and the absence of a comparative framework, as shown by a four-year study on these issues conducted by SOAS (Schaefer and Oya, 2019a). This research is an example of the urgent need for comparative evidence-based studies of Chinese engagement in Africa that concern a wide range of issues. Many questions on investment, aid, employment, governance, companies, sector dynamics and security, among other topics, cannot be answered on the basis of rumours or rapid appraisals. Precisely because of sensitivities and biases, extensive fieldwork-based research is greatly needed.

This chapter will untangle the mystery of 'China' in 'Africa' from two sides: on the one hand, it will unpack 'China' by looking at the development of varieties of Chinese capital in the context of global capitalism, their motives, trajectories and interactions with government states; on the other hand, it will unpack 'Africa' by exploring the specific role of the individual African state (Ethiopia) and its state interventions as well as the politics of state–business (capital) relations.

This chapter will critically review selected theoretical and analytical debates that are relevant to the main research questions guiding this thesis. It begins with a broad view of Chinese engagement in Africa, and specifically a focus on Chinese private FDI, identifying key categories of analysis and concepts, analytical and empirical gaps in the existing literature, and ends with a proposed conceptual framework including the most relevant analytical categories organised around three leading themes that will be followed up in the empirical chapters, namely varieties of Chinese capital and their drivers, accumulation trajectories and state-business relations. The chapter is organised as follows. Section 2.2 includes (a) a review of the emerging literature on Chinese firms in Africa, with special emphasis on their drivers, processes of internationalisation, and accumulation dynamics; and (b) a critical review of the extent to which relevant theoretical and analytical perspectives can be applied to the specific empirical case of Chinese private OFDI in Ethiopia.

The initial literature review explores the emerging research on Chinese OFDI in Africa, with special attention to the issues relevant to my research questions, i.e. the determinants and motives of Chinese OFDI in Africa and specifically Ethiopia; their process of internationalisation; and their accumulation dynamics, with a particular focus on the variety of production regimes and managerial ethos.

In order to understand Chinese capital 'travelling' overseas, it is important to consider the context of Chinese capital and global capitalism. This is done in section 2.2.2, which includes an analysis of China's political economy conditions and explores how China's successful economic development in the past four decades has influenced its 'Going Out'. The notion of China's 'political capitalism', advanced by Milanovic (2019) is introduced in this section. This is followed by related theoretical debates on the role and trajectories of FDI more broadly, in an attempt to relate such debates and ideas to the realities of Chinese firms investing overseas. Section 2.2.3 provides an examination of selected frameworks to study firms' relations with the state, spanning the developmental state literature, the political settlements framework and insights from the work on 'deals and development' (KPRS 2019). Each of these approaches offers useful analytical categories to study the complex state-business interactions, particularly for developing country contexts. The review of debates and approaches mentioned thus far (Section 2.2) serves as a basis for the development of an analytical framework to guide my work to answer the research questions presented in Chapter 1. Thus Section 2.3 outlines the conceptual framework for this thesis. This is organised thematically under three main headings which guided the empirical analysis of this thesis, namely the varieties and types of firms and their drivers; their accumulation trajectories; and their relations and interactions with the state. Each of these themes is explored with reference to a number of conceptual categories and insights that frame the analysis in this thesis. Section 2.4 concludes.

2.2. Literature review and Theoretical Perspectives

2.2.1. Existing Literature on Chinese OFDI in Africa

This section provides an overview of the emerging literature on Chinese OFDI in Africa to assess to what extent it draws from these different approaches and what gaps persist. This section aims to contextualise the arguments made thus far in this research and then identify the contributions in the literature that best fit this research's theoretical preferences as well as the research questions and empirical focus.

Drawing from existing literature regarding Chinese OFDI in Africa, it is argued that Chinese OFDI mainly concentrates on the mining, resources and construction sectors, which are driven by resource-seeking and strategic asset-seeking (see Wang, 2014; Renard, 2011; Ross, 2015; Broadman, 2007).

Moreover, scholars have noted that SOEs and a few large private firms are the main players of OFDI (see Lee, 2017; Wang. M, 2014). Some have argued that the state directs Chinese OFDI to fulfil its political aspirations and economic interests rather than purely commercial reasons (Wang, 2014; Morck et al., 2008; Cheng and Ma, 2009). For example, firms' 'Going Out' is strategically supported by the Chinese government to satisfy China's growing demand for energy and raw materials (e.g., Zhan, 1995; Morck et al., 2008; Cheng and Ma, 2009). Thus, firms have China-specific competitive advantages such as home country advantages (Rugman and Li, 2007; Rui and Yip, 2008), easier access to financing and institutional support (X. Fu et al., 2020). These distinct advantages enable Chinese firms to obtain monopolistic power over foreign markets in African countries to compete against indigenous firms and potentially crowd out local investments, causing a de-skilling effect and distorting the local market (Lo, 2018; Nicolas, 2017; Qu, 2014).

These perceptions might have some elements of empirical truth; however, it only presents a partial picture. In terms of sectoral distribution, while SOEs focus mainly on capital-intensive industries such as mining and construction sectors, PEs concentrate on manufacturing and service sectors (Shen, 2015; Gu, 2011). By the end of 2016, the construction and mining sector accounted for the lion's share to Africa (28.3% and 26% respectively) in terms of total investment value in Africa (OFDI stock), while manufacturing and finance only accounted for 12.8% and 11.4% respectively (Lo, 2018, p.6). It is not surprising that the percentage of FDI for SOEs is much more significant than PEs' due to the nature of sectors.

Indeed, SOEs are playing a much more critical role in certain aspects than PEs due to historical, sectoral and political considerations. Lo (2018, p.7) admits that 'SOEs, typically of much bigger sizes and much less profit-oriented, and their activities being associated with state strategies and supports, tend to pave the way for the subsequent entry of non-SOEs'. Therefore, even though the volume of investment is still dominated by SOEs according to the data, and this does not mean there are no PEs, just that they are not big enough to dominate FDI, especially in the early stages. As Irene Yuan Sun correctly pointed out in *Financial Times* (2019a):

'Chinese involvement in Africa is not just about state-driven efforts. A just as large, if not larger component is these private enterprises, which are where jobs-intensive, which localise quicker and which have a much larger economic and social impact.'

Chinese private OFDI has become much more significant in certain African countries where the proactive policy was used as a token to attract manufacturing FDI and infuse it strategically into its national development and structural transformation agenda.

In fact, when looking at the total number of firms investing in Africa, the private sector is much more important despite their size being much smaller than SOES. Sun, Jayariam and Kassiri (2017) claim that private firms accounted for about 90% of the total number of Chinese firms in Africa. However, the attention paid to state capitalism[5] diverts attention from the active and increasingly large role played by Chinese private actors (Shen, 2015).

Therefore, simplifying the realities and dynamics of Chinese investment in Africa without differentiating their characteristics is pointless. To have a thorough understanding of the nature and dynamics of Chinese private OFDI in Africa/Ethiopia will not only enrich the emerging literature on developing-to-developing economy FDI as well as the internationalisation of Chinese firms but also provide alternative views for the public to have a balanced understanding of China's OFDI in Africa.

2.2.1.1. *Motives and Determinants of Chinese OFDI in Africa/Ethiopia*

'[…] capital accumulation in the era of globalisation is mainly based on, the incorporation of productive resources that have been previously outside the capitalist world economy'. (Lo, 2018, p.15)

In terms of motives, it is argued that Chinese investment in Africa is generally profit-making and market-seeking; in this sense, it has no difference in comparison to non-Chinese foreign firms (Sun, 2017; Lee, 2017; Dollar, 2016).

[5] 'State capitalism' refers to 'an economic system in which governments manipulate market outcomes for political purposes' (Bremmer, 2009).

China's political economy conditions are crucial to understanding Chinese capital's 'going out', reflecting the path-dependent perspective of capitalism according to the Variegated Capitalism (VC)[6] literature (Fei, 2020). Drawing from Section 2.2.2, while admitting the remarkable success of China's economic development and industrialisation, Hung (2008) shows that China's Reform has provided a spatial fix for the global capitalist crisis of overaccumulation and also introduced this into China's own domestic development. 'It is exactly such crises and imbalances in the domestic and global economies that drive Chinese investment to Africa and elsewhere' (Lee, 2017, p.8). Chinese manufacturers are relocating their production bases to countries with cheaper operational costs due to increasing production and wage costs (Eom, 2018, p.4; Knoerich, et al., 2021).

In terms of determinants, Buckley et al. (2017) point out that political risk, cultural proximity, policy liberalisation, exchange rate, host inflation, market (exports and imports), and geographical distance to China are important factors that drove firms' "going out" and decided to invest in a particular country (Du and Zhang, 2017). Moreover, Wang, Du, and Wang (215) show that institutions, taxation and resources all matter in Chinese firms' OFDI location choice.

However, these factors seem like a laundry list and do not distinguish different types of Chinese firms and their interests in investing in Africa. It also fails to tell the most crucial factor that drove firms to invest in a particular location.

In the past two decades, tremendous changes have occurred in the international business system with the emergence of multinational enterprises from emerging markets (EM_MNEs). Existing theory explaining the benefits of FDI is not necessarily sufficient to analyse the motives and determinants of relatively recent EM_MNEs due to several structural and institutional differences between traditional MNEs and EM_MNEs (Buckley and Hashai, 2014 cited in X. Fu et al., 2020, p.1). X. Fu et al. (2020) summarise two main differences between EM_MNEs and traditional MNEs from developed economies to conduct OFDI. The first main difference is that EM_MNEs do not have as strong ownership advantages as traditional MNEs (Buckley and Hashai, 2014; Narula and Dunning, 2010). The second main difference is that the state often plays a significant role in incentivising or facilitating the activities of EM_MNEs. Many scholars have conceived of EM OFDI as a new breed of FDI based on these two distinctive characteristics (e.g. Cuervo-Cazurra, 2012; Ramamuri and Hilleman, 2018). Although EM_MNEs do not have ownership advantages like intangible assets, they have their unique advantages, such as flexibility, the ability to establish mutually beneficial relations with the host countries and experience accruing from home country development (Guillen and Garcia-Canal, 2009).

[6] See Section 2.2.2.1 for more details.

As demonstrated in Hu et al.'s study, 'FDI from developing countries has different characteristics from FDI from developed economies' (Hu et al., 2021, p.7). The burgeoning literature on China in Africa has found that, compared with traditional MNEs from developed economies, ownership advantages that most Chinese MNEs have are closer to those from emerging markets such as India, Turkey and Brazil (see X. Fu et al., 2020; Song, 2011; Wright et al., 2005; Luo and Tung, 2007). X. Fu et al. (2020, p.1) argue that 'it is not absolute but relative ownership advantage and the gap-filling compatibilities between FDI and host economies that determine the growth impact of FDI on the host countries'. For Chinese FDI in Africa, China's technological gap with Africa is narrower than with Africa and other advanced investor nations such as the US. Also, Chinese investors place less importance on institutional quality and are less financially limited. Therefore, they are more likely to engage in investment strategies that are longer-term and willing to invest in riskier projects (Hu et al., 2021, p.7).

2.2.1.2. *Firm's Internationalisation*

Although Chinese MNEs have certain similar characteristics with EM_MNES (Emerging market multinational enterprises), they (Chinese MNEs) are much more heterogeneous and diverse due to China's particular political economy conditions. Zhang and Dai (2013, p.566) claim that Chinese firms' internationalisation, from a theoretical perspective, have their distinct features and path selection.

Admittedly, Chinese firms may have China-specific competitive advantages, such as network-based advantages (Buckley et al., 2007; Morck et al., 2008) and home country advantages (Rugman and Li, 2007; Rui and Yip, 2008 cited in Song, 2011 p. 110). However, variations are significant within Chinese capital with distinctive characteristics. Unlike SOEs and large private firms that have close government connections, strong institutional support and economies of scale, Chinese SMEs' internationalisation follows different logic and encounters various institutional and financial constraints. Even after three decades of reform, technology, management skills, and the brands that Chinese firms have are not competitive enough compared to MNEs from developed countries (Nolan, 2012; 2014). Child and Rodrigues (2005 cited in Cui and Jiang, 2009, p.753) argue that Chinese private firms undertake OFDI 'not to exploit existing competitive advantages but to redress their competitive disadvantages'. Chinese private firms' internationalisation and OFDI to Africa are more inclined to reflect China's challenges rather than a demonstration of China's economic power.

Song (2011) employs a quantitative approach to examine the validity of determinants that the Uppsala model[7] uses and confirms that the given determinants are of little significance when analysing Chinese private investment in Africa. Song's (2011, p.109) findings point out that very few Chinese private firms follow a linear internationalisation process and most depend on informal institutions (i.e. *guanxi)*[8] to facilitate their entry into the host market. The reason lies in the fact that Chinese private firms (mostly SMEs) are still at an early stage of internationalisation. Foreign aid projects, ethnic connections and family ties play a much more significant role in promoting Chinese private firms and their investments in Africa. In the early stage of investment, private firms' *guanxi* networks are usually based on the entrepreneur's own *guanxi* networks (Li, 2005, p.245).

Ado (2020, p.86) argues that informal institutions play a role in China's engagement with African countries and the Belt Road Initiative (BRI). These informal institutions include not only *guanxi* but also bribery, corruption and specific cultural traditions. BRI could bring more Chinese investment into Africa with those Chinese investors coming and still operating with informal institutions.

Apart from *guanxi*, it is argued that strong 'entrepreneurship' is one of the most crucial ownership advantages that drive Chinese private firms to invest in Africa (Song, 2011). Moreover, the initial decision to invest in Africa is attributed to the strong 'word of mouth' (*koukou xiangchuan*) effect (ibid). Nevertheless, relying merely on social and cultural factors is not sufficient. Liu, Xiao and Huang (2008) argue that, despite strong entrepreneurial spirit encouraging owners of private companies to expand to foreign markets, bonded drawbacks such as limited education, experience and China's unique institutional constraints must be overcome.

It is important to note that social and cultural factors such as entrepreneurship and *guanxi* are not merely shaped by rational choice as the rational choice is shaped by government policies, institutional settings and ideological persuasion (Dobbin, 2007). In Ha-Joon Chang's *Bad Samaritans* (2007, pp.198–202), he warns us of the danger of counting culture as an immutable and key factor in assessing economic development. He admits the significance of cultural factors but contends that these factors should be integrated into government policies, institutions and ideological persuasion to present a synthetic analysis of economic development. Thus, it requires a multi-layered analysis to link micro-firm level analysis of firms' behaviour and strategy with meso-sector level analysis of sector

[7] See Section 2.2.3.1.1. for the full elaboration of the Uppsala model.

[8] 'In Chinese culture, *guanxi* is seen as a major social capital that may often serve as lubricant to develop rewarding business relationships with people as well as with governments. Such social capital can now cross borders and Chinese investors in Africa tend to mobilize it during their business operations with Africans' (Ado, 2020, p.85).

specificities and sector; and macro-level of government policy, institutional context and politics to present a holistic picture of the dynamic nature of Chinese private FDI in Ethiopia.

2.2.1.3. *Process of Accumulation*

Apart from understanding firms' motives and determinants for investing in African countries, it is essential to explore how firms have consolidated their investments (for instance, how firms overcame their bonded drawbacks and other constraints and how they interacted with different actors, especially the host country state). Thus, the interests and logic of accumulation, the process of accumulation (from the initial stage of finding investment opportunities, investigation, installation and financing, production and re-investment, etc.) and the nature of state-business relations all need to be investigated in order to give a deeper account of the paths of investment and their outcomes for firms themselves and for their host countries.

Lee (2017, pp.5–9) correctly points out that both the Variety of Capitalism (VoC)[9] and Capitalism in China[10] literature are relevant to understand China in Africa. However, as argued by Lee (2017), both approaches fail to recognise the eventful nature of capitalism[11] and the primacy of politics in shaping the capacity, interests and impact of Chinese capital in Africa. The existing literature overemphasises how China's domestic political economy situation determines firms' motives and determinants (Fei, 2020), but it neglects the accumulation trajectories that involve actual operations and interactions with the varieties of actors on the ground (host country government, local labour and community). In African nations, Chinese firms must operate according to the host country's social and political economic pressures (Lee, 2017).

Lee (2017) undertakes a comparative ethnography and debunks the distinction between the Chinese state capital and global private capital in Zambia's construction and mining sectors. Lee (2017, pp.10–11) shows how the two types of capital differ in these contested moments in terms of their logics, interests, mechanisms and processes. She argues that Chinese state capital follows the logic of profit

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[9] See Section2.2.2 for more details.

[10] The Capitalism in China literature draws primarily from economic geography and its analysis of capitalist firms operating under globalisation, and is rooted in traditions of Marxist and world system theory, to analyse 'Chinese development as always conditioned by the combined and uneven development of a global capitalist system. Instead of institutional complementarity, equilibrium, and stability, they focus on issues of accumulation, class, crisis, contradiction, and conflicts at the national and global levels' (Lee, 2017, p.8).

[11] 'An eventful approach to capitalism recognises the dialectical relationship between capitalism's self-reinforcing, abstract, expansive logic and its hyper eventful history' (Lee, 2017, p.10).

optimisation (or 'encompassing accumulation')[12], while global private capital follows the logic of profit maximisation.

Lee (2017, p.11) stresses that the process is critical as 'the value originally advanced … not only remains intact while in circulation, but increases its magnitude, adds to itself a surplus-value, or is valorised. And this movement converts into capital'.

In her approach, Lee returns to key ideas in the writings of Max Weber and Karl Marx, analysing the three moments of capital: production, accumulation and ethos. Drawing from Karl Polanyi's ideas, Lee highlights their constitutive contestations or social embeddedness (2017, pp.10–11). Lee (2017) correctly points out that although Polanyi's approach of 'Double Movement'[13] provides a generic formulation of 'commodification and countermovement', it does not differentiate between interests and power relations based on types of commodity or capital, which is critical to understand the contemporary context.

2.2.1.3.1. Production Regime

The VoC literature, which has been the focus of Marxist scholarship on the production and labour process regimes, reduces production to a coordination problem. At the point of production, more than just the creation of a product occurs, including class relations and the lived experience of these relations. The repertoire of resistance and the mechanisms of control are shaped by a political apparatus of production that is made up of market, legal and political institutions that intervene in and regulate factory floor politics (Lee, 2017, p.12). Schaefer and Oya (2019a) stress that labour process theory is useful to understand the antagonistic interests of labour and capital and workplace dynamics, regardless of the nationality of the firm. Workplace dynamics, in particular, are driven by the logic of accumulation to control and extract as much labour from workers as possible without the labour force resisting these pressures.

In the context of China, Luthje et al. (2013, p.15) illustrate the variety of industrial relations to be found in different sectors by developing a typology of production regimes based on empirical case studies in five industries (namely, steel, auto, petrochemicals, electronics, garment and textile) in China (see

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[12] Lee recalls Max Weber's reminder of capitalism in explaining Chinese state capital's logic of accumulation: 'If capitalism is the pursuit of rational economic action, then profit making is just one kind of utility' (2017, p.12). 'Economic life is to a large extent about appropriating, and preferably monopolizing, opportunities: opportunities for profit-making, market opportunities, and others' (Swedberg, 1998, p.29 cited in Lee, 2017, p.12). The notion of profit maximisation in this thesis refers to the monetary profit-making (either in the long-term or short-term) while profit optimisation here is beyond monetary profit. For instance, pursuing personal social status and political title are also two different forms of profit optimisation.

[13] 'Industrialised capitalist economies experienced a 'double movement': as markets expanded, counter-movements emerged to limit their reach and influence' (Polanyi, 1944/2001).

Table 2). Luthje et al. (2013) point out that to analyse divergent production regimes in each industry, a full understanding of the condition and local content is needed.

Table 2: Typology of production regimes

Type	**Production model**	**Work/HR**
State bureaucratic	• Integrated • Medium to high-tech brand name	• Stable but increasing workforce segmentation • Urban workers • High wages • Low base, allowance
Corporate bureaucratic	• Integrated • High-tech • Strong brand • Market control	• Stable employment • Urban workers • Skilled • High wages, benefits • High base pay • Career incentives
Corporate high performance	• Integrated • High-tech • Strong brand • High flexibility	• Flexible employment • Urban workers • High wages, benefits • Low base, high variable pay and OT
Flexible mass production	• Integrated • Med to high-tech • No brand name • High flexibility	• Flexible employment • Rural workers • 'neo-Taylorism' • Low wages, benefits • Long working hours
Low wage classic	• Low integration • Low-tech • No or weak brand • High flexibility	• Flexible employment • Rural workers • Low wage, benefits • Personalised control • Long working hours

Source: Author, based on Luthje et al. (2013, p. 29)

Luthje et al.'s (2013) typology is helpful in understanding different production regimes from different industries. This shows how heterogeneous industrial development and labour relations can be in China. It also points out that the ownership and control, competition and production models of each industry matter and all these factors impact the way they integrate into the global market (ibid). Luthje et al. (2013) conclude with a discussion of the types of production regime which are present and mature in China. Their study focuses on the sector and production network characteristics rather than individual firms. So, in some ways, it covers one of the levels of analysis for my research.

Luthje et al.'s research consider the extent of a firm's adaptation and changes in its production regime. It is useful to extend it to this research and compare firms' overseas production process. Whether Chinese private firms take the same production model in Ethiopia or adapt to a new one based on local realities and how production is organised in a particular way will be important questions to look at in this research (see Chapter 3 and Appendix for more details). This suggests the necessity to develop typologies based on the specific context of Chinese private investment in Ethiopia.

2.2.1.3.2. Managerial Ethos

In addition to accumulation and production, one must understand the distinct nature of the varieties of private capital and the managerial ethos inside firms. Capital does not simply flow without intermediaries or friction or depend on expatriates on the ground and their unique understanding of a country's idiosyncrasies (Lee, 2017). Adaptation and change not only occurs in terms of industrial relations, the host country's government policy and institutional context but also trickles down to everyday encounters to the workplace. This showcases the relational perspective of VC literature, and the human perspective that has been emphasised (Fei, 2020). Lee (2017) depicts a Chinese managerial ethos of collective asceticism (or 'eating bitterness'), in contrast to other expatriates' ethos of individualistic careerism. Lee (2017) argues that the degree of collective asceticism among Chinese firms differs, depending on sectors and ownership (state or private). However, given the diversity of Chinese capital, as Lee claims, ownership has little validity to explain its distinct nature. Schaefer and Oya (2019a) warn us of the danger of statically perceiving work culture clashes and the contractual obligations with which Chinese firms expect local workers to comply. Instead, other factors are more important such as the production regime, sector specificities, strategic decisions and structural factors (Sun, 2017, pp.52–5 cited in Oya, 2019a, p.26).

Although Lee's research does not focus on private capital in the manufacturing sector, her analytical framework, especially the moment of accumulation, is particularly relevant to my study as it captures the dynamics of FDI (such as original capital accumulation, investment and re-investment). It is essential to explore to what extent different types of private firms adapt and change their production regimes and managerial ethos during their entire accumulation trajectories. Not only from the senior management level but also everyday encounters between Chinese expatriates and local workers. Among those Chinese private firms, it is interesting to ask why some firms have done better than others.

2.2.2. Understanding Chinese Capital in Global Capitalism: China's Political Capitalism, Varieties of Chinese Private Capital and China's 'Going Global'

In order to understand Chinese firms overseas, it is important to frame Chinese capital in relation to the process of the development of capitalism in China. Although China is fully incorporated in the global capitalist system, its social, political and economic system is very different from the classic model of Western capitalism, both in terms of origins and organisation (Milanovic, 2019). This section unpacks these issues with reference to selected sources that have provided insights into how to conceive of 'China's capitalism' and identify the main differences with the competing 'capitalist systems' in the rest of the world. The particularities of China's capitalism are also punctuated by variations within the country, driven by the different regional trajectories since the opening up of the Chinese economy and the emergence of capitalist relations of production in many sectors (Zhang and Peck, 2016; Peck and Zhang, 2013). These variations will be reviewed with specific reference to private enterprise. Finally, an appreciation of China's unique attributes as a different form of capitalism is needed to make sense of the drivers and changes associated with China 'going global' and, specifically, the rapid internationalisation of Chinese capital.

2.2.2.1. *China's Political Capitalism*

'[W]hat one learns about a society presented as a negative case should always be viewed cautiously…[But] what makes China China cannot be learned from a theory about Europe'.

(Hamilton, 1985, p.188 cited in Peck and Zhang, 2013, p.357)

'[E]very transition to capitalism has produced a new variety of capitalism […] China may be creating its own model of development…forging a new way to produce economic growth'.

(Fligstein and Zhang, 2011, pp.47, 59 cited in Peck and Zhang, 2013, p.357)

Whether China's successful economic development over the past four decades was driven by vibrant 'capitalism' is a controversial question that has been hotly debated by various scholars (e.g. Meyer, 2011; Peck and Zhang, 2013; Zhang and Peck, 2016; Gu et al., 2016; McNally, 2008). For example, Meyer (2011) points out that there are profound differences between institutionalised GDP growth and capitalism: the former is driven by the government, while the latter is driven by firms. 'Capitalism seeks profits; institutionalised GDP growth seeks production, employment, and ultimately, social harmony' (Meyer, 2011, pp.1–15). According to the author, China's case is something other than capitalism. Instead, 'institutionalised GDP growth is a more salient driver than corporate profits in the Chinese political economy' (ibid).

Based on economic institutionalism and neo-Marxist theory, the varieties of capitalism (VoC) approach 'seeks to account for enduring spatial variation in national economic performance by resource to macro institutional analysis, drawing ideal-type distinctions between liberal market economies (LME) modelled on USA, and coordinated market economies (CME), modelled on Germany' (Peck and Zhang, 2013, p.357). In a later work, Zhang and Peck (2016, p.53) argue that China's capitalism differs significantly from traditional developed economies (such as the German-style CME and the US-style LME); thus, China's case should not be placed into the existing analytical box. Instead, China's model of capitalism should be understood to exist in a 'triangular' relationship with the two conventional poles of varieties (the CME and the LME). Peck and Zhang (2013) state that the Chinese model is closer to state capitalism[14] than market socialism.[15]

In similar vein, Milanovic (2019) argues that since the advent of the 21st century, capitalism has become the only game in town globally. All countries engage in capitalist practices and greatly incorporate capitalism between and within countries. Notably, this has happened because some countries (such as China and Vietnam) embraced different social and economic systems than those common to Western states; thus, they eventually created a system of capitalism that is different from countries such as the United States, France and Italy. Therefore, Milanovic (2019) offers contrasting views on two versions of capitalism, political capitalism[16] and liberal capitalism, and variations within these two versions. China is just one, but prominent, example of 'political capitalism' (others include Vietnam and Ethiopia). China's specific form of capitalism began with reforms instituted by the government of former Chinese President Deng Xiaoping. China's political capitalism 'combines private-sector dynamism, efficient rule of bureaucracy, and a one-party political system' (ibid, p.91). These three characteristics shape China's transition to a market economy (Dinh, 2017, p.154; Ang, 2015). Milanovic (2019, p.124) concludes that China's success is attributed to 'the unique blend of political single-party centralisation and significant discretion regarding regional economic policies' (see also Ang, 2015, 2020).[17]

Milanovic (2019, pp.95–6) details three specific features of China's system: state efficiency, absence of the rule of law, and the autonomy of local and regional states. The particularity of China's political

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[14] ' See Footnote 5 for the full elaboration of 'state capitalism'.

[15] 'Market socialism' refers to 'the general designation for a number of models of economic systems. On the one hand, the market mechanism is utilized to distribute economic output, to organize production and to allocate factor inputs. On the other hand, the economic surplus accrues to society at large rather than to a class of private (capitalist) owners, through some form of collective, public or social ownership of capital'. (O'Hara, 2000, p.71).

[16] Drawing from Max Weber's definition of 'politically motivated capitalism' in *The Protestant Ethic and the Spirit of Capitalism* was 'the use of political power to achieve economic gains' (cited in Milanovic, 2019, p,91).

[17] Ang (2015) uses the term 'directed improvisation' to illustrate the combination of centralised direction and decentralised agency.

capitalism can be seen, according to the author, in the central government's provision of political incentives to local leaders for the promotion of regional economic development while maintaining social peace. This is to say, the central government established a performance evaluation system to enhance its political legitimacy through economic growth. This system was gradually implemented by the central government to encourage local leaders and governments to take a range of actions, on an experimental basis, to meet their targets.

Various scholars argue that China's local states are the leading agents or direct regulators of capital accumulation (Hung, 2008, 2016; Ang, 2018). Local developmental efforts have escaped central government control although the level of control in each region differs (e.g. Ang, 2018; Naughton, 2018, 2007; Dinh, 2017; Lee, 2017; Kroeber, 2016; Bramall, 2009). State Councils empowered certain cities (such as Guangzhou) to cut bureaucracy and improve economic planning and approval at the local government level. For instance, the introduction of the concept of '分灶吃饭' (*fenzhao chifan*)[18] created a system of dividing revenue and expenditures between the central and local governments. This completely changed the central and local fiscal revenue pattern, and further strengthened the ability of decentralisation (Wu, 2017, p. 281). This led to greater commitment on the part of local officials to economic development and trade (Phillips and Yeh, in Cannon and Jenkins, 1990, p.240). Local leaders can be regarded as 'quasi-autonomous plenipotentiaries of the central authorities' (Milanovic, 2019, pp.123–4). In addition to political loyalty and providing revenues to Beijing, boosting the regional economy is also an important responsibility for local leaders.

It is important to note that the degree of subnational heterogeneity is quite substantial in China, which questions those models of capitalism from VoC (i.e. Japanese capitalism or German capitalism) that 'focuses narrowly on institutional coherence at the national scale' (Zhang and Peck, 2016, p.54). Peck and Zhang (2013) engage with the emergent approaches to 'variegated capitalism' in economic geography to look at the heterogeneity of the Chinese case. Knoerich et al. (2021) also note in their analysis of 'fractions of capital' in India that the spatial/regional dimension may vary across countries, with specific locations or wider regions being the site of associated networks of capital.

Based on an emphasis on subnational variation, 'variegated capitalism' approaches reject the 'methodological nationalism' inherent in VoC theory (Fei, 2020; Lee, 2017; Zhang and Peck, 2013; Peck and Theodore, 2007). Peck and Zhang (2013, p.359) argue that 'emergent approaches to VC share with VoC a concern with the macro geographies of capitalist transformation, with path dependency (understood dynamically) and with the enduring roles of institutions and institutionalisation—

[18] It was first adopted by former Premier Zhu Rongji in 1980.

suggesting some bases for continuing conversation'. VC diverges somewhat from VoC orthodoxy in the following five aspects. Firstly, VC approaches embrace multi-scalar forms of analysis over monoscalar ones. Secondly, VC approaches emphasise disjuncture and contradiction rather than nationally scaled institutional coherence. Thirdly, VC approaches stress mutual interdependencies between local economies, utilising relational perspectives, rather than emphasising endogenous logic. Fourthly, VC approaches explore neoliberalisation and finally aim to 'reach into more-than-capitalist worlds while tackling the dominance of neoliberal globalism' (Peck and Zhang, 2013, p.359) (see Table 3 for more details on analytical contrasts).

Table 3: Varieties of capitalism versus variegated capitalism: Analytical contrasts

	Varieties of Capitalism	**Variegated Capitalism**
Concern	Explanation of national economic performance by way of institutional means	Explanation of uneven development regarding globalising but polymorphic capitalism(s)
Rationale	Search for endogenous logics, reflected in the 'coherence' of national models and expressed institutionally	Search for sources of meaningful variegation and spatial/scalar fixes, positioned in the context of shifting macro-ecologies of accumulation and regulation
Method	Agent-centric, focused on firms and recognised collective actors; rational choice institutionalism	Relational, concerned with the unfolding of transformative processes in space/time; realist materialism
Cases	Selection of advanced capitalist countries, conceived as relatively autonomous models, skewed towards the United States and Europe	Global, embedded within the international division of labour and transnational regulatory relations; broad embrace of cases and conjunctures
Dynamic	Equilibria; tendency for institutionalised coherence around bipolar rationalities	Contradictory disequilibrium; (co)evolving forms of combined and uneven development
Scalarity	Myopically national, albeit in the context of competing (but singular) national models, horizontally positioned within an international economy	Multi-scalar, connecting cases at the regional, national and global scales through the network and hierarchical relations; co-constitution of economies at global and other scales
Interdependencies	Minimal; models compete on a level playing field; in principle, 'all varieties are equal'	Deep interdependence, including co-dependent forms of development; varieties are never equal, analytically or in fields of political economic competition
Diffusion	Tendency for more robust or favoured systems to spread; best institutional practices associated with superior economic performance; replicative limits untheorised	Shaped by transnational rules, in particular the ecological dominance of neoliberalism at the global scale; limited scope for replication

Source: Zhang and Peck (2016, p.56) developed according to Peck and Theodore (2007) and Jessop (2012)

Adopting the VC approach, Zhang and Peck (2016, p.52) examine a range of 'sub-models' of Chinese capitalism and argue that there are distinct differences in regional styles of capitalist development, such as Guangdong ('dormitory regime in transition'), Su'nan ('transnational technology complex') and Wenzhou ('Marshallian development in crisis'). These regions are also networked into global production networks in what can be termed 'offshore' economies (ibid). As will be shown in the empirical chapters of this thesis, these regional patterns and 'models' provide useful clues to understand the networked nature of Chinese private firms investing in Ethiopia.

2.2.2.2. *Varieties of Chinese Private Capital and Capitalist Elites*

Another way of dealing with the 'variegated' nature of China's capitalism, while departing from VoC theory, is Lee's (2017) notion of 'Varieties of Capital', according to which Chinese state capital follows a combined logic of both state imperatives and capital orientation. Building on this insight on varieties of capital, this section will introduce 'varieties of Chinese private capital' and capitalist elites under China's political capitalism.

First, it is important to consider that the notion of 'varieties' of capital has Marxist analytical roots. Appreciation of different 'fractions' or 'factions' of capital can indeed be traced back to Marx's own work, even if he did not fully develop the framework of different (and sometimes opposing) fractions of capital. Although the Marxist schema focused on the opposition capital-labour as abstract categories, Marx was well aware of their concrete manifestations, and the internal segmentation and diversity within classes. Subsequently different Marxist scholars have developed the concepts of class fractions in a range of ways. For example, Bernstein (2007) has theorised the 'classes of labour' as a heterogenous social class, whose interests depend on the particular class location of distinct segments of the working class. Knoerich et.al (2021) explore the idea of fractions of capital, within a Marxist political economy tradition, and develops the concept of class fractions along three dimensions. First is scale of production or business, which differentiates different types of capital, e.g. corporate vs family business. Second, the spatial/regional location, which denotes the importance of spatial differentiation among capitalists and the emergence of networks of capital based on similar geographical origins. Third is the social origin of capital, which refers to the prior social locations of those who become capitalists during the processes of social and economic transformations, hence landlord, peasant, merchant, artisan and other social groups, which could be (or not) part of previous dominant groups in pre-capitalist societies. These three dimensions are also important to understand the 'fractions' of Chinese emerging capital.

In China, critical to the formation of the first generation of private firms was the commitment of the central government to a market economy. Local businesses began to be aggressively championed after the reform by the local governments as they had the means to do so (Dinh, 2017, p.154). For instance, fiscal reforms beginning in 1994 created strong incentives for local governments to foster industrial clusters. Before 1994, local government expenditures were the responsibility of the central government as all taxes were channelled there. The 1994 reform established a tax-sharing system and introduced a hard budget constraint on local governments. Within their jurisdictions, they were now financially responsible for providing most public services.

Meanwhile, as a result of the highly regionalised autonomy and improvisation at local levels for the purpose of economic development, the ownership structure of firms has become extremely complex and diverse across different regions (Milanovic, 2019). Firms have varied degrees of state ownership: some are cooperatively owned while others are purely privately owned. Indeed, the ownership maze in China is a historical problem (Nolan, 2014). Ownership structures have become more complex and opaque after a series of remarkable reforms undertaken in the past four decades. Indeed, the history of ownership reform has had a clear impact on the formation of PEs,[19] which is important to understand the variety of Chinese private capital.

Deng's statement to 'let a few people get rich first' (让小部分人先富起来),[20] given in 1985, had profound implications as it enhanced the confidence of rejuvenating the private sector and capitalists, which were banned during the pre-reform period. Milanovic (2019) points out the rise of a variety of new capitalist elites in China since the reform. In China almost all new exponents of an emerging capitalist class started from scratch beginning in 1978. '[T]his new capitalist class in China might be more of a "class by itself" than a "class for itself" than the cases in the west' (ibid, p.105), in the sense of only having a limited time experience.

According to Zhang and Peck (2016, p.61), interfirm relations, such as the dominance of family and '*guanxi*' networks,[21] plus patron–client ties are prominent in the private economy in China. In addition, weak legal enforcement and the limited protection of intellectual property rights in Chinese capitalism (what Milanovic refers as 'absence of rule of law') mark another distinct feature (ibid). In a related study, Yang, Novokmet and Milanovic (2019) compare social classes and groups of capitalist elites in 1988 and 25 years later and find a stark contrast, which is a manifestation of rapid social transformation. In 1988, workers, clerical staff and government officials were the three classes accounting for 76.5% of the urban elite (defined as the top 5% income group in urban areas). In 2013, the share of those groups halved while business owners, individual business, and professionals (professionals and the top 'capitalist classes') rose rapidly and accounted for the majority of the urban

[19] See Chapter 4 for further elaboration.

[20] News of Chinese Communist Party, Online available at: https://baike.baidu.com/reference/6750663/069eErU0DIB-fySOXzAj7m8lRu2hl8REsA8wunpbnwg-jscl1qncXAcFiRnSswz5_TXpQRBrXp4gY-lUpHYUztk2ao7eqGGw4Kdw

[21] '*Guanxi*' translates broadly as 'relationships' and 'connections' (see Footnote 3 and 7 for the full elaboration).

elite (58.9%) from less than 25% in 1988 (ibid). The study predicts that the tendency among capitalists in China to enrich themselves without exercising political power might continue.

These changes in the composition of China's elite imply a restructuring of social class, with a rapid rise of an emerging capitalist class, and their investment abroad leads to new relationships between the state, capital, labour and institutions. Thus, it is also important to explore the social origin and backgrounds (family, education, work experience and *guanxi* networks) of the emerging 'capitalist elites' (from now on referred to as 'entrepreneurs'). It is of equal importance to understand how they achieved successful accumulation of capital in China. These are empirical questions that will form a significant part of the analysis in this thesis (Chapters 5 and 6).

2.2.2.3. *'Going Global' in the Context of China's Capitalism*

Understanding the nature of China's capitalism and the variegated nature of Chinese 'capital' is essential to make sense of China's 'going global'.

'Going Out' refers to the attempt to 'create externally driven economic growth, find new raw material supplies and investment opportunities for state companies, and in the process make them more globally competitive' (Lee, 2017, p.651). President Jiang Zemin initially suggested the 'Going Out' strategy in 1999, and this was included officially in China's tenth Five-Year Plan in 2001 and then implemented in the 11th Five-Year Plan in 2006 (Gonalez-Vicente, 2011, p.402)) (see Chapter 4 for the full elaboration of China's 'Going Out' policy).

Historically, Chinese SOEs began 'Going Out' earlier than PEs. In terms of sectoral focus, resource extraction and infrastructure project contracting were two of four main types of investment that received policy support since 2001 (Lee, 2017, p. 23), and the main beneficiaries and targets of the 'Going Out' strategy have been large-scale SOEs (Gonalez-Vicente, 2011). Meanwhile, the Chinese central government also actively promoted private-owned 'national champions' (such as Huawei and Haier) to go out. Gradually, a large number of private firms' (mainly SMEs in manufacturing industries) joined the 'Going Out' process after 2008, and the pace accelerated significantly after the inauguration of the Belt Road Initiative (BRI) in 2013. This reflects a step-by-step approach reminiscent of the gradual experimental approach to economic reforms in the 1980s and 1990s, famously encapsulated by Deng Xiaoping quote 'crossing the river by feeling the stones'. Large SOEs 'going global' first was less risky than private firms taking the lead in the process.

The co-existence of centralised control and decentralised improvisation offers a key lesson for studying global China (Ang, 2020, 2015; Lee, 2017). China's capitalism reveals three aspects that are essential to Chinese capital's 'Going Out'. Firstly, firms' histories in the domestic context matter (Voss, Buckley and Cross, 2010). China's 'Going Out' is similar to its domestic context in that it is highly uneven, complex and unpredictable. China's particular combination of centralised control and decentralised improvisation suggests the importance of not only government policy and institutional context at the central level but also the particular role of the provincial state (Gu et al., 2016). Milanovic's argument is highly pertinent here, as he points out that the incentives the central government gave were political: they rewarded administrative bosses who managed to promote regional economic development by moving them up in the hierarchy (2019, pp.123–4).

In this sense, indices such as local GDP growth, employment and tax rates have been utilised as benchmarks to evaluate local administrative bosses' political performance. This matters because capital accumulation in China is directly regulated and led by local states (Lee, 2017, p.8). Dinh (2017, p.7) notes that 'in China, local governments are directly connected to industrial clusters. By focusing on individual clusters and frequently communicating with local entrepreneurs, local government devise policies clearly targeting specific industries'. In short, while the central state may provide an overall direction of priorities, local states 'pick winners' in practice. Dinh (2017, p.10) shows 'how China's local industrial policy of "backing winners" evolved by experimental design and was adapted to local circumstances'. Some local leaders focused more on taxes while others valued employment, depending on the priority in a particular region. Predicated on which actions each provincial and local government undertook to follow the directions from the centre, private firms in different sectors may be affected in various ways. Such actions can generate 'push' effects and induce some firms to 'go out'. For example, local governments from the coastal regions started to implement policies that would force out low-end high-pollutant industries from their jurisdictions (Ang, 2018). As a result, local enterprises in those regions had to either restructure their production or relocate. Cost pressures do matter, and rising wages have been a structural national issue in the low-wage sectors as well, but government policy at the local level can also influence certain firms' 'Going Out'(ibid).

Furthermore, the personal backgrounds of the business owners and investors matter (Gu et al., 2016). As discussed in Section 2.2.2.2, company networks and connections in the form of *guanxi* with the government (local government in particular) might also have an effect on when and how to 'go out'. In reality, entrepreneurs' family history and the level of their *guanxi* networks might determine the level of influence they can exert. This also largely relies on how firms built, maintained and leveraged their relations with the government. For instance, if a private firm's owner is the family member of a local government leader, it can influence the government to create favourable outcomes through its *guanx*i networks. This may then be reflected in incentives to 'go out', making use of finance and connections overseas.

2.2.2.4. *Summary*

In conclusion, both VoC and VC approaches are helpful to understand the inner workings of Chinese capital in the global capitalist system. In particular, the notion of ‘fractions’ or ‘varieties’ of capital are critical to unpack the composition, logic and drivers of Chinese capital. Milanovic argues that the rise of capitalism in China has profound implications for the world and, secondly, China’s capitalism is different from other known types of capitalism. We cannot understand Chinese capital without understanding China’s capitalism, and the way enterprises emerged and related to state institutions has significant particularities. That is why the ‘political capitalism’ concept combined with the ‘fractions’ or ‘varieties’ of capital are very useful for the research design, the analysis and arguments of this thesis.

China’s political capitalism, the existing varieties of Chinese private capital and the new urban capitalist elites are the outcomes of China’s past four decades of reform and development. These perspectives on China’s capitalism are critical to account for China’s ‘Going Out’. Both China’s national and regional/local political economy conditions need to be taken into consideration. The sub-national context (such as local economic situation and government policies), and firm’s (or entrepreneur’s) *guanxi* networks with the Chinese government at various levels, are additional important factors that push and pull business owners to make critical business decisions, such as investing overseas.

2.2.3. Framing the Role and Trajectories of FDI

2.2.3.1. *The Role of FDI and the Internationalisation of Firms*

Chinese firms investing overseas constitute a form of Foreign Direct Investment (FDI). Much of the literature on FDI draws from studies of transnational corporations (TNCs) operating in industrialised countries in the 1960s, as they were the first companies to internationalise on a large scale since then (Voss, 2011; Tang, Selvanathan and Selvanathan, 2012). The theoretical approaches to FDI can be categorised into three traditions: the first is mainstream neo-classical economics (NCE); the other two are non-orthodox approaches, namely structuralist development economics and radical political economy (Lo, Hong and Li, 2016; Lo, 2012; Jenkins, 1987).

2.2.3.1.1. Neo-classic Economic Views

The analysis of the role and impact of FDI in the developing countries has been predominantly developed by mainstream, mainly neo-classical economics scholars, who usually express positive views about these questions, i.e. they see the effects of FDI on a range of developmental outcomes are overall positive. Early NCE assesses FDI as an additional capital flow (financial resource and foreign exchange) to host countries that can potentially help alleviate poverty and restructure domestic balances of payments (Jenkins, 1987). The approach to the question is, therefore, fundamentally macroeconomic and places FDI as a source of investment in aggregate demand analysis. This view has been supported and extended by further neo-classical economic analysis, with an additional focus on micro-level firm and sector dynamics. In this view, it is believed that FDI is beneficial to host country economies as it not only provides additional capital flows but also promotes changes in productivity through technology transfer and structural or institutional changes (Lo, Hong and Li, 2016).

However, the conventional theory of TNCs also contends that firms' internationalisation exploits their existing resources, assets and technology to generate competitive advantages over indigenous firms in host country markets (Hymer, 1976; Kindleberger, 1969). This may have negative implications for the development of domestic firms in host countries unless spillover effects from FDI are sufficiently strong to generate growth.

Traditional TNCs' Internationalisation

NCE focuses on market forces and assumes that market imperfections are exogenous, whether 'natural' or 'government-induced' (Jenkins, 1987, p.21). It is believed that key intangible assets such as organisational capability, know-how and management skills, and exogenous elements such as government intervention, access to raw materials and bargaining power with host country firms can be particularly costly for investors. Moreover, trade barriers, differences in tax rates between countries and restrictions on capital movement (e.g. ability to repatriate profits) provide a further incentive to internalise, since intra-firm prices can be set to minimise the effects of such controls (ibid). By internalising external markets and externalities through intra-firm relations, transaction costs can be reduced (Cantwell, 2000), uncertainty and risks of the market can be mitigated and efficiencies can be enhanced. In this view, the diversification of the motivations for FDI has been emphasised, and TNCs are viewed as efficient allocators of global resources.

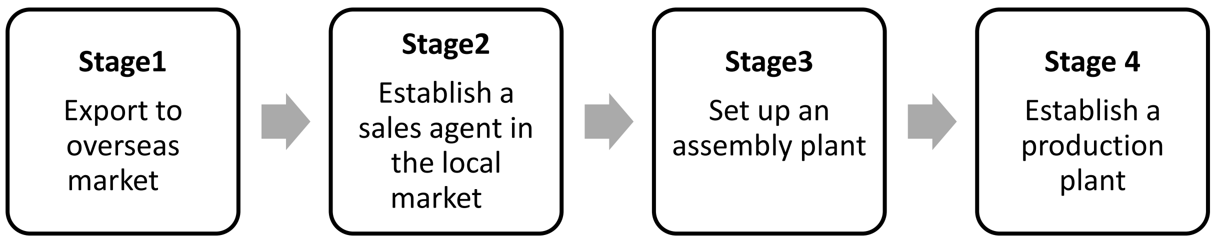
The dominant theory explaining FDI has been the 'Eclectic Paradigm', which focuses on asset exploitation and firm-specific advantages (FSAs) (Knoerich, 2019). The paradigm developed by Dunning (1980, 1981) is the most comprehensive analytical approach within mainstream economics in explaining the motivation and determinants of TNCs from developed countries deciding to invest in developing countries. According to Dunning (1981), TNCs have three advantages: ownership-specific advantages, internalisation-specific advantages and location-specific advantages (also called the 'OIL' paradigm) to achieve their internationalisation. The 'OIL' paradigm is useful as an organising framework to understand FDI drivers as it offers choices for the firm to achieve internationalisation based on its existing advantages. However, Dunning's initial empirical work was mainly based on TNCs from the US and European countries in the manufacturing and petroleum industries. Sector features matter and the institutional context in which firms operate matters too in order to understand the determinants of investment decisions. The ‘OIL’ paradigm does not reflect the characteristics and investment processes of these kinds of firms.

Arguably, a single universal theory applicable to all circumstances of FDI is of questionable validity. Since then, FDI has grown in multiple directions and across various sectors, and its dynamics have changed to correspond to variegated social, economic and political environments (Tang, Selvanathan and Selvanathan, 2012). Motives for FDI are far more complicated than any universal theory could encompass, and the OIL model does not properly accommodate for the consequences of three decades of globalisation (Li, 2003 cited in Voss, 2011). The ‘OIL’ paradigm is not applicable to new TNCs from developing economies as it fails to show how these latecomers gain their initial competitive advantages, and how can they catch up with traditional TNCs from the Global North over time (Li, 2008). Moreover, it assumes that firms are already mature and large in scale prior to their internationalisation. Thus, it is not applicable to, for example, family-run SMEs with little international experience.

SMEs’ Internationalisation

The Uppsala model (Johanson and Vahlne, 1977) also analyses firms’ internationalisation activities (Stremtan et al., 2009), but it is particularly suitable for SMEs that have little international experience. The theory argues that firms tend to expand in global markets slowly and according to a step-by-step approach due to their lack of overseas market knowledge, high uncertainty and risk avoidance factor constraints. It is a gradual linear process for firms to internationalise (see Figure 1).

Figure 1: The process of internationalisation



Source: Derived from Johanson and Vahlne (1977)

The Uppsala model posits that cultural proximity is of great importance in attracting FDI since firms prefer to enjoy the same comforts found at home when investing abroad. However, although the

Uppsala model (see Johanson and Vahlne, 1990, 2009) helps explain how SMEs achieved internationalisation, it is based on empirical case studies of Swedish firms in capital-intensive industries. Moreover, the Uppsala model emphasises formal linkages (business networks), while informal linkages (social networks) such as family ties, ethnic connections and other social factors are categorised as 'Other'. There are of course insights into the different stages and the gradual nature of internationalisation that may be useful to frame the real experiences of SME-FDI from developing countries, but it remains a narrowly focused analytical framework with limited applicability for the purposes of this research.

2.2.3.1.2. Structuralist Development Economics

Neo-classical economic arguments about FDI have been challenged by heterodox economic approaches, especially structuralist development economics. A pioneer within this school, Stephen Hymer (1960) developed the market power approach in his PhD thesis to explain the reasons why TNCs from industrialised countries invest abroad and why they achieve better penetration in host countries than local firms. Two reasons are recognised by Hymer (1976 cited in Jenkins, 1987) for leading firms to control subsidiaries in host countries: firstly, to exploit their firm-specific or monopolistic advantages over indigenous firms in host countries; secondly, to remove competition and eliminate conflict between the firms concerned. The first reason has been internalized in mainstream writings on TNCs (Dunning, 1980, 1981), while the second point has only been embraced by structuralist development economics (Jenkins, 1987), with some authors proposing a 'global reach' view (Barnet and Muller, 1974) with different labels such as 'industrial organisation theory' (Newfarmer, 1985) and the 'nationalist approach' (Lall, 1974).

As opposed to the mainstream notion of the exogenous nature of market imperfections, structuralist development economics posits that market imperfections are created by TNCs in order to facilitate their competitive advantage, based on evidence from Latin America (Jenkins, 1987). Industrial organisation theory views TNCs as an active agent of collusion and market power (Cantwell, 2000). Here, FDI is not considered a flow of resources so much as part of the strategy of the oligopolistic behaviour of firms to obtain monopoly rents (ibid) and expand their market power by investing overseas.

Amsden, a famous development economist working across the traditions of the developmental state and structuralist development economics, paid substantial attention to the role of FDI in the 'rise of the rest' with special reference to East Asia. Her views on FDI (2007, 2009), are worth noting because of her nuanced, if a bit pessimistic, view on FDI in Taiwan and the importance of pushing for domestic linkages to make sure FDI is not a simple 'enclave'. She was well aware of the critical work done by structuralists on the pernicious effects of FDI in Latin America and tried to document the ways East Asian Tigers managed to avoid some of these perverse outcomes. Her position is also relevant to the issue of FDI management by governments (see Section 2.2.4.1.1). Amsden explains why FDI from developed countries might not contribute much to innovation and structural change unless induced by the 'sticks and carrots' of a developmental state with agency (2007, 2009). According to Amsden, ownership matters, as market theory does not apply when competition depends on monopolistic assets. She compares private-owned enterprises (PoEs) from developing countries and foreign-owned enterprises (FoEs) from developed countries, and argues that in monopolistic industries, FoEs may not add more to economic development than PoEs. This is because the assets differ between PoEs and FoEs at their particular stages of evolution. In fact, some of the best PoEs are usually more entrepreneurial than FoEs in the fastest-growing emerging economies (for example, Tata and Samsung) (Amsden, 2009, pp.1–2).

According to Amsden, the main danger is that PoEs from developing countries can be crowded out by FoEs from developed countries, and consequently may find themselves unable to acquire the necessary assets to grow on a sustained basis and achieve economic upgrading. For economic development to flourish, it is not desirable that FoEs are in direct competition with PoEs, but that positive spillover effects are nurtured so that FDI can play a catalytic role. Moreover, it is dangerous for a promising PoE to directly take on an established FoE with a dominant position in a market when it is backed by the host country government (ibid). Nevertheless, Amsden's study, like many others, especially in Latin America and Asia, mainly focuses on the experience of OFDI from developed economies to emerging economies (e.g. Taiwan and South Korea); the impact of outward FDI from developing countries to developing countries might be different, especially if the differences in terms of technology, know-how, market knowledge and organizational capabilities are not huge. Hu et al. argue that 'when both the host and origin economies are themselves developing nations, FDI flows are likely to have a more profound technological impact on host developing nations than when FDI comes from developed economies' (2021 p.1).

Given that outward FDI from developing countries to developing countries has grown significantly in the past two decades, the view that only developed economies play the role of FDI source to developing countries no longer stands (Hu et al., 2021 p.1).

One possible weakness of the structuralist development economics approach is the absence of theorisation of the distinct role of the host country state and its political leadership to manage foreign investment and the rents created to attract investment, with the exception of the work by Amsden. In a rather pessimistic fashion, much of the structuralist literature regards states in LDCs as a homogenous entity that is fragile and incapable of or with limited capacity to managing and disciplining TNCs. Furthermore, the heterogeneity of foreign firms has been given scant consideration. In reality, specific mechanisms can be built between the host country government and foreign investors to foster effective cooperation and optimise positive spillovers for domestic companies. For instance, Eom's study shows that the Rwandan government can kickstart industrialisation by taking control of their structural transformation pathway by requiring foreign investors to implement skills transfer programs (2018, pp.5-6). Eom shows that skills transfer programs can take off in a technology-focused economy that is working to diversify its industrial base over time and is not only limited to labour-intensive manufacturing industries, such as textile production (see Section 2.2.4 for further elaboration).

The alleged monopolistic power of TNCs becomes less obvious in the current context due to the increasing integration of the global economy and the rise of global production networks (GPNs) with complex outsourcing mechanisms in an ever growing number of countries; doing business globally has become more flexible and less hierarchical, although coordination and technological inequalities remain of paramount significance. Nonetheless, the early Hymer's view on the monopolistic power of TNCs is still valuable to examine the asymmetrical power relations in the global production system in specific sectors (such as textile/garment), where global brands exert enormous influence on production conditions in developing countries. This discussion is now rejuvenated by the literature on global value chains (GVCs) and global production networks (GPNs) which has shaped our understanding of global interconnections with firms at the centre of the picture (see Section 2.2.3.1.4).

2.2.3.1.3. Radical Political Economy and Dependency Theory

Rradical political economy, in conjunction with Dependency Theory, offers a further alternative framework that shares some similarities with structuralist development economics, but goes beyond that analysis and draws different policy conclusions. Radical political economy and dependency theory generally hold pessimistic views regarding the impact of FDI on the Third World. It is argued that FDI causes a 'crowding out' effect on the local market, widening income inequality, and has detrimental effects on the host country's growth (Lo, 2012). Thus, OFDI in LDCs results in the 'blocking of development' (Amin, 1977) or the 'development of underdevelopment' (Frank, 1980) and a 'de-skilling' effect (Jenkins, 1987, p.28). In Dependency Theory, which was very influential in Latin America and Africa in the 1970s, FDI is thus seen as a mechanism for the perpetuation of centre-periphery relations when such investments do not contribute to generate endogenous production capabilities and exacerbate dependence on inadequate technology, an insight developed by some dependency theorists (Furtado 1983).

One important theoretical proposition that relates to the drivers of FDI is the new international division of labour (NIDL) thesis, which was formally developed by Frobel, Kreye and Herichs (1980) to explain the expansion of industrial production in LDCs since the 1960s (Lo, 2012). Different from the 'old' international division of labour that was mainly concerned with imperial and colonial systems and exchanges of finished goods and raw materials, the NIDL instead focuses on the creation of overseas production bases of core country TNCs (Coe, 2013). The NIDL thesis contends that pursuing low-wage costs is usually the primary motive that drives TNCs from developed economies to export industrial capital to developing economies, in the form of subcontracting or FDI (Lo, 2012). The NIDL approach views the nature of the market in two distinct ways: firstly, its assumptions are based on Lewis's notion of unlimited supplies of labour (ibid). Secondly, the nature of the division of labour differs from Smith's concept of specialisation. While Smith contends that 'the increase in productivity achieved through the progressive division of labour was the central means by which capital expanded its value' (Frobel et al., 1977, p. 132), the NIDL thesis adopts Hymer's application of the Charles Babbage principle on the intra-firm division of labour of TNCs (Lo, 2012, p.18).

These views suggest that FDI tends to maintain the specialisation among recipient developing countries in low value-added production (Lo, 2018). The decomposition of work processes (e.g. the Taylorization[22] of work) ensures that the efficiency of work in host countries remains the same, while specialisation in low-tech activities results in a de-skilling of local workers and compensation is quite low (ibid). Moreover, there are very weak linkages with indigenous firms in recipient developing countries. This makes economic upgrading, i.e. moving up the value added ladder, harder.

However, the NIDL thesis has also been criticised as it mainly applies to certain industries that are more subject to competition pressures, e.g. light manufacturing or electronics (Jenkins, 1984). Moreover, the applicability of the price differentiation notion of the NIDL thesis has been challenged: firstly, due to the ground-breaking development of information, technology and communication (ITC), firms can separate production processes both in space and time (Grossmand and Rossi-Hanskerg, 2008). Production models become more diverse and flexible and are no longer confined by any single approach. Lean production, re-organisation, automation, etc. are typical in some industries such as textile and footwear, and some production models may coexist (Luthje et al., 2013) to enhance productivity. Secondly, Piore and Sables's (1984) flexibility theory contends that fundamental changes

[22] Taylorism refers to 'a factory management system developed in the late 19th century to increase efficiency by evaluating every step in a manufacturing process and breaking down production into specialized repetitive tasks'. Online available at: https://www.merriam-webster.com/dictionary/Taylorism#:~:text=%3A%20a%20factory%20management%20system%20developed,production%20into%20specialized%20repetitive%20tasks [Accessed December 20, 2020].

in market competition in developed country markets imply that firms need to be more flexible in their production arrangements. The ability to respond to changes in market demand and product quality quickly drives TNCs to relocate their industrial capital to developing economies (Lo, 2012). In short, both perspectives mentioned above have superseded the analysis of the NIDL thesis.

Another criticism of the cost-induced relocation of industrial capital is based on the market perspective. The NIDL thesis fails to see that firms' relocation of industrial capital can also be driven by market-seeking, not simply cost-cutting. The potential economies of scale of the host country market (domestic market) and access to exports to other foreign markets are also important factors that lead firms to relocate their industrial capital to recipient countries, as will be shown in the case of Chinese industrial investors in Ethiopia.

However, although the proposition of pursuing cheap labour costs as the driver for TNCs to expand industrial capital to LDCs might not always be persuasive, there are still some valuable points when applied to the current context of FDI to latecomers. Lo (2012) points out that the emphasis of the NIDL thesis is not merely 'cheap labour'. Rather it focuses on the pattern of international specialisation involving various forms of the optimal combination of labour and capital under the profit maximisation pursuit of capital. Viewed in this way, the approach may contribute to a broader and more empirically relevant understanding of FDI dynamics and its effects on host country economies.

2.2.3.1.4. GVCs and GPNs

Structuralist and radical political economy view have put the NIDL and the particularity of economic and production structures in developing countries at the centre of any understanding of the role of FDI in the developing world. Therefore, accounting for TNC strategies to penetrate emerging markets and outsourcing to other developing countries requires a more granular exploration of the interactions between TNCs and other firms in LDCs in new configurations of global production. As a result of changes in the organisation of international production, international trade in intermediate goods has expanded significantly, and the NIDL in segmented production has developed rapidly. Meanwhile, industrial clusters have proliferated in many places, especially in East Asia, where dense vertical supplier chains have formed. The monopolistic/oligopolistic power of TNCs and the NIDL framework have been extended as analytical categories in the literature on GVCs and GPNs which brings space and the governance of relations between firms to the centre of the analysis. GVCs and GPNs have obvious similarities and shared origins, and the terms are often used interchangeably, but GPNs more specifically refer to organizational arrangements and interconnections between firm and non-firm actors across multiple geographical locations and coordinated by a lead firm (Coe, 2013). Both explicitly explore how regional clusters and industrial spaces are incorporated into global production systems and consider the implications for industrial upgrading and local economic development (Coe et al., 2004, p.469).

The GVC approach was developed based on industrial economics and world system theory, asserting that production processes can be made more fragmented into narrowly defined segments or tasks as a result of GVC's enabling of finer degrees of specialisation (Escaith, 2014). The theory on GPNs was then developed by Henderson et al. (2001) as an approach to global production processes that builds on the GVC methodology, but with a focus on production networks organised around specific firms within value chains. As a result, the GPN literature is situated within the field of economic geography; therefore, it is especially concerned with issues of spatial dynamics in capitalism and different layers of governance and organisations of GPNs. Insights from the key notions of the GVC literature, actor–network theory and the literature on the varieties of capitalism are combined in the literature on GPNs. In sum, the GPN approach goes beyond the linearity (or verticality) and approaches all kinds of network configuration.

From the division of labour sphere, the GVC literature challenges the NIDL thesis in the sense that the production of different goods and services is supported by much more complex global networking (Coe, 2013). Whitfield, Staritz and Morris (2020, p.1) argue that 'the potential for localisation benefits depends on the type of global buyers and foreign producers and their levels of embeddedness, but whether this potential is realised also depends on local firm characteristics and related industrial policy'. The authors take apparel GVCs as an example and argue that

> concentration among retail corporations and greater dispersion of production across supplier firms in many countries accelerated oligopolistic structures that resulted in a supplier squeeze: buyers demand higher entry requirements and risk-bearing from suppliers while keeping prices low or even lowering prices paid to them. (Whitfield, Staritz and Morris, 2020, p.3)

The localisation and upgrading potential of firms to participate in certain GVCs are determined by GVC governance structures, which are usually determined by leading firms that establish the allocation of resources, the process and product specifications and the performance standards within the chains. This has implications for the distribution of income, value and risks (Gereffi et al., 2005; Gibbon et al., 2008; Kaplinsky and Morris, 2001). For example, buyers have multiple reasons for engaging with suppliers outside of their traditional sourcing locations. Some suppliers from East Asian countries have managed to upgrade and have thus become first-tier suppliers in apparel GVCs since the 1990s. Those suppliers also shape the potential for upgrading and localisation by establishing triangular manufacturing networks through which apparel GVCs can be entered into by new suppliers and countries (Gereffi, 1999). These transnational producers have developed highly flexible models of sourcing and global production, enabling the rapid integration of new cost-efficient sites into their network and taking advantage of evolving capital–labour relations, international trade policies and geopolitical climates (Azmeh and Nadvi, 2014; Gibbon, 2008; Morris et al., 2016 cited in Whitfield, Stariz and Morris, 2020, p.8).

However, by corporate strategies, buyers have looked to reduce reliance on key Asian supplier countries due to increasing wages and the challenges these countries have faced in terms of labour and safety standards. Some buyers, predominantly those in the US, have shifted a share of their sourcing to SSA instead. This trend is likely to grow in forthcoming years, with buyers looking at suppliers based in Kenya and Ethiopia in particular (Whitfield, Staritz and Morris, 2020). Ethiopia's emergence as an apparel supplying country was driven both by its government's proactive industrial policies to promote labour-intensive and low-tech industries and by the number of global buyers and transnational producers seeking lower-cost locations (ibid). Other factors include the low water, electricity and wage costs, a large and young labour force and favourable access to the US and EU markets (Brautigam et al., 2015; Staritz et al., 2016, 2019; Gebreeyesus, 2014). Ethiopia's policies were inspired in part by the development experience seen in East Asia, focusing on strategic foreign investment and exporting. These policies also importantly link local firms to the national economy and domestic market production (Oqubay, 2015, 2019a).

Further, the GVC- and GPN-related literature explains how different types of suppliers and developing countries integrate into the international production system. It stresses that not only the specific external contexts with GVCs but also the host country's strategic industrial policies and related institutional context matter (Yeung, 2016). Although the GVC and GPN literature weighs power relations and the politics of multilateral players, it only raises the role of the state in the sense of regulatory and institutional context (of industrial policy), which is important but not sufficient. The dimension of the politics of the host country government to govern FDI and integrate it into the domestic value chains in serving upgrading strategies is absent, for example (Behuria, 2019). Insights on intra-firm relations, flexible sourcing and the terms of incorporation of new countries in different kinds of GPNs remain, nonetheless, relevant to interpret the experience of some types of Chinese firms in Africa.

2.2.3.1.5. Summary

Mainstream views help us uncover the market forces driving FDI, especially in the case of flows from developed to developing countries. The primary purpose of outward FDI is to enhance productivity growth. Neo-classical economic approaches provide a useful conceptual framework to explain some types of firms' internationalisation motives and strategies. However, NCE analysis has numerous limitations. Firstly, it views FDI as the primary concern of technology transfer and resource allocation.

As a result, there is little connection with local operations (which are fundamental for manufacturing investment). Firms' internationalisation in the form of FDI (productive-led investment) implies a new form of the division of labour, which needs to be unpacked in the context of evolving global capitalism (Lo, 2018). New state, capital, labour and institutional relations are formed and change over time during the capital accumulation process (Fei, 2020). This layer of analysis is missing in the NCE literature.

Moreover, taking the firm as a unit might be useful for analysing an individual firm's strategy, but it fails to contextualise the firm-level analysis as institutions into a broad analysis of the capitalist system (Jenkins, 1987). NCE economic analysis of FDI is unduly static in its focus on bilateral relations between two parties and neglects the multiple actors in the international production system (Escaith, 2014). A firm's participation in global and domestic markets and the production of specific products not only depends on the firm's internal abilities (production model, organisational capability and management regime) but also the mechanisms (governance, institutions and networks) through which they are connected to global and host country production networks (Schaefer and Oya, 2019a). The analysis of structural and institutional contexts is absent, and the role of the host country state and government policies is neglected.

Knoerich (2019, p.2) critically points out that new empirical findings and conceptual discoveries regarding the nature of FDI activity have been difficult to incorporate into conventional FDI theory, as the evolution of FDI theory is path-dependent.

By contrast, structuralist development economics brings to the fore market power, unequal relations and income distribution. Analysing FDI requires understanding TNCs' oligopolistic power to compete against indigenous firms in the host country and obtain monopoly rents. The radical political economy approach, and to an extent elements of dependency theory, provide different, and rather pessimistic, views of FDI in developing countries. Instead of seeing productivity growth as the main purpose of OFDI, it weighs cheap labour costs as the driver for capital exports to developing countries. The extreme asymmetries in market power relations and the idea of a NIDL raised by structural development economics and radical political economy, respectively, inject elements to the study of FDI and a given firm's internationalisation, which places these relations squarely within the shifts in the configurations of global capitalism. Some of these insights have been extended and developed in the GVC and GPN literature.

GVCs and GPNs integrate the actor–network theory into their analytical frameworks and attempt to encompass all the actors in the international production system (Coe et al., 2004). The increasingly asymmetrical power relations and dynamics between global buyers (e.g. brand firms or retailers), first-tier suppliers (transnational producers) who hail predominantly from East Asia, new suppliers from other developing countries, and host country governments are explored in the GVC and GPN literature, adding nuance and empirical granularity to some of the broader and more generalistic arguments of radical political economy. Following the capitalist logic of profit maximisation, buyers and first-tier suppliers have sought new suppliers from developing countries. As a result, the production networks become more complex and multi-layered, and the power relations within the GVCs have been re-restructured.

The GPN framework helps us explain how certain SMEs began their initial stages to integrate into the global market. It also emphasises how network ties serve as an important mechanism that helps SMEs find investment opportunities overseas. The accelerated organisational learning capacity due to the improvement of ITC, as well as the existence of dynamic linkage and spillover effects, may create conditions for some SMEs to upgrade their positions in their value chains and become strategic partners (first-tier suppliers) for leading firms (Whitfield, Staritz and Morris, 2020). These strategic suppliers become transnational producers and again build new sub-supply chains, in a process of economic upgrading that is increasingly seen in parts of Asia.

The GPN approaches and some of the conceptual legacies of structuralist development economics and radical political economy, partly influence the empirical analysis in this thesis for a number of reasons. Firstly, it provides a comprehensive framework that encompasses a range of divergent motives from multiple actors to integrate into the international production system (different kinds of suppliers and the host country government in particular). Second, the asymmetrical power relations within the system and GPNs have been emphasised, and this is relevant to the research questions in this thesis, as such relations shape decisions to invest overseas and the accumulation trajectories of firms that manage to enter GPNs. Third, the multi-layered nature of the networks within the international production system and how different firm and non-firm actors within the system interact is also useful. The GPN approach plays a complementary role in the context of China's political economy, depicted in Section 2.2.2. Given the importance of GPNs for much of the Chinese economy, the framework analytically looks at why and how Chinese manufacturing firms internationalise. On the downside, however, the GPN approach places excessive emphasis on global dynamics and may oversimplify the agency of players under the coordination of lead firms. The approach takes some attributes of national structures and processes as given, thus leaving the domestic politics somewhat out of the centre of the analysis. As argued in the empirical chapters of this thesis, politics matters and the complex relations between the state and Chinese firms investing in Ethiopia cannot be clearly framed within a GPN approach. Therefore, here is need for supplementary analytical categories to make sense of state-capital relations. The next section will critically review the SBRs literature from a political economy approach to fill this gap.

2.2.4. State–Business Relations

This section will discuss how to analytically frame state–business relations, which is fundamental to understanding the operations of Chinese private firms in Africa. Because they operate in the host country, private firms work with the host states and have to bargain to make sure their businesses survive. Of course, they also need to deal with the Chinese state institutions, particularly if they want to leverage the important volume of finance that has been deployed across African countries. Those firms rent-seek, gain incentives but also get pushed by the state. In order to understand all these dynamics, it is imperative to draw on the literature of state–business (or state–capital) relations. Thus, it is necessary to look at the nature of the state and how state intervention shaped the trajectories of these investors.

Firstly, the developmental state (DS) and industrial policy (IP) literature will be reviewed in this section. Because most Chinese firms in this study are manufacturing firms, the IP literature provides a lens to examine different types of state intervention to support manufacturing development and therefore mechanisms to link policy and outcomes at sector and company level, which are relevant to this research. It notes how these kinds of policy interventions have created opportunities and obstacles for these firms to invest and operate. For instance, they (the host country government) picked winners or expelled polluting firms by imposing specific policies, interventions that relevant to this research's empirical analysis. However, one significant drawback of the DS and IP literature is that neither has strong political content, and offers limited analysis of specific bargaining that happened between the private sector (capital) and states. It adopts an approach to industrial policy and state intervention that focuses on the policies, measures and tools, and their historical evolution in evolving global contexts, rather than on the politics of their design and implementation. Indeed, understanding the nature and composition of sectoral policy is important, but so are the political underpinnings of their success or failure.

The literature on both political settlements and 'deals and development' from political economy, constitute a step forward as it helps to unpack and frame this type of bargaining between state and capital with greater clarity over power relations and the political processes and interests shaping outcomes. Some of these ideas and frameworks are useful for the empirical analysis of SBRs (see Chapter 7).

2.2.4.1. *Developmental State, Industrial Policy and State–Business Relations*

The developmental state (DS) literature stresses that East Asian states were able to successfully catch up in terms of development experience at a particular point in time (from the 1950s to 1980s, with the exception of Japan, which began in the 1920s) (Hauge and Chang, 2019, p.825).

The discussion of industrial policy in the DS literature highlights two points: Firstly, it focuses on industrialisation as the main constituent in the process of development. One crucial role of industrial policy in developing countries is to accelerate the movement of labour from the lower- to higher-productivity sectors through structural transformation (Page and Tarp, 2017, pp.1–2). Secondly, it stresses the central role of the state rather than suggesting a laissez-faire approach (Hauge and Chang, 2019). Thus, the DS has been connected to a more structuralist approach historically, although neo-classical arguments have also been put recently forward in favour of active industrial policy (Gisselquit, 2017). Hauge and Chang (2019, p.827) point out that industrial policy looks into the running of state institutions, predominantly the role of the state bureaucracy and its interactions with the private sector for development. It is these interactions that are of particular relevance for the research questions of this thesis, especially since an important aspect of industrial policy is the management of FDI for the purposes of starting off or accelerating industrialisation in a late developer.

In recent years, there has been a prominent debate between Justin Lin and Ha-Joon Chang on whether developing countries should follow comparative advantage following (CAF) or comparative advantage defying (CAD) development strategy to achieve industrialisation (Lin and Chang, 2009; Oqubay, 2015). Understanding this debate is useful to understand FDI management priorities according to the sector being promoted by industrial policy. Kojima Kiyoshi's dynamic comparative advantage approach is based on a combination of neo-classical thinking of factor endowments and Kaname's notion of the 'Flying Geese' paradigm to explain trade in international production, notably technology and management skills (Dunning, 1992). The basic theorem is that 'FDI should originate from the comparatively disadvantaged industries of the investing countries, which are potentially relatively advantaged industries in the host countries' (Kojima, 1978, 1982 cited in Tang, Selvanathan and Selvanathan, 2012, p. 18).

Drawing from Kojima's comparative advantage approach, Lin (2009, 2012) has developed the framework of new structural economics (NSE) to argue that industrial development in developing countries could best benefit from other developing countries slightly ahead of them along the development continuum. The home country's current comparative advantages such as economies of scale, factor endowment and technology base should be utilised to promote productivity growth and industrialisation. Lin contends that the role of the state is to function as a forward-thinking, rational agent helping the private sector remove externalities and risk and guiding them to use comparative advantages and develop vitality to upgrade their positions in GVCs (Lin and Chang, 2009). In fact, China's earlier economic take-off also benefited from the 'flying geese pattern of development' (Brautigam, Mcmillan and Tang, 2013; Brautigam, 2007) (see Section 2.2.2). Chang (2007; Lin and Chang, 2009) admits the comparative advantage element and the importance of the state but holds a different view on the role of the state. His argument is based on economic history, contending that developing countries must defy their comparative advantages if they want to achieve accelerated industrialization in a context of intense competition and growing global interconnections. Instead of simply following 'given' comparative advantages, LDCs should develop their competitive industries by skipping the ladder (Chang, 2007). Here the state's role should be as a strong interventionist, risk taker, so that firms can benefit from the technological and organizational leap that 'picking winners' in sectors without clear or latent comparative advantage entails.

However, Chang's historically-informed approach (an 'institutionalist political economy' in his own words (Chang, 2000)) has been challenged by various scholars (e.g. Guisselquist, 2017; Oqubay, 2015) for its lack of examination of contemporary cases. Oqubay (2015, p.30) claims that Chang's approach 'fails to address how developing countries can efficiently deploy available productive forces in the development of a few high-tech industries given their backward technological position'. Guisselquist (2017, p.84) points out that little evidence has been provided to support that the historical state weakness could be equated to contemporary ones. Ajit Singh (2011 cited in Oqubay, 2015) provides a more balanced view, stating that the reliance on existing comparative advantage is insufficient and that developing countries should seek strategic integration that allows them to integrate wherever it is in their interest to do so rather than solely for closer integration into the global economy.

One prominent point raised by Guisselquist (2017) is the notion of fragility, implying the state's inability or lack of interest in supporting national development. The depth of communal, social and political divisions in numerous fragile states is also notable. This suggests that states should not be treated as unitary actors but instead should have a consideration on how factional politics within bureaucracies and policy influence political outcomes (Guisselquist, 2017, p.86). Chibber (2014) and Fine and Pollen (2018) have also questioned the continuing relevance and influence of the DS paradigm, given the reliance on a false state-dichotomy, the shallow notion and treatment of labour, the lack of consideration of financialization as constitutive of global capitalism, and the fact that the literature takes success cases as starting point but fails to account for failures where similar industrial policy 'toolkits' were available. There is, in their view, also a lack of unpacking the 'national bourgeoisie' that is supposed to lead the industrialisation drive on the back of state support (Chibber, 2014).

2.2.4.1.1. State–Business Relations in Developmental State Literature

Having noted some of the limitations of this paradigm, this section considers a number of insights that are potentially useful for the analysis of state-business relations in specific contexts.

State-business relations are 'relations between the public and private sectors. The forms vary significantly, ranging from formal, regular co-ordination arrangements to informal, ad hoc interactions. They can cover the whole economy or target specific sectors, types of firms or policy processes. In some situations they involve highly organised relationships, in others they are loose relationships between the state and business' (te Velde, 2013, p.9).

The DS literature shows a variety of tools that the state utilises to induce the private sector towards industrial transformation (Hauge and Chang, 2019, p.827). Perhaps the most analytically useful is the concept of reciprocal control mechanism (RCM), coined by Amsden (1989, 2001) with reference to Taiwan and South Korea, in their successful industrialisation.[23] Here, in exchange for meeting certain performance targets, the state would give special favours, or rents, and assistance to firms (such as exporting, local contents or product specialisations). Hague (2019) points out that the Ethiopian state adopts RCM in promoting and governing manufacturing-led FDI in Ethiopia's industrialisation. In this regard, Hague emphasises that Ethiopia 'has implemented the carrot, but no stick' (ibid, p.2083), an issue that will be critically examined in Chapter 7 of this thesis.

Political scientist and exponent of the DS literature, Gisselquist (2017) stresses the importance of the role of the state in weak institutional settings. She states that to achieve embedded autonomy[24], a relatively high level of coherence within the bureaucracy is needed (ibid). Similarly, Vu (2017) draws upon the experience of Vietnam and argues that effective collaboration between firms and the government requires not only effective coordination with firms but also within the state system.

In addition, voluminous studies show that the organisational structure of SBRs varies significantly across contexts (see Vu 2017; Dinh, 2017; Gebreeyesus, 2014, 2017). For instance, Vu's (2017) research focuses on SBRs in Vietnam during the post-reform period when state actors and the private sector established a public–private coordination mechanism. A two-way interactive relationship was revealed: the private sector lobbied for a responsive and effective government, while the state sought private sector inputs on economic reforms. Even though there was no formal public–private

[23] Reciprocal control mechanism theory refers to 'a control mechanism is a set of institutions that impose discipline on economic behaviour […] Recipients of subsidies were subjected to monitorable performance standards that were redistributive in nature and results-oriented' (Amsden, 2001, p.8).

[24] Peter Evans (1995) first introduced the term 'embedded autonomy' when studying South Korea. 'Embedded autonomy' describes a way of attaining a balance between coordination and capture (Gisselquist, 2017, p.82).

coordination apparatus, it enabled the private sector (both domestic and foreign firms) to play an active role to work together with the government to reform policies (ibid).

Although the state's institutional and regulatory roles are prominent in analyses of the GVCs/GPNs and DS literatures, both approaches have been rather light in their discussion of the domestic political economy (Behuria, 2019). Specifically, the analysis of concrete power relations, between the state, capital and labour, and different factions within each of them, and their consequences for policy decisions and implementation are missing. This is important because the state, like the market, can be seen as arenas or battlefields where different interests clash with uncertain outcomes (Fine 2013).

2.2.4.2. *Political Settlements, Deals and Development, and State–Business Relations*

As discussed in the previous section, industrial policy and state intervention are critical for development, especially industrialisation; however, the DS literature fails to fully explain what kinds of policies, how they are implemented and why, and with what varying outcomes. This is where Mushtaq Khan's 'political settlements' approach and other 'political economy' views help to overcome the state-market dichotomy implicit in the DS and IP literature and thus unpack state interventions as an outcome of class relations and capitalist forces.

2.2.4.2.1. Rent Management in the Political Settlements Literature

In contrast to the dominance of New Institutional Economics (NIE) in the 1990s, Khan (2010) has conceptualised the political settlements (PS) framework to delve further into domestic political economy and the configuration of distribution of power and institutions supporting that balance in a given setting. 'A political settlement is a combination of power and institutions that is mutually compatible and also sustainable in terms of economic and political viability.' (Khan, 2010, p.4). 'This approach focuses on the tripartite relationship between formal institutions, informal institutions and the distribution of power in a given setting, and how economic structure underpins this relationship in contexts of late capitalist transition' (Gray, 2016 cited in Goodfellow, 2017, p.201). In contrast to NIE theorists, Khan (2010) stresses that the way power was distributed in LDCs was not aligned with their formal institutions (i.e. laws, regulatory frameworks and government policies). 'The political settlements in developing countries are 'clientelist'. They are characterized by the significant exercise of power based on informal institutions, typically patron-client organizations of different types' (ibid, p.5).

Institutions and the distribution of power have an interdependent and circular relationship, as is indicated by Khan's notion of political settlements (Kar, Pritchett, Roy and Sen, 2019). Holding power and institutions have a two-way relationship. The set-up and arrangement of how power is held at the level of society is supported by different combinations of informal and formal institutions, which are highly context specific. They create the configuration of relative power between organisations. They do this by creating and allocating a consistent set of economic benefits. Thus, relative power determines which institutions will emerge, whether they are enforced and what their effect is on economic performance (ibid).

Building on Khan's PS framework, Di John and Putzel (2009) introduced the notion of 'elite bargains',[25] which is essential to understand the politics of relations between the state and business (in this thesis, it refers to the Ethiopian state and Chinese private firms respectively). According to Di John and Putzel, '[W]hereas political settlements can be understood as on-going and dynamic processes through which power is organised and exercised, elite bargains represent specific attempts to renegotiate the distribution of power between elites, which cumulatively shape and change the overarching political settlements. Thus, elite bargains are the product of conscious, calculated behaviour to determine who holds political office, governs economic resources and controls the means of violence. In contrast, political settlements are the outcome of ongoing processes, which both reflect and reinforce the balance of forces in society at a given time'(ibid).

The PS framework and the work on elite bargains provide useful analytical tools in understanding the politics of state interventions as the result of class relations and capital forces. This framework helps to explore the politics of the expansion Chinese private investment in Ethiopia with the state interventions by the host country government.

2.2.4.2.2. Deal and Rules in State–Business Relations

In one approach, Kar, Pritchett, Roy and Sen (hereinafter referred to as KPRS, 2019) have proposed the concept of 'deals' to challenge the formal institution literature on doing business in LDCs. A 'deal' refers to

> actual outcomes, what happens to any specific investors, depend on some perhaps very small, part on the formal rules, but also on the ways in which 'my' specific characteristics (e.g. relationship to those in power) and actions (e.g. bribes, lobbying, use of intermediary 'fixers') influence outcomes. (KPRS, 2019, p.2)

'Deals' can be based on the relationships between political leaders and businesses and may also involve the bureaucracy, as three leading sets of actors. Outcomes at the most local levels as well as at the national and provincial levels can be affected by connections and influence. Moreover, deals can also be affected by intermediaries when personal connections are absent (Bettrand et al. 2007,

[25] Elite bargains refer to '[A] discrete agreement, or series of agreements, that explicitly sets out to re-negotiate the distribution of power and allocation of resources between elites' (Di John and Putzel, 2012 cited in Cheng et al., 2018, p.11).

cited in KPRS, 2019, p.2). KPRS (2019, p.3) argue that when a state has 'weak' institutions, normal rules may not apply. Instead, hyper-specific, personalised and unpredictable and contested deals take place, somewhat reminiscent of the idea of 'absence of rule of law' as one of the defining features of China's political capitalism, according to Milanovic (2019). KPRS (ibid) critically point out that policymakers and researchers should not think of regulation as creating 'rules', when strict regulations meet poor governmental capabilities for enforcement and implementation. Instead, they should think about a space in which many different possible deals can be created within and outside formal rules. Therefore, to understand the business environment of LDCs, one should first try and investigate the actual deals taking place and understand observed patterns (HP, 2015, p.123 cited in KPRS, 2019, p.3).

Deals are firm specific as opposed to *de jure* rules. Therefore, within a country, the overall business environment is manifested by which type of deals are most common (KPRS, 2019, p.23). KPRS (2019) put forward that the business environment in LDCs might be more reliant on deals than rules. If this becomes the new normal, then it is very difficult to escape this low-level trap. In the face of tough laws and weak compliance, firms would prefer to deal rather than lobby for new rules (ibid, p.24). The interaction between the rents space and political settlement has led to an evolution of politics in the 'deals' environment (Pritchett, Sen and Werker, 2017).

Khan's framework on PS (2010) and Di John and Putzel's notion of 'elite bargains', and that of Pritchett et al. (2013) and KPRS (2019) on 'deal space', 'spells out the variety of elite deals on rents-sharing that either foster or block economic development' (Ang, 2020, p.195). Pritchett et al. (2013) argue that the importance of business associations is to push for collective interests rather than individual patronage. Deller (2018) critically points out that Pritchett et al.'s study 'lacks a systematic analysis across country case studies and time periods' as they did not make explicit what type of business association are more important for what kind of firms. Deller (2018) draws one of the arguments from Khan and notes that 'cronyism and corruption do not necessarily impede sustained growth'. Ang (2020, p.181) states that it is too simple to state that corruption is either 'good' or 'bad' for growth. The harm that corruption does manifests itself in different ways and has varying effects on capitalist activities, i.e. it may be 'good' and 'bad' at the same time, depending on those who benefit or are affected. Khan would posit that corruption may be compatible with sustained economic development and economic transformation, and, in that sense, not inimical to such outcome.

Ang (2020, p. 195) discusses unbundled corruption, considered as both transactional and non-transactional, and elite and non-elite corruption. She applies these directly to the case of China (see Table 4). Ang argues that the dominant forms of corruption in China currently is access to money (ibid, p.182). Cumulatively, institutions have made the reform-era Chinese government distinctly profit oriented. This has encouraged revenue-generating activities along with corruption (ibid, p.195). Thus, SBRs in this schema are highly contingent on the nature of the 'exchange' and the relative power of who is involved.

Table 4: Types of corruption

	Non-elites	**Elites**
Involves Theft	**1.** Petty theft (illegal) 'acts of stealing, misuse of public funds, or extortion among street-level bureaucrats'.	**2.** Grand theft (illegal) 'embezzlement or misappropriation of large sums of public monies by political elites who control state finances'.
Involves Exchanges	**3.** Speed money (illegal) 'petty bribes that businesses or citizens pay to bureaucrats to get around hurdles or speed things up'.	**4.** Access money (legal or illegal) 'high-stakes rewards extended by business actors to powerful officials, not just for speed, but to access exclusive'.

Source: Author, compiled based on Ang (2020, pp. 9–10)

2.2.4.3. *Summary*

The role of the state and its relations with the private sector has been widely discussed in the political economy literature. The developmental state literature points out that SBRs concern an ongoing interactive process based on the concept of mutuality and reciprocity, in a context of state 'embeddedness'. The objectives and impact of creating and maintaining effective SBRs and close coordination have been discussed and examined. However, the literature to date has failed to explore the power relations underpinning SBRs. It tells little about to what extent has the host country's domestic political economy shaped the strategy and performance of the private sector, and how. The political settlements approach emphasises the power dynamics between the state and the private sector. The PS literature correctly points out that there is a negotiable space that exists between the government and private enterprises.

The concept 'deal' is crucial for understanding the business environment in African countries, where state and institutional settings are generally weak and profoundly different from each other. The flexible and informal nature of deals enables the private sector to have more space for bargaining with the host country government and vice versa. As a result, negotiating a deal could be highly bespoke, depending on the concept of mutuality and reciprocity as well as the power relations between specific firms in certain sectors and the host country government at both central and local levels. Understanding the process and outcome of it requires more grounded comparative case studies (Deller, 2018).

The SBRs literature is highly relevant to this research and helps to understand the role of the state for both regulatory and institutional aspects and political content. The sectoral policy has been emphasised. The mutuality and reciprocity of SBRs from the DS and IP literature is an essential concept for the empirical analysis in this research. However, the DS and IP literature fails to make explicit the specific bargaining and politics behind such SBRs. It is unable to tell, for example, what type of policy works or does not, and how it was formed and implemented. The PS literature helps to fill in this gap by providing strong political content to explore the power relations and politics underpinning SBRs. The deal and development literature is crucial to this research as it points out that the actual outcome for the deal depends on the specific relationship (i.e. *guanxi*, patrimonialism) and actions (i.e. lobbying, corruption). The kinds of deals that manifest in Ethiopia and the politics unpinning the SBRs will be explored in the empirical analysis (Chapter 7).

Although the political dimension of economic activities and outcomes has been emphasised in the political settlement framework, the DS and PS literature was criticised for failing to provide a multi-layered form of analysis (Hickey, Sen and Bukenya, 2015; Behuria, 2019) as both approaches have generally taken a state-central approach to examine economic transformation in LDCs. The SBRs literature needs to be integrated with China's political economy context as well as the GVC and GPN literature to provide a multi-layered analysis.

2.3. Conceptual Framework

The previous section reviewed the pros and cons of different analytical approaches and their ability to tackle the research questions in this thesis. Context matters in relation to the relevance of different analytical categories and concepts, as has been highlighted in each section of the literature and theoretical review. As argued in this thesis, the heterogeneity of Chinese capital (which cannot be divided neatly into state-owned and private capital) and the diversity of individual African country contexts require a context-specific analysis to understand various trajectories and outcomes. Despite their increasing presence and impact, Chinese private firms' identities, motives and determinants and their actual operations and relations with the government (both home country and host country) are under-researched topics. Consequently, more rigorous, balanced and grounded comparative research is needed to explore the operations on the ground and their political and economic implications. Without subscribing to any particular analytical framework reviewed in this chapter, this thesis aims to extract relevant analytical categories that may assist in interpreting the empirical findings from extensive field-based research.

This project uses Ethiopia as a country study and applies a micro firm-level perspective to explore the nature and dynamics of Chinese private OFDI. In order to answer the broad question on the nature of

Chinese private investment in Ethiopia, a conceptual framework has been organised around three leading themes directly connected to the research questions presented in Chapter 1 (p.18 and the Research Matrix in Appendix E for more details). As discussed below, I extract a selection of particularly useful analytical categories and concepts from the different approaches reviewed in this chapter and apply them to each of the running themes identified below.

The first theme identifies the variety of Chinese private firms in Ethiopia and explores their distinct motives and determinants to invest in a particular market.

Chapter 5 analyses why Chinese private firms internationalised and selected Ethiopia as the destination country for manufacturing-led investments. Its analysis draws upon insights into the political economy of China at both the national and sub-national levels (the variegated capitalism approach in particular), some concepts from the GPNs and the political economy of the host country at the national and sectoral levels.

At the most basic level, the specificities of the home country (of investment) matter (X. Fu et al., 2020). As discussed in Section 2.2.2, the 'varieties' and 'fractions' of capital from the variegated capitalism approach and the notion of 'political capitalism' offer valuable insights for the conceptual framework used in this thesis. The VC approach constitutes an essential set of tools to guide data collection and interpretation in this thesis. At a more disaggregated level of analysis – and overcoming methodological nationalism – this framework starts from the premise that China's regional economic development is highly uneven and has followed different developmental paths due to its history, geographical factors, geopolitics, social and cultural factors and natural resource endowments.

However, these elements do not operate in isolation; instead, they are embedded in government policies, state intervention and the institutional context, all of which have continually evolved during an era of increasing globalisation, especially since the 1990s. Section 2.2.2 also demonstrates how the emerging varieties of Chinese private capital and new capitalist elites result from these structures, processes and relations. Arguably, the political economy conditions of China at both the national and sub-national levels reflect the path-dependent dynamic of varieties of Chinese private capital's 'Going Out', which has developed over the past four decades (Fei, 2020; Lee, 2017; Milanovic, 2019; Zhang and Peck, 2016).

As discussed in Section 2.2.1.2, the types of Chinese private firms differ significantly from traditional MNEs in developed countries. Although Chinese firms in Africa more closely resemble EM_MNEs, Chinese private capital includes a wider range of varieties due to China's specific social history and political economy. Specifically, China's internationalisation can be broken down into a variety of actors, including the Chinese state, SOEs, large-scale private flagship firms and other types of medium-size private firms, and each category has more distinct sub-groups. Appreciation of this diversity and its implications for the assessment of business outcomes is at the centre of this thesis.

Thus, Chapter 5 will first develop typologies based on the specific context of Chinese private investment in Ethiopia to understand the 'factions' within Chinese emerging capital. This discussion includes an investigation of firms' scale, origin, sector, primary market, the main *guanxi* networks used to discover investment opportunities and the central reasons behind their investment in Ethiopia (See Figure 2: Conceptual framework).

Figure 2: Conceptual framework

The Nature and Dynamics of Chinese Private FDI in Ethiopia

A. Varieties of Chinese Private Firms and Their Motives and Determinants

- Typologies of firms (scale, origin, sector, main market, the *guanxi* networks used to discover investment opportunities and the primary reason they invested in Ethiopia)
- Motives and determinants

B. Accumulation Trajectories

- Divergent accumulation of interests and logic (history and origin of the firm, entrepreneur's background, *guanxi* networks and success in the early stage of investment in Ethiopia)
- The accumulation process (production regime and managerial ethos)

C. State–Business Relations Between the Ethiopian State and Chinese Private Firms

- Various Chinese businesses' institutional bargaining mechanisms in Ethiopia
- A case study of EIP and Chinese private firms' approach to deals with the Ethiopian government (in terms of land, services and environment, labour conflicts and export targets)

Source: Author's illustration

The literature on FDI, specifically on Chinese firms overseas, and its various analytical frameworks offer insights into potential investment determinants and the logic of accumulation. The literature on China's development path offers clues into the regional variation and context specificity of different kinds of private firms. Together, these analytical categories help frame the questions by placing variation and the multiplicity of factors at the centre of explanations of investors' motives and logic. For example, questions must be asked about the main differences between Chinese private firms that invest overseas and the main reasons for such variations, considering their origins, history, *guanxi* networks, sectors, the logic of expansion overseas (i.e. industrial relocation, expansion or other opportunities) and different forms of 'entrepreneurship'.

Equally important is understanding the key determinants that drove these firms to invest in Ethiopia and focus on a particular market or product. As noted in Section 2.2.3, some ideas from the GPN approaches and the political economy insights of the host country added another layer to the empirical analysis.

A comparative analysis will be undertaken in Chapter 5 to explore firms' determinants and motives for investing in Ethiopia's light industry and construction materials industry and the implications for the host country.

The second theme and set of questions arising from the review of literature presented in this chapter are how Chinese private firms have consolidated their investments in Ethiopia, and to what extent their accumulation trajectories have varied and why. Importantly, there is a difference between the decision to invest and the ability of a business to survive and flourish in a new political, economic and business environment. The heterogeneous characteristics of Chinese private firms imply that their motives, logic, strategy and capacity to consolidate their investments also vary significantly. It is essential to have a thorough understanding of how different types of Chinese private firms have improvised and dealt with a particular host country government to ensure their investments were successful.

In this thesis, a firm's accumulation trajectories refer to the series of steps involved in the investment development path, namely: achieving initial capital accumulation, finding investment opportunities, decision-making (picking the main industry and market focus), installation and financing, production and investment (and re-investment). The literature reviewed in this chapter often fails to unpack the different aspects of the accumulation process sufficiently and does not fully appreciate the 'eventful' nature of capitalism (Lee, 2017).

As discussed in previous sections, however, a judicious combination of political economy, economic geography and economic sociology approaches enable the conceptualisation of the dynamic nature of capital accumulation. Lee's (2017) analytical framework, the 'Three Moments of Capital' (namely accumulation, production and managerial ethos), is a helpful example to understand the nature of accumulation trajectories of Chinese capital generally and, arguably, can be applied to the plight and circumstances of Chinese private capital 'going out'. Exploring the eventful nature of Chinese private investment in Ethiopia requires 'path-dependent, processual and relational perspectives stressed from a variegated capitalism approach' (Fei, 2020, p.1). This approach is also useful to capture the heterogeneous and constantly evolving relationship among state, capital, labour and the institutions governing these relations, thus influencing the construction and transformation of Chinese investment in Ethiopia (ibid). These approaches show that the idea that China does 'business' in Africa needs to be unpacked into the different aspects and drivers of various accumulation paths and strategies engaged by Chinese private capital overseas.

Therefore, Chapter 6 explores an in-depth case study of three types of firms (according to the typology developed in Chapter 5) to explore how firms managed to achieve their initial capital (in China) and examine their success in the early stage of investment in Ethiopia (see Figure 2: Conceptual framework). In addition, Chapter 6 compares and contrasts these three firms' accumulation processes in terms of production regime and managerial ethos. The third theme focuses squarely on the dynamic relations between the Ethiopian state and Chinese private firms, with some consideration of mediation by the Chinese state when applicable.

It is crucial to explore how the Ethiopian government has shaped Chinese private investments and turned these opportunities and resources to their advantage. The SBR literature is highly relevant to this research and helps clarify the role of the regulatory and institutional aspects of the state and its political influence. As the DS and IP literature shows, state capabilities in governing FDI, implementing effective policies and maintaining productive relations with foreign investors have proved essential to successful industrialisation experiences in developing countries, from East Asia to Africa. This feature particularly applies to Ethiopia, a landlocked country with few mineral resources or oil. Therefore, Ethiopia has to rely on domestic savings, external development aid, concessional loans and FDI as the primary sources to achieve economic growth and industrialise (Clapham, 2018, p.1156). Thus, it is essential to thoroughly understand how the Ethiopian government has perceived Chinese private FDI and incorporated it into its national development strategy. How the host country governs Chinese private FDI and shapes it to pursue its own economic development strategy – particularly its drive to industrialise – has profoundly impacted Chinese firms' actual performance.

The literature on SBRs has also underscored the need to unpack the concept of the 'state'. Consequently, it is necessary to appreciate existing factional politics within the domestic political system – a missing element in contemporary research on Chinese FDI in Ethiopia. Historical ties between China and Ethiopia and Ethiopia's particular political trajectories[26] (e.g. ethnic-based conflicts and centre-periphery tensions in its controversial political system of ethnic federalism) are essential to understanding the dynamics of Chinese OFDI there and Chinese relations with different levels and factions of the Ethiopian state (see Chapter 4 for more contextual detail).

[26] Ethiopia's political trajectory is 'relatively tight with authoritarian control by a dominant party' (Matfess, 2015 cited in Goodfellow, 2017, p.215) (see Chapter 4, Section 4.3.2 for more details).

In the context of successful industrialisation experiences, a review of the literature suggests that effective state–business relations require some degree of mutual interests and reciprocity. This does not, of course, mean that these processes are devoid of contradictions and conflicts, as the PS framework clearly reminds us. Nevertheless, there is a view that both the state and private firms require balanced relations to achieve their objectives (successful economic transformation and successful investment, respectively) (Amoako, 2019). The challenge is that such a complementary 'win-win' relationship, often reflected in public discourses on 'cooperation', does not always evolve naturally. Instead, the process of interaction reflects constant contradictions and contestations at various levels, whether economically, socially or politically.

Drawing upon the VC literature, an appreciation of the variety of Chinese private capital implies that they have different visions, strategies and capabilities to engage government agents. Specifically, the insights from the literature on 'deals space', Khan's PS framework and 'elite bargains' by Di John and Putzel (2009) suggest questions like the following: What types of bargaining mechanisms are used by Chinese businesses in Ethiopia? To what extent do they work, and for which kinds of firms? By exploring three sets of conflicts (land, services and environment; labour disputes; and export targets) in the Eastern Industry Park, Chapter 7 examines how Chinese firms have created business bargaining mechanisms[27] to deal with various levels of the Ethiopian government and outlines the politics of the expansion of Chinese investment in Ethiopia.

Formal institutions, informal institutions, and distributions of holding power are three main components in the PS framework (Khan, 2010) that have particular applications related to state–business relations between Chinese private firms and the Ethiopian government. Chapter 7 also explores if there is any objective evidence of a political settlement lens in the case of Chinese investment in Ethiopia. For example, questions include the following: How can Ethiopia's political settlements be categorised using the typologies developed by Khan? How does the concept of power play out in the case of Chinese investment in Ethiopia? Do Ethiopian political elites use contracts as a form of patronage?

Linked concerns include the presence of Chinese investment and Ethiopian political crises. Understanding various bargaining mechanisms (formal and informal) at both the firm and institutional level is helpful to understand the politics of the expansion of Chinese private investment in Ethiopia. Polanyi's notion of 'Double Movement', articulated in Lee's work on Chinese capital in

[27] In this thesis, Chinese business bargaining mechanisms refer to the organisational structure built between Chinese businesses and the state (in particular, host countries) to foster effective coordination. Bargaining mechanisms vary and could be formal, institutionalised (such as business associations) or informal (such as tacit networks), as suggested by different strands of literature on SBRs, especially 'deals and development' and the PS framework.

Zambia (Lee, 2017), offers a crucial analytical lens regarding the expanding varieties of Chinese private capital investment in Ethiopia. Consequently, this study will examine whether an extraverted form of accumulation exacerbates ethnic, regional and class divisions. Put differently, is there a more recursive relationship between Chinese capital and Ethiopian political instability?

2.4. Conclusion

This chapter has critically reviewed the existing theoretical and analytical debates and categories on 'China in Africa', with a special focus on Chinese firms. First, the chapter questions the validity of 'methodological nationalism' if we want to capture the dynamic nature of Chinese investment in Africa. The generalised use of 'China' in 'Africa' is an analytical dead-end, as it fails to appreciate the differences and similarities between Chinese SOEs and Chinese private capital and obscures the heterogeneity and diversity of private firms. This variation is analytically fundamental to provide a nuanced account of Chinese investment trajectories in Africa and more rigorously assess their impact on host countries. It is also unfortunate that there is an implicit assumption that China's needs are passively accepted by African states (Lee, 2017). However, African agency must be taken seriously and unpacked within their specific contexts. This review of the literature also shows that a more in-depth and contextualised analysis of the relation and interactions of the varieties of Chinese capital and individual African countries is required, beyond that found in much of existing literature. This thesis aims to contribute to this emerging literature analysing the manifestations and contradictions of African agency, specifically regarding state-capital relations. There are , of course, many insights that emerge from a deep exploration of multiple strands of literature, spanning questions on the determinants and outcomes of FDI in developing countries, the nature of China's capitalism and its emerging capitalist enterprises, the particular contours and dynamics of the 'going out' processes, especially how different kinds of Chinese firms manage to 'globalise' and on what terms, and, finally, on the encounters between Chinese private capital and African states. Addressing all these questions requires navigating a multiplicity of perspectives, theoretical traditions, and analytical categories that are important to better contextualise and interpret the dynamics of Chinese investments in Africa. This is what this chapter has attempted to do.

Two issues in particular merit further investigation. The first is that of the realities and dynamics of Chinese private investment in Africa/Ethiopia, and the second is the lack of a single theory or conceptual framework that can explain these dynamics.

There is a need for a multi-layered analytical approach to understanding the context, conditions and dynamics of Chinese OFDI, the wide range of perspectives that exist on FDI and the significant conceptual and methodological differences. It is clear from this overview that approaches drawn from existing theoretical groundings can only partially explain the dynamics of Chinese private OFDI in Africa. What is lacking in these approaches is that none of them enables one to integrate analysis of interests of capital, their accumulation strategies, their incorporation into new layers of the global capitalist system, and their complex encounters in new political, economic and social contexts.

As shown in this chapter, this thesis draws on the combination of analytical categories and insights from political economy, economic sociology and economic geography perspectives, to consider conceptual and analytical categories that can helps us explore Chinese private firms' identities, motives and determinants, accumulation strategies and trajectories. In addition, analysis of the complex interplay of firms' relations with the state (both home country and host country) will be informed by the different contributions of key strands of literature dealing with SBRs.

The theoretical review and the appreciation of variation and heterogeneity, calls for a comparative analysis to explore sub-national (Guangdong, Jiangsu and Zhejiang provinces) and sub-sectoral (light manufacturing industry and construction material industry) contextual factors, as key drivers of differences in investment determinants and accumulation trajectories.

Finally, analytically, this research will navigate three analytical and empirical layers, starting from the micro-firm level to assess firms' behaviour and strategies, followed by meso-sector level analysis of sector specificities in a particular market (domestic or export) and sector (light manufacturing and construction material sectors) and linkages to global/domestic production networks; and the macro-level of politics, government policies, and institutional context to provide an additional canvass to understand state-business relations.

3. Research Methodology

3.1. Introduction

Chapter Two has untangled the generalised use of 'China' in 'Africa' as the contextual grounding through which to critically dismantle the 'methodological nationalism' adopted in most of the literature on Chinese investment in Africa. Chapter Two also critically reviewed the existing literature to sharpen the conceptual framework for this research. This includes the role and trajectories of FDI, firms' local improvisation and their relations with the state. A conceptual framework based on political economy, economic sociology and economic geography approaches has been developed in Chapter Two (see Section 2.3 for more detail) to study the dynamics of Chinese private OFDI.

This chapter will elaborate on the methodology of how this research is undertaken. It maintains that a mixed research methods approach, mainly qualitative analysis (comparative ethnographic study in particular) and some quantitative analysis (statistical analysis) is a preferred approach for this study. Section Two explains the research objectives of this thesis; Section Three elaborates the research design; Section Four discusses the research methods; Section Five relates the process of data collection; and Section Six clarifies the data analysis procedure.

3.2. Research Objectives

3.2.1. Lack of Rigorous Grounded Comparative Evidence

Existing studies on Chinese private investment in Ethiopia have three main problems. Firstly, rigorous comparative evidence on Chinese private investment in Ethiopia is scarce, although more academic research has been undertaken in recent years (e.g. Schaefer and Oya, 2019a, 2019b; Tang, 2019a, 2019b; Fei, 2020). Qualitative academic research regarding private OFDI in Africa is limited and the data collected is often outdated (such as Gu et al., 2016; Gu, 2011; Song, 2011). In recent years, despite numerous scholars undertaking systematic, grounded comparative analysis (e.g. Schaefer and Oya, 2019a, 2019b; Tang, 2019a, 2019b; Fei and Liao, 2020; Fei, 2018, 2020) of Chinese engagement in Africa (Ethiopia in particular), most of the existing studies either focus on Chinese SOEs, large-scale private firms or a mix of both (e.g. Lee, 2017; Fei, 2020; Fei et al, 2018; X. Fu et al. 2020).

As discussed in Chapter Two, distinct regional models of capitalist development are one prominent feature of Chinese capitalism (Zhang and Peck, 2016), which implies that firms from different regions might have different characteristics and development paths. Moreover, their (firms') connections with the Chinese government (at the central and local levels), as well as global production networks, also vary. Homogenising all private firms into one category is not helpful to understand the increasing dynamics of Chinese private investment in Ethiopia.

Additionally, little comparative analysis (see Schaefer and Oya, 2019a; 2019b; Brautigam, Tang, and Xia (2018)) has been conducted to target different types of Chinese private investment in Ethiopia due to a lack of access. Although factory visits, management-level surveys and interviews with Chinese firms have often been conducted by scholars, ethnographic studies have not occurred because participant observation is time-consuming and requires a certain level of trust and *guanxi* ('connections' and 'relationships') from interviewees to permit researchers to 'integrate' into their daily life. The depth of this kind of study not only relies on a researcher's background and identity (e.g. origin, family, education and work experience) but also heavily depends on their long-term interactions with informants to establish, maintain and strengthen such *guanxi* and trust.

3.2.2. Lack of Multi-layered Form of Analysis

Chinese investment in Ethiopia has indeed gained more attention from media and consultancy companies. These rapporteur-like reports are either snapshots on hot topics, or focus on a singular perspective (e.g. a firm's investment strategy or compliance issues). They generally look only at the surface rather than taking a holistic picture and tracing the roots of politics and relations among capital, the state and labour. However, few studies on Chinese private investment in Ethiopia embrace a multi-layered approach to integrate firm-level analysis as institutions into a broad analysis of the capitalist system.

Moreover, as discussed in Chapter Two, the extant studies on China in Africa overemphasise China's domestic political economy situation to assess firms' motives and determinants (Fei, 2020). Admittedly, both the Varieties of Capital and Variegated Capitalism in China literature are useful to understand Chinese investment in Africa. However, the whole accumulation trajectories involve actual operations and interactions with the varieties of actors on the ground (host country government, local labour and community). In Africa, Chinese firms must operate according to the host country's social and political economic pressures (Lee, 2017). Therefore, a multi-layered analysis is needed to integrate micro-firm-level behaviour into meso-level sector specificities (in a particular market and sector), global and host country domestic production networks and macro-level (national and sub-national) government policy, including the institutional context and politics; to capture the nature and dynamics of Chinese private investment in Ethiopia.

3.2.3. Deficient and Problematic Data

Thirdly, solely using secondary data to answer a simple question such as the volume of FDI is difficult due to various problems. First, some have claimed that interpreting data is challenging as investments have always been mixed with contracts. As one author describes, ‘this is like adding apples with elephants’ (Brautigam, 2015) (see Chapter 5 for more detail). For instance, one of the common issues with the *Chinese Investment Tracker* is that its data mix many things that have no relationship to FDI (ibid). Failing to distinguish FDI and contracts, for example, results in the failure to uncover the real investment value. Brautigam (2015) puts forward a strong argument that if the focus is on investment, it is necessary to leave contracts out. Brautigam’s point is insightful to warn us of the dangers of misinterpreting data. It is pivotal to distinguish non-financial foreign direct investments from financial investment (such as portfolio investment) and indirect investment (such as licensing, management contracts or outsourcing) to avoid mixing irrelevant or unrelated information (see Figure 3).

Figure 3: Differences between FDI, portfolio investment and indirect investment

FDI	Portfolio Investment	Indirect Investment
• Controlling interest (IMF: more than 10% ownership) • Transfer of bundle of resources • Long-term horizon (e.g. more than one year)	• Purely financial interest ("hot money", loans or equity) • Short-term horizon (e.g. financial assets of less than one year maturity) • No controlling interests (IMF: less than 10% ownership)	• Franchising • Outsourcing / Subcontracting • Licensing

Source: WIR (2001), UNCTAD (2001, pp.275–6)

Moreover, official statistics can also be misleading regarding geographical and sectoral distributions (Sun, 2017; Xia, 2019). Taking the *Statistics Bulletin*, for example, it only shows the first destination of OFDI. Nevertheless, many firms register their companies in tax havens such as Hong Kong, the Cayman Islands, the Virgin Islands or offshore financial centres as an intermediate station before investing in mining and manufacturing industries in a third country. Wang’s (2013, p.110) empirical research demonstrates that, on average, 70% of Chinese OFDI flowed to tax havens and offshore financial centres between 2003 and 2011. The author also finds that 40% of firms that were registered in the ‘business service’ industry were actually in the manufacturing sector (ibid).

Taking Ethiopia as an example, by cross-checking the EIC data (2019) regarding the origin of investment, I found a few Chinese firms invested in Ethiopia that were not, strictly speaking, ‘Chinese’ investments as they were all registered in either the Cayman Islands or Hong Kong. Xia (2019, p.2) points out that the Chinese government's new tightening of regulations on OFDI means that all Chinese investors should declare the final destination of their investment. How this new regulation will be enforced and implemented, and how this may change Chinese OFDI in official records remains to be seen.

Another problem with the existing data is that the information on FDI projects was collected selectively based on the level of investment and is thus highly biased. Only those projects with investment above a certain threshold (for instance, for the Chinese Investment Tracker, the benchmark is US$100 million) are tracked. Even the Chinese Ministry of Commerce (MOFCOM) data has a baseline of US$10 million, an amount that many private foreign investment projects fall below (Shen, 2015). It is important to note that many Chinese private firms, mainly SMEs, choose not to register in the MOFCOM database due to the time-consuming and complicated review and approval procedures (Huang, 2013; also see Chapter Five). For instance, around 50% of private enterprises from Zhejiang province that operate in Africa are trans-local (Wang, 2013; Song, 2011). Official statistics significantly understate the role of private OFDI as many SMEs and trans-locals are excluded from the database. Consequently, the breakdown by sector is distorted. This biased generalised explanation regarding Chinese OFDI in Africa can create a misunderstanding of the actual role and impact of China in Africa.

Finally, Chinese private OFDI in Ethiopia is hard to track because of the lack of data collected in both China and Ethiopia. Taking the MOFCOM as an example, three significant limitations exist. Firstly, this database only includes a sample of projects and does not specify the investment value of each. Secondly, it only shows whether the project has been 'approved' and does not track the implementation status afterwards (Gu, 2011). Thirdly it only contains aggregate data (Wang and Wang, 2011). Regarding the data from Ethiopia, some scholars note that the quality is uneven and inadequate (Shen, 2015; Xia, 2019). The unavailability of comprehensive disaggregated data is also a challenge. After comparing the primary data that I collected from individual firms and official data (EIC, 2017, 2018, 2019), it was found that records regarding employment generation, tax payments and export contribution were outdated. Taking the EIC data as an example, even though some firms' actual investment values in 2018 have increased (in some cases even doubling) since their original investments, their operational status (such as employment figures) remains the same (author's observation). Some firms have chosen not to update their status (from the installation stage to the production stage) to avoid paying higher taxes. Official statistics are subject to the figures that individual firms are willing to show rather than the actual figures. Thus, without cross-checking, firms' actual investments and their socio-economic and political impact on the host country could be significantly distorted.

3.3. Comparative Framework and Research Questions

Given the problems discussed above, it is evident that solely relying on secondary data would significantly influence the validity and reliability of the research. Thus, there is a necessity to collect primary data and, simultaneously, triangulate various sources of data to examine its validity and accuracy. Taking Ethiopia as a country study, this project begins at the micro-firm level to explore motives and determinants for different types of Chinese private firms to invest in Ethiopia and focus on a particular market. It also addresses firms' local improvisation and their relations with the Ethiopian government. This approach will facilitate engagement with the common perceptions of Chinese investment in Africa.

This study adopts a multi-layered analytical framework and combines three levels of analysis that include:

1. Micro-firm level: the type of firm (according to origin, history and scale), entrepreneur's background (family, education and work experience) and *guanxi* networks.
2. Meso-level: sectoral specificities (in particular, market and/or sector), firm's position in global and host country's domestic production networks.
3. Macro-level: government policies, institutional context and politics (at both central and local levels).

By embracing a multi-layered form of analysis, this research ensures depth in the evidence base, beyond the firm's behaviour and strategy. The analysis will also look at the linkages with the meso-level of sectoral specificities, global/domestic production networks and types of firms; and the macro-level of national (and sub-national) government policies, institutional context and politics. This research will undertake a comparative analysis, looking at not only sectoral differences (light manufacturing and construction materials industries) but also variations within groups of private firms in the same sector (or market) from three dominant coastal regions of China (Zhejiang, Jiangsu and Guangdong provinces).

Given the research focus proposed above, this project addresses one major question: What is the nature and dynamics of Chinese private OFDI in Ethiopia's manufacturing sector?

To answer this main question, three sub-questions have been developed. Each of the sub-questions follows several operational questions (see Appendix, Research Matrix for more details).

Sub-Question 1: Why are Chinese private firms investing in Ethiopia?

Operational Questions:

- What motives drove different types of Chinese private firms to invest in Ethiopia's manufacturing industry and focus on export and/or domestic markets?
- What is the most important determinant that attracted private firms to invest in Ethiopia?

The prerequisite to answer this sub-question is to identify types of firms that are present in Ethiopia and their distinct characteristics.

Sub-Question 2: How have Chinese private firms consolidated their investments in Ethiopia, and how have their accumulation trajectories varied and why?

Operational Questions:

- What is the logic and core interests of accumulation that drove different types of Chinese private firms to invest in Ethiopia?
- What kinds of production constraints did firms encounter during their accumulation process, and how did they overcome them?
- Did firms replicate the same production model and managerial ethos that they had in China, or did they adopt a new one based on local realities, and why?

Sub-Question 3: What are the dynamic relations between Chinese private businesses and the Ethiopian government?

Operational Questions:

- How did institutional bargaining mechanisms emerge among Chinese businesses, what specific forms have they taken and how have they subsequently evolved in Ethiopia?
- What kinds of conflicts and collaboration exist between the Ethiopian government, Chinese business associations and private firms?
- What sort of problem-solving mechanisms are there, to what extent is this kind of institutional set-up effective in solving collective action problems and are they controlled by certain players?
- What caused the current structure, and what are the political economy implications?

3.4. Research Design and Methods

To answer these research questions requires a mixed research methods approach, consisting of mainly qualitative (comparative ethnographic study) and complementary and exploratory quantitative research (through descriptive analysis). As discussed in the previous section, quantitative research alone would not be enough to answer the research questions. This is not only due to the concern that the existing data on Chinese private investment in Ethiopia is deficient and problematic, but also because the quantitative analysis is unable to adequately capture, analyse and interpret ongoing conflicts, contradictions and collaborations on the ground, often hidden behind simple observable variables. Though historical political economy approaches offer a useful tool to understand 'truisms' from the past (Behuria, 2019), they need to evolve and integrate into the contemporary context.

In approaching this particular topic, it is important to understand Chinese private FDI in Ethiopia as a two-way ongoing interactive process. Their dynamics and encounters in many ways are quite raw. According to Lee (2017), the ethnographic study is the only way in which a comparative and grounded analysis of investment projects can be attained and thus seemed a clearly beneficial approach for this project. Ethnography or the 'extended case method' (Burawoy, 1985) can offer unique advantages to any understanding of the peculiarity of Chinese private capital in Ethiopia. Adopting a theoretical perspective that capital is processual, relational and embedded (Lee, 2017, p.648), grounded comparative ethnographic study helps to fill this gap and enrich the intellectual literature. Lee (2017) constructively points out that ethnography is also not necessarily just inherently micro-level, interpretive and present. In the context of this study, ethnography follows the 'extended case method' tradition. This links macro-level forces and structures to micro-firm level processes. Current and local relations are set in the context of the historical past. The meanings of social relations are also taken into account.

In terms of specific methods, the use of participant observation and theoretical and historical 'extensions' enable the 'macro' domain to be accessed. Thus, for all the reasons outlined above, the comparative ethnographic study is the preferred main method used in this study. The core qualitative research components for this study include:

- Semi-structured interviews and life histories
- On-site participant observation

Thus, quantitative (statistical) analysis is also conducted to analyse different sources of primary and secondary quantitative data (both aggregated and disaggregated) related to Chinese private OFDI in Ethiopia (such as a firm's real investment status, tax payments and employment situation) in order to mitigate this potential 'bias'.

3.5. Data Collection

Starting from participation in the Industrial Development, Construction and Employment in Africa (IDCEA) project funded by ESRC-DFID on 'Chinese firms and employment dynamics in Sub-Saharan

Africa: A comparative analysis' (2015–2019), I frequently travelled to Ethiopia for fieldwork since 2015. Since then, I have built and maintained good *guanxi* with a variety of stakeholders, including Chinese firms and government agents in Ethiopia. Prior to fieldwork for this project, I completed a three-week scoping visit to Ethiopia between July and August 2017. This initial visit introduced this project to relevant stakeholders on the ground. Moreover, how the research would be undertaken was explained explicitly to potential interviewees. This provided the opportunity to seek out potential firms that could be further engaged for surveys, interviews and observation later. A small number of pilot firms were selected during this trip to test semi-structured interview guides. The scoping visit was helpful to understand the possible limitations for fieldwork so that plans could be adjusted for feasibility.

PhD fieldwork was conducted between October 2017 and September 2018 (11 full months) in Ethiopia, with three weeks spent in China. Key activities completed during this time included the following: factory visits with inspection of the main production facilities; semi-structured interviews with entrepreneurs, senior management, factory management and workplace representatives; management-level surveys; life stories of entrepreneurs and Chinese expatriates; and various types of participant observation. Due to cultural sensitivity (as most interviewees I dealt with are Chinese), I chose not to video or record interviews according to interviewees' preferences. All notes were taken in Mandarin during the interviews and then written up in both Mandarin and English afterwards. The author kept all the original notes and compiled and coded all interview and observation transcripts between September 2018 and August 2019 after returning from fieldwork (see Appendices for more details).

Although I obtained verbal permission from all interviewees, it was agreed to keep most of the information and the informants' names confidential except for a few entrepreneurs who have agreed to release their names and information and signed Research Consent Forms (see Appendix G for more details).

3.5.1. Existing Data

Regarding investment-related data, I used various sources (both institutional and firm-level), especially data collected by the EIC. The rationale for using the EIC data is because it is comparatively updated and remains the most accurate source of official statistics on FDI to Ethiopia. As depicted in Section 3.2.3, firms might *choose* not to register with MOFCOM when they invest in Ethiopia. However, all firms (investors) *must* register with the EIC to apply for investment licences and business licences. The EIC collects relevant information during the investor registration period. After that, an EIC department called 'After Care' follows up on the activity of the investor and updates the investor's status as it changes over time.[28] Therefore, the EIC has more up to date and accurate data (for certain issues, such as investment and re-investment).

3.5.2. Surveys and Interviews

A survey of Sixteen firms based on management-level interviews[29] was undertaken between January and April 2018. Fourteen firms were surveyed at the Eastern Industry Park (EIP), one at the Hawassa Industry Park (HIP) and a final one at the Adama Industry Park (AIP). Ten out of 16 firms concerned light manufacturing industries, and the remaining six were in the construction materials industries (see Appendix F for more details). The sample of firms was based on a careful purposive selection after my three-week scoping visit and first three months of interviews and observations (September to December 2017). I also conducted a survey of 15 additional Chinese manufacturing firms on behalf of the International Trade Centre[30] during my fieldwork period, which helped me gain further opportunities to engage with interviewees and explore critical questions in depth.

In addition to these surveys, in total 96 face-to-face semi-structured interviews were conducted. Among them, 86 were firm-level interviews, including owners and investors, senior management (country manager, factory manager and department director/deputy director and supervisor) and ten interviews were with senior officials of relevant institutes/agencies (both Chinese and Ethiopian) from both the public and the private sector. Public agencies include the EIC, the MOFCOM and the China–Africa Development Fund (CADFund). Private organisations included the China Chamber of Commerce in Ethiopia (CCCE), the Eastern Industry Zone Investors Association (EIZIA) and a small number of non-Chinese foreign firms (see Appendix B, Interview Code for the full list). Moreover, I spent three weeks in China (April to May 2018) conducting follow-up interviews with target firms and local government officials, visiting headquarters (such as Jiangsu Yongyuan Group, JPTE and Huajian) and conducting on-site observations.

However, surveys and interviews have three drawbacks (see Miles and Huberman, 1994; Coleman et al., 2007; Creswell, 2013). Firstly, they are time-consuming. Secondly, selecting the right participants can be difficult and sometimes problematic. Thirdly, the selected participants may not tell the truth either due to concerns regarding their corporate image or fear of confidentiality being breached. To address the first two concerns, I assigned sufficient time for each question based on a consensus with

[28] See Appendix B, EG1-5 for more detail.

[29] See Appendix E for Survey and Interview Framework.

[30] I worked as the national consultant for the ITC-PIGA project in Ethiopia (December 2017–April 2018). Part of my work was to conduct firm-level surveys and bridge the relationship between Chinese-Ethiopian businesses.

participants (each survey/interview took, on average, 30–45 minutes), and I kept in close contact with key informants and visited study sites frequently (most of the time, I stayed in the same community facilities as the interviewees). Answers were recorded by note-taking as interviewees preferred not to be recorded or filmed. Follow-up interviews were also conducted between October 2018 and June 2019. Information and details were frequently checked and followed-up via social media and emails after I returned from my field trip in September 2018. In short, enough time was allowed to maintain a systematic content with key informants and many other respondents, and, by doing so, trust was built, which substantially improved the quality and reliability of the evidence base.

To mitigate the third drawback, apart from the benefits of extended fieldwork, I used a variety of observations (see below) and consulted various secondary data collected from individual firms and institutes for cross-checking.

3.5.3. Participant Observation and Life Histories

In addition to surveys and semi-structured qualitative interviews, participant observation and nine life histories were conducted. As mentioned in previous sections, conducting participant observation is highly demanding as it requires a high level of trust and *guanxi*. Fortunately, my unique position enabled me to access a variety of stakeholders (including industrial park developers, Chinese firms and government officials). On the one hand, I was in partnership with the EIC as their Chinese Investment Adviser during my fieldwork in Ethiopia. Parts of my work at the EIC included receiving delegations in selected industrial parks, observing the manner of the EIC One-Stop Service Station (OSS), collecting constraints and feedback from Chinese firms and providing monthly reports to the Commissioner (and Deputy Commissioners) of the EIC.

I was also able to obtain permission from the Eastern Industrial Park and Huajian to conduct interviews and various instances of participant observation in both China and Ethiopia. I spent six months in the EIP, living together with Chinese supervisors and technicians in their portable shelters. Numerous lobbying, negotiation and bargaining processes between the EIP, firms and local government agencies were observed. Part of participant observation was to attend monthly meetings hosted by the EIP Committee for all Chinese firms within the park. Apart from the EIP, I also spent six weeks in the Huajian Light Industry City, conducted semi-structured interviews with representatives in various departments and engaged in various forms of participant observation. As part of participant observation, I was in charge of receiving delegations on behalf of Huajian and translating slogans and internal documents during my stay (Ethiopia).

My unique position helped me to build trust with multiple stakeholders (especially Chinese investors and Ethiopian government agents). In addition, my identity and background (as a Chinese female researcher who was born and raised in Shanghai and is pursuing a PhD at a Western university) enabled me to quickly integrate into the Chinese community in Ethiopia, where most people are from coastal regions and speak a similar dialect. This specific positionality I had in the field enabled me to collect original data from various sources and observe what was occurring on the ground from different angles. Some examples of my experience include how I observed how investors and Chinese expatriates from various manufacturing firms reacted to labour conflicts (e.g. protests, theft and strikes). I attended several meetings with the Eastern Industrial Park Committee representatives, Chinese investors, EIC representatives and local government agents (Dukem City Administration in particular) to discuss the resolution of land conflict, environmental treatment and labour issues (see Chapter 7 for more detail). I also translated for the EIP management during meetings with the Dukem Mayor, local police bureau and environmental agency regarding donation issues, security within the park and environmental treatment respectively. I went to the site with EIP management to mediate conflict between local workers and Chinese supervisors within the park. I helped Huajian Shoe in properly translating their slogans hanging in factory.

3.5.4. Obstacles to Collecting Data

I encountered both physical and mental challenges and sometimes threats during my fieldwork period. First, between October and December 2017, the study site I focused on was marked by constant protests and conflicts (within factories and outside of the industrial park). The initial plan to conduct surveys was deferred as most firms were busy dealing with these turbulent situations. Instead of conducting the surveys and interviews, I decided to observe and document how the industrial park committee, Chinese private firms and the Ethiopian government agencies (both federal and local) dealt with these conflicts.

My identity and position enabled me to gain a unique perspective of what was happening on the ground. As a young, female Chinese researcher living in Ethiopia on their own for one year, my identity also led to potential threats. Since I conducted a longitudinal analysis in the field and lived together with associates of Chinese private firms in the compound, sexual harassment occasionally occurred by some Chinese managers (especially at the dining table where 'vomit-inducing toasting culture', *quanjiu wenhua*, was popular). To avoid and mitigate this type of risk, I refused to go out alone with male interviewees in the evening. If necessary, I would bring a close friend to accompany me and informed friends where I went and with whom.

Another obstacle is the lack of understanding of the value and nature of academic research, especially the importance of research independence. As a Chinese PhD researcher from a Western university, I was often called a ‘foreign expert’ by my Chinese informants. They frequently reminded me to be a patriot and told me that I should always write positive things. They became more cautious after hearing I am supervised by a Western supervisor and warned me of Western conspiracy theories (e.g. demonizing China’s engagement in Africa). It took me a long time to reassure informants of the rationale for conducting this research and how different it is from media reporting. In the end, some observations I conducted still couldn’t be included in the material as the informants told me not to tell ‘bad stories’ (for instance, some informants told me to write ‘70% positive and 30% negative’ and asked to review and sign off on my whole thesis before I submit it). Those particular cases were removed, as per ethical guidelines and the need to respect confidentiality and consent.

3.6. Data Analysis

In terms of analysis, coding analysis and narrative analysis were two main qualitative techniques used in this research.

- Coding analysis: All firm surveys, interviews and observation notes have been coded (see Appendix for detailed coding information) and categorised based on different themes for analysis (see below).
- Narrative analysis: Based on life stories and participant observation, I looked at storytelling structures and interpreted their meaning.

In addition to qualitative analysis, some quantitative analysis was employed to complement and make sense of the data collected. Radar charts were created based on survey findings to show the degree of each determinant that influences firms’ investment decisions and relations (see Chapter Five, Section 4 for more details).

The next sections provide a brief overview how the data collected will be analysed in the following chapters.

3.6.1. Chapter 4

As discussed in Chapter Two, China’s particular political system, domestic economic situation and the evolution of Chinese capital in the past four decades are essential to understand the variety of Chinese capital ‘Going Out’. The heterogeneous nature of Chinese firms from different regions require sub-national contextualisation. Each region has its unique context regarding social, cultural and historical factors; local government policies; institutions; and economic conditions. These factors together have formed and shaped firms' internationalisation and entrepreneurs' behaviour. Because the majority of Chinese private firms in Ethiopia are from certain coastal regions, namely Zhejiang, Jiangsu and Guangdong provinces,[31] it made sense to target firms from these three regions for comparison. Social history and industrial development in these three regions will be reviewed in Chapter Four.

A broader understanding of China's and Ethiopia's political economy contexts needs to be explored to understand China's 'Going Out' and how the Ethiopian state and people have shaped overseas investment (such as Chinese FDI and their dynamic interactions). It is also essential to review Ethiopia's economic development and industrialisation in the context of Sino-Ethiopia relations. This background context will be explored more fully in Chapter Four. Specifically, data from Chapter Four is based on existing reports from international institutions (e.g. UNCTAD, UNESCO, UNIDO, WB and ITC), government agencies (e.g. MOFCOM, NDRC and EIC) and various academic literature. Also, I collected updated primary and secondary data from various government institutions (EIC in particular), Chinese business associations (e.g. CCCE, CABC, EIPMC and EIZIA) and individual firms during my fieldwork in Ethiopia and China (see Appendix C, Research Matrix for more details).

3.6.2. Chapter 5

As discussed in Chapter Two, understanding China's system of political capitalism, the emergence and evolution of the private sector as well as new capitalist elites since the Reform is essential as it has had an impact on the variety of private firms' 'Going Out'. Because agents of capital differ significantly, tracing the history and origin of Chinese private firms that are present in Ethiopia is highly useful to understand their *guanxi* networks with the government (at all levels) and identify the social class to which these entrepreneurs belong. Chapter Five will firstly present what kinds of Chinese private firms are present in Ethiopia and outline their main characteristics. Then, a typology of firms will be developed accordingly.

Secondly, by adopting Max Weber's and Karl Marx's concepts of capital accumulation, the chapter includes a comparative analysis to explore the motives and determinants of private firms' OFDI in Ethiopia's light manufacturing industry and construction materials industry. It will seek if any common factors drive firms to invest in Ethiopia's manufacturing industries.

[31] These findings are based on a group of firm interviews, my observation and desktop research that I conducted for the IDCEA project (2015–2019).

The evidence presented in Chapter Five is based on an analysis of a combination of data from different sources, including primary and secondary data that I collected from both government agencies and individual firms through interviews and visits, a 16 firm-level structured survey, 96 semi-structured interviews and frequent follow-ups for information updates between August 2017 and June 2019.

3.6.3. Chapter 6

The heterogeneous characteristics of a variety of Chinese private firms imply that their motives, logic, strategy and capacity to consolidate their investments vary significantly. Based on the typology of firms that was developed in Chapter Five, I carefully selected three types of firms that are highly exemplary for in-depth case studies (see Appendix for more details). Chapter Six then provides the comparative ethnographic analysis of three in-depth case studies to explore how these different types of firms consolidated their investments in Ethiopia, and to what extent firms' accumulation trajectories[32] differ, and why. Chapter Six seeks to explore firstly the logic and core interests of accumulation for these three types of Chinese private capital and how firms achieved their original accumulation. Secondly, it probes how these different types of firms dealt with constraints during the accumulation process (obtaining their original capital accumulation, reacting and adjusting production regimes and managerial ethos accordingly, and overcoming operational and policy obstacles). Whether firms replicated the same production model and managerial ethos that they had in China, or they adopted a new one based on local realities and why will be uncovered.

In Chapter Six, a mix of data has been collected and analysed. Apart from 14 firm-level surveys (in the EIP) and 60 semi-structured interviews with multiple stakeholders, various types of observation, including factory visits with inspection of the main production facilities and participant observations (such as attending internal meetings with firms and Ethiopian government agents and various activities in Chinese expatriate dormitories) were conducted to create a comprehensive picture (see Appendices-In-depth Case Studies for more details).

3.6.4. Chapter 7

Chapter Seven will explore the dynamics of state–business relations (SBRs) between host country government agencies (the Ethiopian Investment Commission in particular) and Chinese private firms, with a particular focus on the existing Chinese business institutional bargaining mechanism, and the role of tacit networks in Chinese private firms. In doing so, it mainly takes an ethnographic study approach by using the Eastern Industry Park as a case study to explore the interactions between the

[32] See Chapter Two for the full elaboration.

state and a variety of Chinese private capital investments in Ethiopia. Tacit networking is impossible to observe from quantitative data or first or second-round interviews due to the issue of trust. This information is based on a combination of the longitudinal observation (six months living in the EIP) that I conducted in the field and follow-up interviews. After gaining a certain level of trust, some interviewees became more open and shared this type of hidden behaviour with me.

In sum, the methodology elaborated above ensures that the various complexities and dynamics of Chinese private OFDI in Ethiopia are studied in-depth.

4. The Context of China and Ethiopia: An Overview

4.1. Introduction

The objective of this chapter is to provide background contextual knowledge for this research, before proceeding to present the findings of the primary research. The chapter is divided in three sections and covers both the China and Ethiopia political economy contexts. Section Two addresses the China context. Three themes will be addressed in this section: the development and evolution of the private sector in China, China's region-specific development models and China's 'Going Out' policy. This section will firstly unpack the emergence and development of the variety of Chinese firms since the Reform and Opening-up processes. Moreover, as discussed in Chapter Two, under China's particular political capitalism system, centralised control and decentralised improvisation have led to diverse region-specific development models. Three prominent regional development models (notably, Guangdong's 'Dong'guan model', Jiangsu's 'Su'nan model' and Zhejiang's 'Wenzhou model') will be introduced in this section. Furthermore, China's gradualist transformation and successful economic development in the past four decades have had profound implications for China's 'Going Out'. This section will also review how China's domestic economic conditions, and changes in government policy and institutional context have had an impact on firms' 'Going Out'.

Subsequently, Section Three provides an analysis of the specific context of Ethiopia. A country overview and Ethiopia's political economy conditions will be reviewed in this section. Section Four zooms into an overview of Ethiopia's economic development and industrialisation strategies. The context of Sino–Ethiopia relations and unfolding economic partnerships, with a particular focus on Chinese investments, will be reviewed in this section as well. Section Five concludes.

4.2. China's Context

4.2.1. The Development and Evolution of the Private Sector

China has a very large and growing private sector. According to the 2018 Report of Chinese Private Economy Development drafted by the All-China Federation of Industry and Commerce (2020), by the end of 2018, 60% of China's GDP came from the private sector. Further, 70% of innovation, 90% of new jobs and 80% of urban employment is also attributed to the private sector. The private sector is also responsible for 90% of exports and 70% of investments (All-China Federation of Industry and Commerce, 2020). However, private enterprises (PEs) are, on average, small in scale, while most of the largest firms in China are made up of SOEs.[33] Virtually all capital-intensive sectors are dominated by SOEs. In areas where there are relatively weak institutions, SOEs can be used as instruments of macroeconomic policy and industry regulation (*Jiefang Daily* cited in Wu, 2017, p.213).

As outlined in Chapter Two, the ownership of Chinese firms is highly complex, and they cannot simply be divided into the categories of private- or state-owned. Privatization after the reform of the SOEs and TVEs ('Township village enterprises' (乡镇企业))[34] continues to develop and grow, but the boundaries with other types of enterprises are increasingly blurry. For instance, the ownership of TVEs is somewhere between private- and state-owned. These TVEs are not considered as SOEs as SOEs are usually owned by governments (central, provincial and city). TVEs are now free of constraints and influence from government (until the 1990s, the state's ownership rights and influence through budgets were exercised; following 2003, this has taken place via a set of formal shareholding agencies). Shareholders of TVEs may be private individuals or local governments (Kroever, 2016).

According to Lardy (2018, p.330), '[t]he rise of private business in China since 1978 is largely the result of what might be called the displacement of SOEs. Privatisation of SOEs has been only a minor contribution to the rise of the private businesses.' In reality, a large number of private firms emerged from TVEs. From 1997 to 2002, there were around 1.59 million TVEs and 1.39 million (nearly 90%) have been transformed into private enterprises (Gan, 2003 cited in Chen,2020).

Having a thorough understanding of the historical development of the private sector and ownership reform in China is helpful to understand the evolution of the varieties of Chinese capital. Concretely, the development of China's private sector since the beginning of the Reform[35] (is also called 'Reform and Opening up' (改革开放)) can be summarised into three periods: the sprouting period (1978–1994), the development period (1995–2007) and the accelerating period (2008–onwards).

4.2.1.1. *The Sprouting Period (1978–1994)*

Before 1978, China solely relied on a planned economy development model with full state ownership of the means of production. By 1952, China had carried out a thorough liquidation of private capital, during which all private enterprises were nationalised. From then until 1978, all enterprises in China

[33] The IFC defines a state-owned enterprises (SOE) as 'a legal entity that is majority owned or controlled by a national or local government whether directly or indirectly' (World Bank Staff Working Paper 577, IFC.20 Dec 2018). In China, there are SOEs at central, provincial and local levels.

[34] TVEs refer to 'business enterprises formally owned, or informally sponsored, by local "collectives" that is, by township and village governments' (Kroever, 2016, p.29).

[35] 'Reform' refers to 'the program of economic reforms termed "Socialism with Chinese characteristics" and "socialist market economy" in the People's Republic of China (PRC)'.

were state or collectively owned (Wu, 2017, p.34). Heavy industries took absolute priority in the industrial policy in China during that period, combined with a accelerated rural industrialization (Bramall *Chinese Economic Development*). Then, in 1978, the 3rd Plenary Session of the 11th Communist Party of China (CPC) Central Committee initiated the 'Reform and Opening-up' policy (referred to throughout as the Reform), which marked the beginning of China's private economy era (Wu, 2017).

In 1982, the constitution was amended for the first time since the Reform to explicitly stipulate that the private sector should be complementary to the socialist public sector as a supplement to the economy of urban and rural workers within the scope of the law (Huang, 2018). Relatedly, in 1987, the 13th National Congress vowed to continue to develop a variety of ownership models in the economy, emphasising the private sector as a necessary and beneficial complementary of the public sector. PEs were encouraged by the Chinese government and were officially recognised in 1988 (Wu, 2017). Since then, the government and the CPC began to gradually recognise the legitimacy of the private economy, and such a shift in discourse then materialised in changes in government policy and the institutional context (Lardy, 2018; Huang, 2018). During this period most reform steps were taken gradually and on an experimental basis.

During this first period, people from all walks of life began to argue over the issue of 'belief in capitalism or socialism' (Huang, 2018, p.159). In 1992, the 14th National Congress established the path of the socialist market economy. That same year, then Chinese President Deng Xiaoping's 'Southern tour (also called 'South Talk') [36] (九二南巡) put forward the 'cat theory'[37] (猫论) (Xinhuanet, 2008), which further consolidated the confidence of private enterprises and individual enterprise business.[38] Reforms deepened from the 1990s onwards. Progressively, firm autonomy was increased through experimentation in the 1980s. This then enhanced firms' abilities to retain profits and engage with markets. Large firms became corporate entities with diversified ownership (Nolan, 2015, p.79).

To conclude, the private sector development between 1978 and 1994 was in its initial phase of growth, or 'sprouting'. Although private economic activity expanded rapidly, its legal basis was insecure and

[36] 'South Tour' (or 'South Talk') was the tour of Former Chinese Communist Party leader Deng Xiaoping, 'who had retired from all his party and government positions, made an important trip to the special economic zones (SEZs) of Zhuhai, Shenzhen, and Guangzhou in Guangdong Province that he had been instrumental in setting up in the early 1980s., from January 18 to February 21, 1992' (Brown, 2009, p.605).

[37] It's based on a quote from late leader Deng Xiaoping in the 1960s – 'Black cat or white cat, if it can catch mice, it's a good cat'. (CGTN, 2018).

[38] 'Individual enterprise business' (个体户), which by law could have no more than seven employees (Kroever, 2016).

was under scrutiny by the Chinese government. The main corporate structure during this period was the individual business enterprise. Larger private enterprises existed but were registered as 'collectives'.[39] This was because of the difficulty of registering a purely private enterprise. Many of these collectives often had significant shareholding on behalf of local governments,[40] whose members acted as patrons and protectors (Kroeber, 2016).

4.2.1.2. *The Development Period (1995–2007)*

The second period was roughly from 1995 to the pre-financial crisis (2007). In 1995, two essential policy reforms came into force: the first was the ownership reform of SOEs, which was adopted at the 5th Plenary Session of the 14th CPC Central Committee. The second was the implementation of China's enterprise reform policy, understood as 'grasping the large, letting go the small' (抓大放小, *zhuada fangxiao*) (China Forum, 2013). These policies had been explicitly promoted through the 15th National Congress of the CPC in 1997 to adjust the distribution of the state-owned economy from a strategic perspective, marking a turning point for the significant development of the private sector (Huang, 2018; Nolan, 2012, 2014, 2015).

The Reform affected regions differently. The term 'lay-off' (下岗) first appeared in Guangdong in the early 1990s. This kind of 'seniority buyout'(工龄买断) became then gradually accepted nationwide. The buyout price varied from place to place. In southern non-coastal areas, this approach was widely accepted by workers, many of whom already had second jobs and whose modest resettlement payments were often used to start their own businesses (Luthje, Luo and Zhang, 2013; Wu, 2017). In the north, especially in cities that had old industrial bases, people were accustomed to 'tie' their lives to the companies and regarded the factories as their homes (Wu, 2017). Generations of engaging in the same work and life mode made it difficult for them (people from the north) to adapt to the sudden 'smashing the Iron Rice Bowl' and 'stripped enterprises of all welfare functions' (Lee, 2017, p.652).

In the mid-1990s, the central government gradually lifted taboos against the creation of private businesses. The local governments were empowered to privatise their public firms, and the entire township village enterprise (TVE)[41]-sector underwent a dramatic transformation. With TVEs privatising,

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[39] 'Collective-owned enterprises' (also called 'collectives') (联营) is a collaboration model between township village enterprises (TVEs) and SOEs that emerged around 1986. TVEs and SOEs enter into joint venture agreements so that TVEs can obtain technical assistance from SOEs with a small amount of money and use well-known brands that have been cultivated for years (Wu, 2017, pp.214–5).

[40] At the beginning of the Reform, 'the vast majority of non-agricultural economic activity was controlled by the state, not through companies but through government ministries and bureaus at both central and local levels' (Kroeber, 2016, p.90).

local states changed from being just shareholders of state-owned firms to being tax collectors and land developers (Peck and Zhang, 2013). Local states also competed for investment, both foreign and private, made use of heavily subsidised infrastructure and had a broad remit to make deals (Yang and Wang, 2008; Tao et al., 2010 cited in Peck and Zhang, 2013, pp.376–7). This was a period when the 'directed improvisation' was particularly intense (Ang 2015).

In 1998, amendments to the Chinese constitution further consolidated private property rights and allowed corporate structures to be more flexible (Huang, 2018). The role of the state in many sectors was reduced, giving PEs the chance to enter lucrative new markets (Lardy, 2018). PEs were also able to benefit from this by, in some cases, buying up distressed SOEs and SOE assets. Over time, officials (especially local officials) became more comfortable with permitting the private sector to grow and eventually overshadow the state sector especially since many officials or their close family members held shares in these private firms (Kroeber, 2016; Naughton, 2018). Consequently, TVEs developed in various patterns in different parts of China depending on the specific regional conditions (Naughton, 2018, p.316). Guangzhou's foreign-joint venture model, Su'nan's collective model, and Wenzhou's private economy model became three prominent region-specific development models. These models are not static though; rather, they have been evolving over time (Zhang and Peck, 2016).

The approach to 'Grasp the large, let go of the small' ended in 2002, while firms started the implementation of 'the state retreats and the people advance' (国退民进, *guojin mintui*). The vast majority of collectively owned TVEs had been privatised (mainly through manager buyouts) by 2004.

To conclude, the second period was a critical transition, and SOEs' and TVEs' reform and corporatisation had significant implications for the development of the private sector. It is important to note that when private firms were formally discouraged, TVEs created a space for private enterprise (as close as one could get to private enterprise during this period) as the first large-scale mechanism for the transfer of excess agricultural labour into the modern industrial economy was facilitated by TVEs (Kroeber, 2016, p.30). Although the shift in central government policy was a prerequisite, TVE privatisation was controlled by local governments. Many incentive mechanisms that culminated in privatisation could be seen during this period of experimentation (Naughton, 2017, p.321).

Most SMEs had shifted away from state ownership by the late 1990s. During this shift, a wide array of institutional structures emerged from the process. Referring to this process as 'privatisation' does not fully capture the complexity of the process or its outcome.

SMEs (of the non-state sector) made a vital contribution to China's growth. The private sector share of output and employment, and the number of firms rapidly increased. By removing the constraints on the private sector, China's vibrant tradition of entrepreneurship (smothered since the mid-1950s) was rekindled (Nolan, 2012, p.57, 2014, p.122, 2015, p.79).

4.2.1.3. *Accelerating Period (2008 onwards)*

The third period of private sector advancement began in 2008. During this period, there was a massive investment in infrastructure projects by the Chinese government, which was part of their response to create stimulus after the financial crisis. This advancement of the state into the private sector once again is known as *guojin mintui* (国进民退), which translates to 'the state advances and the private sector retreats'. On the whole, it caused some anxiety among members of the private sector (Naughton, 2009; Scissors, 2009). The phrase *guojin mintui* reflects a systematic effort by the government to roll back private sector gains and reassert the role of the state. However, the impact of the policy has been found out to be overstated (Kroeber, 2016).

In 2005 and 2010, China successively issued the 'old and new 36 articles' on the private economy. Since then, laws, regulations and policies hindering the development of private enterprise have been revised. Market access conditions have been relaxed, and the market environment has dramatically improved. This series of major policies and events promoted the development of PEs and contributed to China becoming 'the world's factory' (Huang, 2018). OFDI began to emerge in China in 2005. However, it wasn't until after 2011 that the liberalisation of access to OFDI opportunities came about (Naughton, 2017, p.446). As noted earlier, the 3rd Plenary Session of the CPC's 18th National Congress deepened Reform and strengthened private enterprises. The central and local governments optimised and improved the business environment by introducing bundles of policies in finance and taxation; investment and financing systems; market access; credit policies; support for SMEs, small and micro enterprises; and property rights protection (Huang, 2018).

Two prominent developments need to be noted during this period, as reported by Huang (2018):

1. In terms of the total number, private enterprises became the leading players in China's economy. The private sector accounted for 95% of the total firms in China. The total number of PEs increased from 100,000 in the early 1980s to over 30 million, and 65.79 million individual businesses in 2015. Since the 3rd Plenary Session of the CPC's 18th National Congress, the total number of PEs increased by nearly 20% per year.
2. The private economy is the mainstay of China's national economy. PE's role as a percentage of GDP rose from 1% at the beginning of Reform to nearly 60% in 2015. For some highly integrated provinces such as Zhejiang, the number of PEs reached over 70%. From a tax

perspective, over half of the corporate tax is derived from PEs. PEs also rank first in exports, which have exceeded foreign-invested firms' performance since 2015.

4.2.2. Region-specific Economic Development Models

As argued in Chapter Two, centralised control and decentralised improvisation (or 'directed improvisation' as Ang, 2015) is one distinct feature of China's political economy (see Ang, 2020, 2018, 2015; Milanovic, 2019; Lee, 2017; Dinh, 2017; Zhang and Peck, 2016). It implies that China's economic development is highly heterogeneous, diverse and unequal. The Chinese model of central–local relations, according to Zhang and Peck (2016, p.65):

> combines centralised party discipline and entrepreneurial localism, hydraulic redistribution with institutionalised 'GDPism' (a system of interregional resource allocation pegged to local economic growth rates), dirigiste development and deregulated marketisation. This system, the logic or 'coherence' of which resides neither at the national or local scale in a singular way, but is established between them (i.e., relationally), represents the basic institutional architecture within which China's network of regional capitalisms are embedded.

China's political system led to uneven, robust economic development and industrialisation at the sub-national level and nurtured China's domestic 'Flying Geese' model (Ang, 2018). Industrial transfer *chanye zhuanyi* (产业转移) occurred initially within China across different regions rather than other countries (ibid). Ang (2018) argues that industrial transfer within China not only depends on provincial and local economic effects and policies but also follows sequence and timing.

In the course of China's 40-year reform trajectories, some localities have explored the path of economic and social development by combining their natural endowments, geographical environment and conditions, social conditions, and cultural characteristics to form development models with their own characteristics, such as the 'Dong'guan model', 'Su'nan model' and 'Wenzhou model' (Zhang and Peck, 2016) (see Table 5).

Table 5: Region-specific development models

	Dong'guan Model	**Su'nan Model**	**Wenzhou Model**
Industrial relations	• The dominance of Hong Kong-based and foreign-invested enterprises • Dormitory labour regime, reliant on rural migration • Strong outward orientation	• From collective TVEs to foreign-invested enterprises • Relatively lower reliance on rural migrant workers • From inward orientation to hybrid, regional-transnational model	• From private TVEs to larger private enterprises • Substantial but relatively limited rural migrant workers • Limited FDI • Inward orientation
Inter-firm relations	• Deeply embedded in GPNs, especially via Hong Kong • Growing pressure to upgrade of local firms	• Deeply embedded in GPNs, especially via Taiwan and Singapore • Limited knowledge and technology spillovers to local firms	• Strong family- and *guanxi*-based networks among local firms
Corporate financing and governance	• The dominance of Hong Kong investors and capital • The highly active financial sector and the growing stock market in Shenzhen	• From local state-coordinated financing to foreign corporate sourcing	• Endogenous sources mutual financial assistance • Active underground, informal financing • Impeded access to credit sources

Source: Zhang and Peck (2016, p.74)

4.2.2.1. *Guangdong Province and the 'Dong'guan Model'*

The 3rd Plenary Session of the 11th Central Committee of the Communist Party of China, held in 1978, decided to take Guangdong as a testbed for the Reform. The very first group of foreign investors to Guangdong were not TNCs from developed economies. Instead, these were 'second class' investors from mainly Hong Kong (Zhang and Peck, 2016). These investors brought their capital, financing and production networks to areas such as Dong'guan, Shenzhen, Guangzhou and many other cities in the Pearl River Delta (PRD; see Zhang, 2012 cited in Zhang and Peck, 2016). These 'second class' investors brought China the initial foreign capital, product ideas, technology and international market access that tapped into labour-intensive industries, enabling China to realise its comparative advantages in the global economy (Shen, 2015). These investors' industrial relocation to China was pushed by demand deficiency, falling profitability and the urgency of an industrial upgrade in their domestic markets on the one hand, and pulled by the supportive investment environment that China offered (with special tax policy, low production cost and economies of scale) on the other hand (Shen, 1990).

Guangdong province is well-known for the 'Dong'guan model' (see Table 1 for more details). Before the Reform, Dong'guan was an ordinary agricultural county under the jurisdiction of Huiyang City (county-level), with a self-sufficient agrarian economy. Today, Dong'guan has developed into an industrial city (a prefecture-level city) and is known as the world factory (X. Sun, 2019). The Dong'guan model is instrumental to both from Hong Kong and Beijing. With Hong Kong, there is a mutual language and culture and close economic linkages. With Beijing, there is the fact that three of the first four Special Economic Zones (SEZs)[42] were chosen to be in Guangdong (Zhang and Peck, 2016, pp.67–8), and SEZs were one of the initial bets of the Chinese government to test openness, FDI and export-oriented industrialisation (Lin et al., 2020).

According to Sit and Yang (1997), the PRD was a production base with an export-oriented model of development, where Hong Kong investors controlled finance and marketing. The Hong Kong investors also operated as 'merchant entrepreneurs' according to Zhou et al. (2011). Furthermore, Zhou et al. (2011) argue that the PRD's export-oriented production regime had at its foundations of low-skilled and labour-intensive activities that were dependent on foreign capital and produced for price-sensitive export markets. As a result, the regime was characterised by sub-par levels of research and development (R&D) investment and labour productivity growth.

In Guangdong province, TVEs were often partly foreign (or Hong Kong-) owned. Factories that were set up for the most part manufactured light, labour-intensive products aimed at exports. Village leaders in Guangdong acted as managers of village assets (leasing land, signing contracts for export processing, and coordinating labour and social assets). As the factories were labour-intensive, the region required a large influx of migrant labour. These TVEs were quite open to workers from other parts of China. Since the very beginning of the Reform, large numbers of migrants from inland China entered Guangdong, which became the largest destination for migrant workers (Fan, 2008). By being open to both foreign and domestic agents, villagers in Guangdong earned locational 'rents' (Naughton, 2018, p.318). Migrant workers were often accommodated close to or inside the factory compound, enabling an almost total form of labour control in what has been called a 'dormitory labour regime' (Zhang and Peck, 2016; Pun, 2016).

[42] Special Economic Zones were initiated on the back of new centrally coordinated measures that focused on regional specialisation and institutionalisation, ushered in by Deng Xiaoping. SEZs are an example of the new reforms that sought to introduce principles of devolution and encourage experimentation. SEZs were also initially experiments to try out new governance models and business arrangements (ONG, 2004; Zhang, 2012 cited in Zhang and Peck, 2016, p.65).

4.2.2.2. *Jiangsu Province and the 'Su'nan Model'*

Jiangsu province has for centuries been considered one of the most economically advanced regions of China. It is located at the Yangtze River Delta (YRD) near Shanghai. Since the early 1970s, TVEs in Jiangsu (Naughton, 2018, p.316) flourished earlier than those in other regions, while the collective system was still firmly in place in the countryside. The 'Su'nan model' (see Table 1) was established by collectively-owned TVEs in Jiangsu after 1978 when guaranteed loans and preferential treatment was provided to them by proactive local governments (Zhang and Peck, 2016, p.68). Since the 1980s, cities such as Suzhou, Wuxi, Changzhou and others led by the local governments vigorously developed TVEs to promote rapid economic growth.

The geographical location and land resources of Jiangsu province are superior to the rest of China. Urban businesses and local governments from nearby (Shanghai) both play important roles (Naughton, 2018, p.317). For many TVEs in Jiangsu, endowments of production were 'borrowed' from SOEs (Wu, 2017, p.214). For example, a great deal of the equipment that TVEs used were obsolete items purchased from SOEs at very low prices. Many TVE workers had experience in SOEs and basic knowledge and skills in those industries. TVEs in southern Jiangsu focus on the market that SOEs were rarely engaged in or did not interest them at all. There are also significant subcontracting and technical-assistance ties with urban SOEs (SOEs from Shanghai in particular). For instance, the presence of '周末工程师' (weekend engineers) was exemplified in the region (ibid, p.215). TVEs in Jiangsu province hired engineers from Shanghai enterprises to help them during the weekend. However, because these TVEs had no money at the time, these enterprises gave those engineers from Shanghai fresh goods on the land (CG)[43]. This meant that TVEs in southern Jiangsu informally hired engineers (known as '师傅' (masters)) from Shanghai during the weekend (Pang, 2012).

Because of the long history and greater capital resources in southern Jiangsu (Naughton, 2018; Kroeber, 2016), TVEs tended to be more capital intensive, larger and more technologically sophisticated than TVEs in other parts of the country. Even when private businesses were springing up elsewhere, as TVEs expanded, the village governments still maintained control and kept 'collective' ownership in Jiangsu province (Kroeber, 2016). As a result, the 'Su'nan model' is well-known for close connections between enterprises and local government, and strong institutional support (Qu, 2014). While the 'Dong'guan model' is more open both domestically and internationally, the 'Su'nan model' focuses more on protecting lucrative jobs, benefits and opportunities for locals (Naughton, 2018).

[43] Interview with the Chinese government official, see Appendix B. Interview Code for more detail.

Such a model has been continually evolving though. The economic reform effect began to shift from the PRD towards the YRD region during the 1990s. Pudong (Shanghai) was established as a New Open Economic Development Zone with a view to create the 'dragon's head' of the YRD as Shanghai and enable a new focal point for economic activity in China (Shen and Ma, 2005 cited in Zhang and Peck, 2016, p.68). After Deng's 1992 'South tour'(also called 'South talk') and Pudong's opening up, concessionary inducements were offered to foreign investors to establish joint venture initiatives within new industrial parks. These industrial parks were to be created on farmland that was appropriated by local governments in southern Jiangsu. In the late 1990s, TVEs in southern Jiangsu had successively reformed their property rights system (Wu, 2017a) and were integrating into GPNs that were led by Taiwanese and Singaporean investors, mainly in sectors such as advanced machinery and information technology (Shen and Ma, 2005 cited in Zhang and Peck, 2016, p.68).

4.2.2.3. *Zhejiang Province and the 'Wenzhou Model'*

Despite the importance of the two previous provinces in terms of different paths of private sector development, the private sector in China firstly emerged and was nurtured in Zhejiang province. Since the Reform, Zhejiang's economy has relied mainly on the private sector. Firms were initially specialised in modest consumption goods for daily use; the businesses themselves were small and generally made up of individual households. Light industry in Zhejiang relies on sub-regional specialisation. For instance, Zhuji is renowned for socks manufacturing, while Keqiao is famous for textiles (Wu, 2017).

One particular factor in Zhejiang province is the weakness of the collectives; they often disappeared early in the reform process as local governments did not have the capacity or the resources to develop collectively managed TVEs (Zhang and Peck, 2016, p.69). This was why the TVEs in Zhejiang did not develop into moneymaking enterprises. Instead, individually-owned enterprises tended toward labour-intensive activities in line with market demands. A reform of the Business Group (企业集团) [44] had been enacted in the late 1980s in the region, which marked the first large-scale ownership reform in enterprise history. At this time, the operator obtained the main equity of the enterprise by means of redemption (Wu, 2017a, p.19). This reform stemmed from Taizhou (county), then quickly spread to surrounding areas and eventually to the whole province (ibid). Until 1996, 80% of SMEs had completed the transformation of property rights in Zhejiang province. This resulted in the emergence of many new urban capitalist elites (millionaires and even billionaires).

[44] 'Business Group' 'was first legally defined in 1987, and throughout the next 15 years, the central government created about 200 such groups by organising various ministries and bureaucracy' (Kroeber, 2016, p.93).

As a result of these processes, the 'Wenzhou model' is well-known for 'combining petty commodity production and large markets, these clusters resemble Marshallian industrial districts in some respects, albeit with the distinction of integrating specialised production systems with local marketplaces' (Wei et al., 2007 cited in Zhang and Peck, 2016, p.69) (see Table 1). Wenzhou is a city that is isolated from traffic and lacks resources. It is about 300 kilometres south of southern Jiangsu (on the coast of the neighbouring province of Zhejiang) (Shi, 2014). TVE development in Wenzhou has evolved in a very different way. The intense reliance on the market to coordinate all aspects of production is something striking about the development in Wenzhou itself (Kroeber, 2016). Wenzhou traders filled a market need (throughout China) for diverse, inexpensive items that state firms were unable to produce very well or at all.

In addition, Wenzhou has had a long cultural tradition of entrepreneurship and has enjoyed robust economic growth since the 1970s (Zhang and Peck, 2016). Despite the lack of an advantageous suburban location, elements of the Wenzhou model appeared wherever private entrepreneurs (mainly farmers) were willing to seize the opportunities present in China's vast domestic market in consumer products. Opportunities offered up by local states were also taken upby those looking to start new businesses. 'Zheshang' (浙商), as Zhejiang businessmen are known, are well-known for strong family and social network ties, an entrepreneurial spirit and '*baotuan chuhai*' (going global in groups). Moreover, network ties in Wenzhou are assisted by the grassroots business associations that play an active role in the political and economic arenas. This is different to the 'Su'nan model', where bottom-up approaches are not possible due to the large influence of government and public enterprise (Zhang, 2008, p.173). The 'Wenzhou model' also has its distinct social structure features as it is 'classically characterised by a relatively flat class structure, due to the predominance of small businesses and self-employed people' (Zhang and Peck, 2016, p.69).

4.2.3. China's 'Going Out'

This section will review how China's domestic economic situation and changes in government policy and institutional context have had an impact on firms' 'Going Out'.

4.2.3.1. *China's Domestic Economic Conditions*

China's domestic economic conditions and its interaction with globalisation should be regarded as one of the driving forces for 'Going Out' (Wang, 2016; Hung, 2008). At the same time, its system has also been criticised for creating uneven development and crisis within China (see Milanovic, 2019; Dinh, 2017; Lee, 2017; Hung, 2008; 2016; Rozelle and Hell, 2020).

Since the 12th Five-Year Plan (2011–2015), China's economy has entered its 'New Normal' (*xin chang tai*) and is undergoing a new structural transformation. As Foreign Minister Wang Yi (cited in *Xinhua*, 2015a) stated: 'China is speeding up economic structural adjustment, moving from the world factory to a global manufacturing base for sophisticated equipment'. Overcapacity, high savings and investment, and reliance on exports are three main challenges that the Chinese government is facing. Since the turn of this century, 'encouraging Chinese firms to go abroad has remained as one important task in the Chinese government's agenda' (Sauvant and Chen, 2014 cited in Du and Zhang, 2017, p.206).

4.2.3.1.1. Overcapacity

Chinese firms' 'Going Out' is pushed by the lack of demand and falling profitability in a context of overaccumulation and generation of overcapacity. The construction materials industry offers a good illustration.

Construction Materials Industry and 'Going Global'

China has become the largest producer in more than 220 categories of manufacturing products in the world, including flat glass, steel and cement (Xinhua, 2015a). During the 12th FYP (2011–2015), competitive industrial products for the construction sector such as flat glass, cement, and steel have been listed as 'overcapacity sectors' and hardly made a profit. Thus, the restructuring of construction materials industries has been under the national strategy of 'the state advances and private companies retreat' since 2008. Consequently, SMEs in construction materials are struggling to survive in the domestic market (Luthje et al., 2013). Thus, moving 'overcapacity' industries to other developing economies is in line with China's current structural change agenda. This 'push' has been reflected in changes in government policy and institutional context. The construction boom occurred in China since the turn of this century, then reinforced after the financial crisis, synchronously marking the Reform and corporatisation of SOEs and TVEs as well as the amendment of laws throughout the private sector (Hung, 2016). All these factors spurred the development of a great number of small- and medium-scale private firms in the construction materials industry (ibid).

Light Manufacturing Industry and 'Going Global'

Over the past three decades, China's integration into the global economy has deepened. This has provided the country with significant benefits from comparative advantage and the export of labour-intensive manufacturing (Nolan, 2014). This has also meant that China is quite vulnerable to OECD countries' economic cycles, especially the impact of downturns (Nolan, 2014). This vulnerability from a fall in demand from OECD countries is exacerbated by the high degree of integration within the worldwide economy in a few key areas, or what Nolan calls the 'global business revolution' (Nolan, 2014). It mostly affects the Yangtze River Delta, which includes southern Jiangsu, Shanghai and

Zhejiang provinces, and the Pearl River Delta (Guangdong province in particular). China's engine for economic growth under the policies of Reform has come from these areas. Together they account for 28% of China's GDP, 58% of its inward FDI (41% for the Yangtze River Delta and 17% for the Pearl River Delta) and 66% of its exports (Nolan, 2014, pp.23–4).

The Chinese central government's policies have now encouraged the movement of the labour-intensive industry from coastal regions to inland China (Ang, 2015). They have also favoured policies that increase wage growth as this can help to boost domestic consumption. These policies have, for instance in Guangdong, seen companies investing in value-adding strategies, i.e. investing in new technologies and automation, some firms have been closing down, and quite a few have indeed been relocating, either to inland China or abroad to countries like Vietnam and Bangladesh (Yang, 2012; Zhang, 2014 cited in Zhang and Peck, 2016, pp.67–8; Lin and Xu, 2019). However, the gap of factory wages between coastal cities and inland China has been shrinking, as more migrant workers continue to flow to coastal cities to work in the service sector. Traditional manufacturing firms also encounter a recruitment problem. With rising wages, increasing concern about environmental protection and higher social welfare requirements, labour-intensive industries are losing their comparative advantages and the 'low wage classic' labour regime is eroded (Lutje et al 2013).

4.2.3.1.2. High Savings Rate and Foreign Reserves

China's growth in the past three decades relied heavily on savings and investment rather than consumption. China's savings are very high by international standards, having risen from 43% in 1990 to 54% in 2006. This is almost twice the average for low and middle-income countries (Nolan, 2015, p.17). It is also quite different when looking at the share of consumption in GDP. This has fallen from 42% in 1990 to just 33% in 2006. This is an already low share in international comparison, far below all low and middle-income countries (ibid). These levels suggest an ineffective use of resources and show little technical progress over a significant part of the economy and a high incremental capital-output ratio. This would mean that a large amount of additional investment is needed for every additional unit of output. Thus, it is unsustainable in the long-term (Fan in Wang, 2014).

The accumulation of massive foreign reserves since the early 2000s, on the pack of a hugely successful export sector, has been one of the most significant driving forces behind China's OFDI (Wang, 2016). This has been mostly invested in US government debt, and, as a result, foreign exchange reserves have garnered low returns, dissatisfying several groups in China. Following the 2008–2009 global financial crisis, this dissatisfaction manifested into general anxiety that large holdings of US dollar assets would lead to a loss in value as a result of worsened US economic conditions and macroeconomic policies (Wang, 2016).

In responding to China's domestic economic conditions, a new consensus emerged that China would be better off investing in production-oriented activities (Lo, 2016b). This explains China's increasing massive production-led investments in the infrastructure and manufacturing industry since 2013, the enactment of the 'One Belt One Road' (OBOR)[45] initiative and the establishment of the 'New Development Bank' and the 'Asian Infrastructure Investment Bank'. The rationale for the Chinese leadership to launch a series of international programmes of this calibre is to

> reshape the economic landscapes of the world. And one objective of the program is to promote yuan internationalisation in a way that forces finance to serve productive activities rather than attempting to join the existing, speculation-oriented financial hegemons of the world. (Lo, 2018, p.22)

Therefore, China's OFDI focuses on production-driven activities, and this should be seen as the counterforce against the increasing financialisation in the West (Lo, Hong and Li, 2016). The promotion of the BRI reflects Chinese ideology's 'Going Out' and gives Beijing the opportunity to spread China's influence widely and intensively to countries linked by the BRI. Instead of emulating traditional Western countries' developmental focus on 'post-material' institution building, Beijing has invested heavily in infrastructure, which is more tangible and practical (Milanovic, 2019).

4.2.3.1.3. Trade Friction

Since 2009, China has become the largest exporter of goods worldwide (Lo, 2016b; 2018). A small number of provinces (notably Guangdong, Jiangsu and Zhejiang) with a quarter of the country's population dominate China's foreign trade. Export of traditional manufacturing industrial products has caused massive trade surpluses and distorted the balance of payments. The most anti-dumping investigation cases were against China, and, until 2009, China consistently ranked No.1 (for 14 years) as a trade friction country (Li et al., 2014, p.37). Moreover, products such as steel, tyres, shoes, toys and cement have become 'disaster areas' of trade friction. The relocation of industrial capital in the traditional manufacturing sector is therefore helpful to mitigate trade friction and avoid trade barriers with Western countries. However, the private sector may not care about macro problems such as trade friction, but the limits of export, demand deficiency and changes in institutional contexts have a direct impact on private enterprises in the manufacturing industry and may act as push factors.

4.2.3.2. *From 'Going Out' to the Belt Road Initiative*

Since 1985, the Chinese government has gradually realised the role of OFDI in promoting its economic Reform, industrial upgrading and enhancing firms' competitiveness, and formulating the OFDI

[45] Later called 'Belt and Road Initiative' (BRI).

investment approval management measures and other regulations. Two years later, the State Council officially approved the internationalisation of firms, which further accelerated the investment of Chinese firms' OFDI. During this period, OFDI was mainly conducted by trading firms (SOEs in particular with a few private SMEs).

'Going Out' was initially proposed in 1997 (Lee and Shalmon, 2008, p.113) and adopted in 1999 (see Chapter Two for more details). Prior to 1998, Chinese firms did not yet have distinct advantages in OFDI. In addition to the shortage of foreign exchange, the operation direction of the foreign investment policy of the state mainly focused on IFDI. Although the 'Going Out' policy was launched in 1999, it remained so in name only, and companies did not greatly engage in OFDI until China joined the WTO.

In 2001, 'Going Out' strategy was included in the outline of the 10th Five-Year Plan for national economic and social development. China's accession to the WTO in 2001 was a pivotal moment, as China agreed to liberalise and deepen Reform (Lo, 2018). The WTO has created an efficient and transparent international environment for Chinese firms to enter the global market, participate in international competition and integrate with the international economic order. Since then, China has fastened its development to the spread of globalisation. After the 16th National Congress in 2002, Chinese firms' 'Going Out' process had been accelerated, and private firms focused on the benefits of 'two markets and two resources' (domestic and international markets). In the same year, China established a statistical system for OFDI.

Under the proactive 'Going Out' strategy, Chinese companies were encouraged to build global brands, target new market opportunities and invest in other countries. The CCP's 11th FYP in 2006 also supported the 'Going Out' strategy by calling for an expansion of Chinese SEZs (Fei and Liao, 2020, p.13). The globalisation of Chinese firms therefore serves a double purpose of (a) addressing some of the domestic economic imbalances described above, and (b) supporting the increasing role of China as a champion of a new kind of globalisation (Calabrese and Tang, 2020). To China, SEZs are regarded as 'an increasingly important dimension of international co-operation within the framework of the Belt and Road Initiative' (Xinhua,2019). Therefore, Chinese SEZs become vehicles to attract Chinese firms to invest as FDI and to form industry-specific clusters (Brautigam et al., 2018).

4.2.3.3. *Private Firms' 'Going Out'*

As noted above, China has a surplus capacity and increasing production costs in its domestic market for a range of industries. Chinese OFDI has kept growing, and this trend is expected to continue even without the BRI (Lo, 2018). However, the evolution of the 'Going Out' policy and change in discourse has had a significant impact on the Chinese private sector. Massive OFDI in infrastructure sectors in developing countries also indirectly creates demand up and down the supply chain mostly dominated by the private sector. As one example, building economic zones (EZs) abroad helps to facilitate the relocation of less environmentally friendly and lower-end manufacturers and lead to less pollution and need for economic upgrades domestically. Overseas EZs can also reduce the domestic surplus in industrial capacity by encouraging the export of Chinese materials, labour, equipment and machinery. In particular, African nations offer favourable trade policies with minimal trade tariffs to enter European and North American markets for Chinese investors (these are mainly Chinese private investors) (Brautigam and Tang, 2011 cited in Fei and Liao, 2020, p. 624).

The 'Going Out' policy has been partitioned into national and sub-national regulations and various investment support measures. China's institutional framework for OFDI seeks to boost OFDI that contributes the most to its national development. This is achieved by selectively supporting certain activities and industries in their industrialisation through FDI (Sauvant and Chen, 2013). After the launch of the BRI, Chinese firms that are expanding overseas have received stronger support from a range of new government policies. For instance, under the newly revised Measures for Foreign Investment Management, enacted in September 2014, the approval-based system has been replaced with a registration and filing system, and the administrative procedures for overseas investment have been simplified (Du and Zhang, 2017).

For Chinese private firms' 'Going Out', nevertheless, the process is still constrained by institutional disadvantages and constrained access to finance. Although the private sector has been encouraged to go out, the support that they receive so far is limited and sometimes only symbolic (Huang, 2013; Song, 2011; Xia, 2019; Fei and Liao, 2020). Firstly, the complex bureaucratic procedures related to the approval of cross-border investment projects has caused some firms to lose the best investment opportunities (Zhang and Dai, 2013). Moreover, China's legislation on OFDI is incomplete and severely lags behind the laws and regulation on its inward investment. Much attention has been paid to OFDI approval rather than on a project's implementation status, for example (ibid). Secondly, private firms suffer from discriminatory regulations in financing (Kroeber, 2016; Fei, 2020). Private firms, especially SMEs, are still struggling to access long-term bank loans, working capital and bridge financing (Lim and Kimura, 2010). Unlike private firms from Western countries, which can effectively raise funding through venture capital, Chinese private firms either use their own funds or borrow from others as they cannot integrate into the national financing system (Fei, 2020; Fei and Liao, 2020; Nolan, 2014; Zhang and Dai, 2013).

Private firms can apply for bank loans in China, but their share of bank credit doesn't match their much larger contribution to economic growth (Kroeber, 2016). 'Discriminatory regulation, barriers that limit private investment in potentially lucrative sectors, are bigger problems' (ibid, p.108). Private firms have to find their own way to source financing. One important source is China's shadow banking system (地下钱庄, *dixia qianzhuang*) which has grown rapidly in recent years. It is particularly prominent in Zhejiang province (an eastern coastal province of China with 97% of its domestic industrial/commercial output coming from the private sector), which ranks number one in terms of shadow banking activity (Li et al., 2014).

In short, this section has provided background on how China's domestic economic conditions, changes in government policy and institutional context have influenced the process of Chinese firms' 'going out'. In the empirical chapters, several issues will be explored including what are the fundamental reasons that caused firms to invest in Ethiopia and whether firms from different origins (regions) follow the same logic, interests, and investment trajectories. This background therefore helps contextualise those specific company motivations and their trajectories. Other questions regarding firms, such as to what extent government policies at central and local levels have influenced investment decision and path, what kinds of constraints firms encountered during their investment trajectories and finally how they overcame those constraints and succeeded in their investments will also be explored. These questions, however, require some context on Ethiopia's economic development trajectory, policy directions, and the political economy of its industrial drive. This is the matter of the next section.

4.3. Ethiopia's Context

4.3.1. Country Overview

The Federal Democratic Republic of Ethiopia (FDRE) is located in the Horn of Africa. It is a low-income, landlocked (since Eritrea's independence in 1991) and resource-scarce country (Clapham, 2018, p.1151). It also is home to the world's most rapid economic growth among developing economies since the turn of this century (Cheru, Cramer and Oqubay, 2019). Ethiopia has the second largest population in Africa, after Nigeria, estimated at 112.079million (UNESCO, 2020). Its population is expected to reach 190 million by 2050 (the Peninsula, 2018). In addition, Ethiopia has a young labour force of approximately 45 million people with an average annual growth of 2.3 million (Xinhua, 2018). Ethiopia has more than 80 ethnic groups. Oromo (40%) and Amhara (30%) are two largest ethnic groups, followed by Tigray (8%), Somali (6%) and Sidama (4%) (MOFCOM, 2017).

Christians (Orthodox, Protestant and Catholics) make up 45% of the country's population, followed by Muslims (40-45%) and others (MOFCOM, 2017, p.3; see Table 6 for more detail).

Table 6: General characteristics of Ethiopia

Key Facts		
Capital city		Addis Ababa
Area		1,000,000,900 km^2 (2019)
Agricultural land		36.3% (2018 est.)
Arable land		15.2% (2018 est.)
Irrigated land		342,000 km^2 (3%)
Population		112.079 million people (2020)
0–14 years		39.81% (2019)
15–64 years		56.81% (2019)
Population growth		2.6% (2019)
Youth literacy rate (15–24 years)	Male	73.5% (2017)
	Female	72% (2017)
Urban population		21.7% (2020)
GDP (nominal)		US$95.197billion (2019)
GDP per capita		US$849 (2019)
FDI inflow		US$2.516bn (2019)
Exports		8.4% of GDP (2019)
Imports		22.8% of GDP (2019)
Exchange rate (per US$):		ETB 29.07 (2019)
Govt. expenditures		US$ 13.79 billion (2017 est.)
Govt. revenue		US$11.24 billion (2017 est.)
Language		Amharic (official) Tigrinya Orominga Guaraginga Somali Arabic English

Source: UNCTAD,2020; WB, 2021; UNESCO, 2020; CIA, 2020)

Its capital, the country's largest city, is Addis Ababa, with around 4 million inhabitants (MOFCOM, 2017). Addis Ababa has become a regional hub, as major international organisations are based there, for instance, the headquarters of United Nationals Economic Commission for Africa (UNECA) and the African Union (AU) (EIC, 2018). The country has two autonomous administrative regions (Addis Ababa and Dire Dawa) and nine semi-autonomous ethnic regions, including Oromia, Amhara, Afar, B.Gumze, Gambella, Harari, Somali, SNNPR and Tigray (MOFCOM, 2017, p.3). These nine regions of Ethiopia have control over raising and spending their own revenues (Habtu, 2003, p.24).

In terms of the economy, the agricultural sector accounts for the lion's share, which encompasses nearly 85% of the workforce and 90% of its exports (EIC, 2018, p.13). Moreover, 46% of GDP stems from the agricultural sector. In terms of exports, this is mainly constituted by coffee, which employs (indirectly and directly) 25% of the population (ibid). The country's export balance is highly vulnerable due to the massive volume of agricultural exports and the volatility of international prices. As well as exporting agricultural products, the export share of manufacturing goods – including textile, garments and leather products – has increased in recent years (ibid, p.10) (see Table 5 for more details of Ethiopia's country profile). As a result, the Ethiopian government (GoE) has received praise for its effective policymaking, economic success and developmental state-like ambitions (Behuria, 2019, p.2). Since 1991, the government has been led by the Ethiopian People's Revolutionary Democratic Front (EPRDF)[46], which has actively implemented a development policy and economic catch-up strategy, and vigorously worked to develop its industry.

Ethiopia is one of Africa's most dynamic and largest recipients of FDI. While FDI flows to the rest of the continent have declined in 2017, Ethiopia has become an investment hotspot in Africa (EIC, 2018, p.8). In 2017, due to the weak world economy and fluctuations in international commodity prices, FDI in East Africa dropped by 3% (about US$7.6 billion)[47] compared with the same period in 2016 (W. Chen, 2018c, p.194). However, Ethiopia still maintained strong momentum, accounting for nearly half of the FDI in East Africa (about US$3.586 billion) (ibid).[48] By the end of 2017, Ethiopia had absorbed US$18.512 billion of foreign investment (stock), accounting for 23.6% of GDP, an increase of 3% over the previous year. The IMF forecasted that Ethiopia's economy would grow by 8.5% in 2018 (World Economic Forum, 2018).

Yet Ethiopia also faces tremendous political and economic challenges. In terms of its economy, the main problem that Ethiopia faces is with its foreign exchange constraint. Forex reserves are at low levels after being heavily depleted in 2012. Gross international reserves were at US$3.2 billion by the end of 2016–17, covering approximately 1.8 months of the imports of goods and services a low level for this indicator (UNIDO, 2018, p.13). The external debt burden of Ethiopia was large (its external debt accumulated to US$27.27 billion (2019 est.)) (CIA,2020), the foreign exchange balance was

[46] The EPRDF consisted of four political parties, namely the Tigray People's Liberation Front (TPLF), Amhara Democratic Party (ADP), Oromo Democratic Party (ODP) and Southern Ethiopian People's Democratic Movement (SEPDM) (Vaughan, 2003).

[47] Author calculated based on UNCTAD (2018). 'World Investment Report 2018' http://unctad.org/en/PublicationsLibrary/wir2018_en.pdf

[48] Ibid.

seriously unbalanced and the currency was devalued by 15% since Oct 2017 (W. Chen, 2018c, p.195). The foreign exchange shortage also severely affected the export manufacturing sectors, which need to import in order to keep production going.

In terms of politics, neither imperial assimilationist policies by Emperor Haile Selassie (who ruled for over half a century) nor the 17 years of the totalitarian rule (1974–1991) were able to address the ethnic fragmentation and revolt in Ethiopia. Since 1991, to resolve the conflict between ethnonationalism and the state, the new EPRDF regime institutionalised ethnic federalism as a matter of ideological orientation and political necessity (Habtu, 2003). However, in the past several years (2016 onwards), local political turmoil in Ethiopia and ethnic conflicts of varying degrees have put Africa's most attractive foreign investment hotspot, known for its political and social security stability, in a challenging situation (Zhou, 2018). Ethiopia declared its first state of emergency in October 2016, which lasted for nearly ten months. After October 2017, although the state of emergency was lifted, regional conflicts continued and, in some cases, worsened. In February 2018, then-Prime Minister Hailemariam Desalegn resigned. In the same month, Ethiopia again declared the second state of emergency. The situation wasn't eased until two months after the new prime minister, Dr Abiy Ahmed, took office (in April 2018) and the state of emergency was lifted (W. Chen, 2018c). The latest development, discussed in the concluding chapter, is the confrontation in Tigray, where federal forces have toppled the TPLF-led Tigray government in November 2020.

4.3.2. Political Economy Conditions of Ethiopia

Historically, Ethiopia has a long tradition of statehood, which has evolved over millennia, as a non-colonial empire-state (Hariri, 2012). Ethiopia is the only country that remained independent during the time Africa was divided up by the colonial powers except for the five years of partial occupation by Mussolini's Italy (1936–1941) (Bekele, 2019, pp.26-27). In May 1991, a coalition of rebel forces under the name Tigrayan People's Liberation Front (TPLF) overthrew the dictatorship of President Mengistu Haile Mariam, marking the end of 17 years of totalitarian rule (the so-called Derg regime) and a USSR- type command economy (Habtu, 2003; Vaughan, 2003; Oqubay, 2015). In July of that year a transitional government, the Transitional Government of Ethiopia (TGE), was instituted. This comprised a coalition of political forces advocating the drafting of a new constitution and economic reforms. During the transitional period (1991–1995), the government moved from a centralised unitary system to a federal system, and from a totalitarian military regime to a multi-party parliamentary democracy (Oqubay, 2019a, pp.611-612).

In August 1995, the government of the FDRE was formally established. The EPRDF-led government of Prime Minister Meles Zenawi introduced the system of a federal state with multi-party parliamentarian democracy (Turton, 2006; Clapham, 2018, 2019). This political system was intended to accommodate the country's various ethnolinguistic groups by decentralising power and resolving the 'nationalities question' (Fiseha, 2006, p.131). A federal system largely consisting of ethnic-based territorial units was created by the new constitution (Habtu, 2003, p.1). The aim was to achieve ethnic autonomy and equality while maintaining the state. The constitution provides for the secession of any ethnic unit (ibid). 'The Constitution dictates organisation of regional states on 'the basis of settlement patterns, language, identity and consent of the people concerned''…'Regions directly represents empowerment of specific ethno-national groups' (Fiseha and Gebresilassie, 2019, p.85). Regional states also have considerable executive, legislative and judicial authority. All of this came into effect in 1995. The first elections at national, regional and local levels were shortly held thereafter (TGE, 1991 cited Oqubay, 2019a, p.612). Succinctly, this means that ethnic federalism institutionalised ethnic groups as essential elements of the state. Ethnic groups were established as social categories distinct from the category of citizenship (Habtu, 2003, p.22).

Domestic political pressures drove development in Ethiopia, unlike several of the East Asian cases where this was external (Clapham, 2018). Ethiopia's internal situation was deeply problematic. The country has faced internal division, with the TPLF being drawn from a small and unrepresentative region at the extreme north of the national territory. In order to maintain ruling power, they were compelled to create a federal system based on ethnicity to broaden their control and build legitimacy. This in principle at least provided an integrative mechanism for the country's major groups, with the TPLF dominating the ruling party at federal level. The regime was, in reality, controlled by people from the Tigray region, and this imposed a need to seek 'performance legitimacy' – implemented through economic transformation (ibid). Thus, many people see ethnic federal system not as 'Ethiopia's federal system' but as the 'EPRDF's federal system' (Aalen, 2011, p.5).

Economically, Ethiopia enjoyed a sustained and rapid economic growth in the past 15 years (Oqubay, 2019a, p.630). Ethiopia's startling economic development in the past decade can partially be attributed to its proactive government policy and committed political leadership (Oqubay, 2015, 2019a). Ethiopia represents the most significant attempt in Sub-Saharan Africa to implement the idea of a 'developmental state'.[49] In the past two decades, Ethiopia prioritised rapid industrial growth and structural transformation, increasing openness and aiming to attract investment and emulating East Asian industrial parks and special economic zones (UNIDO, 2018). Ethiopia's development path focussed on agriculture and rural development in the late 1990s and early 2000s and productivity

[49] Clapham (2018, p.1161) argues that Ethiopia's 'developmental state' differs from the East Asia idea of the developmental state and meets Kelsall's criteria for what he terms 'developmental patrimonialism'.

growth within agriculture and services was a significant driver, before structural change contributed more to growth (Oqubay, 2019a, p.613; Martins, 2018). Evidence of this approach is represented by the following reforms: long-term investment in public infrastructure (the expansion of the communications network and hydroelectricity in particular); the transformation of higher, vocational, and technical education; and the development of human capital (Oqubay, 2019a; Clapham, 2018). This has changed from the initial strategy of prioritising improved productivity in peasant agriculture (Clapham, 2018). The present Ethiopian regime has embarked on a massive expansion, especially in communications, education and hydroelectricity funded by the central capture of 'rents'.

As a landlocked and natural resource-scarce country, Ethiopia lacks any significant source of mineral exports. Thus, it has not benefited from the commodity boom as a potential source of growth and industrial investment capital. Capital has therefore derived from three main sources. These are domestic savings, external development aid and concessional loans and FDI (ibid, p.1156). 'Ethiopia is one of a few African countries that has taken a more "strategic" approach to engage China while maintaining strong ties with its traditional Western development partners' (Cheru and Oqubay, 2019, p.285). Ethiopia's government has been able to mobilise investment from China, other emerging economies and Western development partners (e.g. WB, AfDB, OPEC Fund) to embark on its ambitious industrialisation agenda (ibid).

4.4. Overview of Economic Development and Industrialisation in Ethiopia

This section will present an overview of economic development and industrialisation in Ethiopia in chronological order, with a particular focus on FDI. The evolution of Ethiopia's industrialisation strategy; Sino–Ethiopian political and economic relations (especially Chinese FDI in Ethiopia) will be reviewed respectively. This section is based on the developmental agenda of Ethiopia (see Table 7 and Figure 4), and it is divided into five periods: 1991–1998, 1998–2004, 2005–2010, 2011–2015 and 2016–2018. Statistics were calculated and compiled by myself based on a variety of sources from the EIC and UNCTAD.[50]

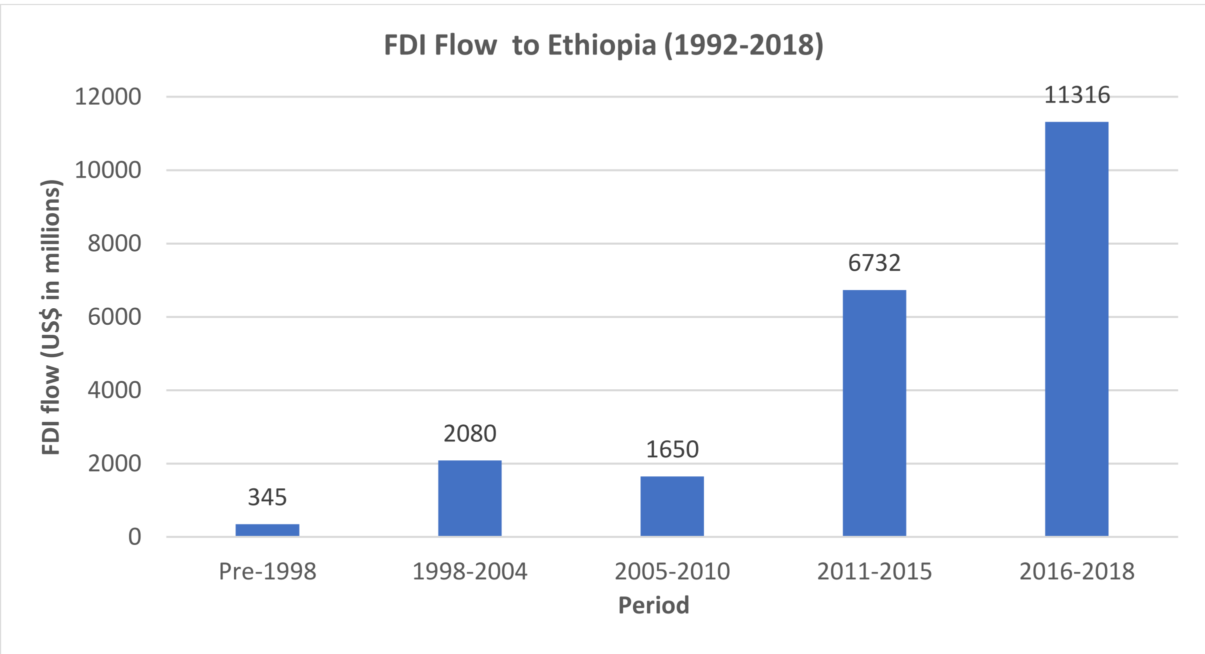
[50] The rationale for the use of the EIC data was elaborated in Chapter Three.

Table 7: Industrial policy in Ethiopia (post-1991)

Period	Government Policy	Prioritised Sectors
1991–1998	'Agriculture Development-Led Industrialisation (ADLI)' vision	
1998–2004	Industrial Development Strategy (IDS) (2002/03)	Textile and garment; leather and leather products; other agro-processing; construction industries; MSEs; cement industry
2005–2010	The Plan of Action for Sustainable Development and Eradication of Poverty (PASDEP) (2005/06–2009/10)	As above with the addition of the flower industry
2011–2015	GTPI (2010/11–2014/15)	As above with the addition of import-substituting industries such as metal and engineering and chemical industries as prioritised industries but with more concrete strategies for the development of the textile and garment sectors, including the building of industrial parks and 'building verticality'.
2016–2020	GTPII (2015/6–2019/20)	As above (GPTI) with the addition of energy, ICT and biotechnology

Source: Author, compiled based on Gebreeyesus (2014, p.5) and EIC (2018, p.12)

Figure 4: IFDI in Ethiopia (1991–2018)



Source: Author, calculated and compiled according to UNCTAD (2019)

4.4.1. Transitional Period (1991–1998)

When the EPRDF took power in 1991, addressing the crisis in agriculture was a primary concern. As the agricultural sector then recovered, the 2000s have seen a renewed commitment to industrialisation (Oqubay, 2019). The Ethiopian government emphasised the shift to the market economy and economic recovery in the 1990s. The WB, IMF and other donors assisted in this economic liberalisation under the slogan of 'structural adjustment' (World Bank, 2002; ADF, 1997; Cheru and Oqubay, 2019). Reforms that took place did not proceed entirely according to conventional prescriptions of the 'Washington Consensus' (WC). In fact, Meles rejected out of hand the WC model of development, believing that this simply trapped developing countries in a subservient position to developed states (Clapham,2018; De Waal, 2012, 2018).

Instead, Ethiopia adopted a more developmental-like state (ibid). In 1994, the government enacted the Agricultural Development-led Industrialisation (ADLI) strategy, to which it adhered for more than two decades (FDRE, 1995, 1996, 2002). However, the policy did not work as Ethiopian peasant agriculture did not produce the surpluses needed to feed industrialisation. During the early years (1991–1998), Ethiopia only attracted a small amount of FDI with US$345 million (see Figure 4) as the government's key priority was to establish a stable political base.

4.4.1.1. *Sino–Ethiopia Relations (1950s-1998)*

China's initial engagement with Ethiopia can be traced back to the 1950s. The leaders of Ethiopia, Ghana, Liberia, Sudan, Egypt and Libya were actively engaged by Chinese Premier Zhou Enlai at the Afro Asian conference in Bandung (Sun, 2014). This engagement aimed at cultural and economic cooperation between Asia and Africa to oppose colonialism and neo-colonialism. In particular, China sought to benefit if African countries were willing to maintain neutral positions between capitalism and socialism (Nicolas, 2017, p.8). Following this initial encounter in the contemporary period, Sino-Ethiopia relations developed cautiously in the 1960s 'and the two countries were divided in the Eritrean conflict' (ibid), China found itself opposed to the Ethiopian government in the Eritrean conflict and supported the Eritrean Liberation Front (ELF) (Brautigam, Tang and Xia, 2018; Aaron, 2020; Nicolas, 2017). As part of establishing diplomatic relations with Ethiopia in the 1970s, China stated that the government would also end its support for the ELF (Shinn, 2015 cited in Nicolas, 2017, p.8).

In 1984, Ethiopia and China signed MOUs for the construction of several factories. These factories were meant to produce thread, matches and pencils, but there is no evidence that they were ever built (Brautigam, Tang and Xia, 2018, p.11). This is most likely due to Ethiopia showing favour towards the Soviet Union instead of China during this period (ibid). However, after the demise of the Derg regime in 1991, relations between Ethiopia and China improved considerably. Ethiopia's Prime Minister Meles Zenawi and the Chinese President Jiang Zemin visited each other's reciprocal capitals between 1995 and 1996 ushering in a period of intensified political relations (Nicolas, 2017).

4.4.2. Exploratory Period (1999–2004)

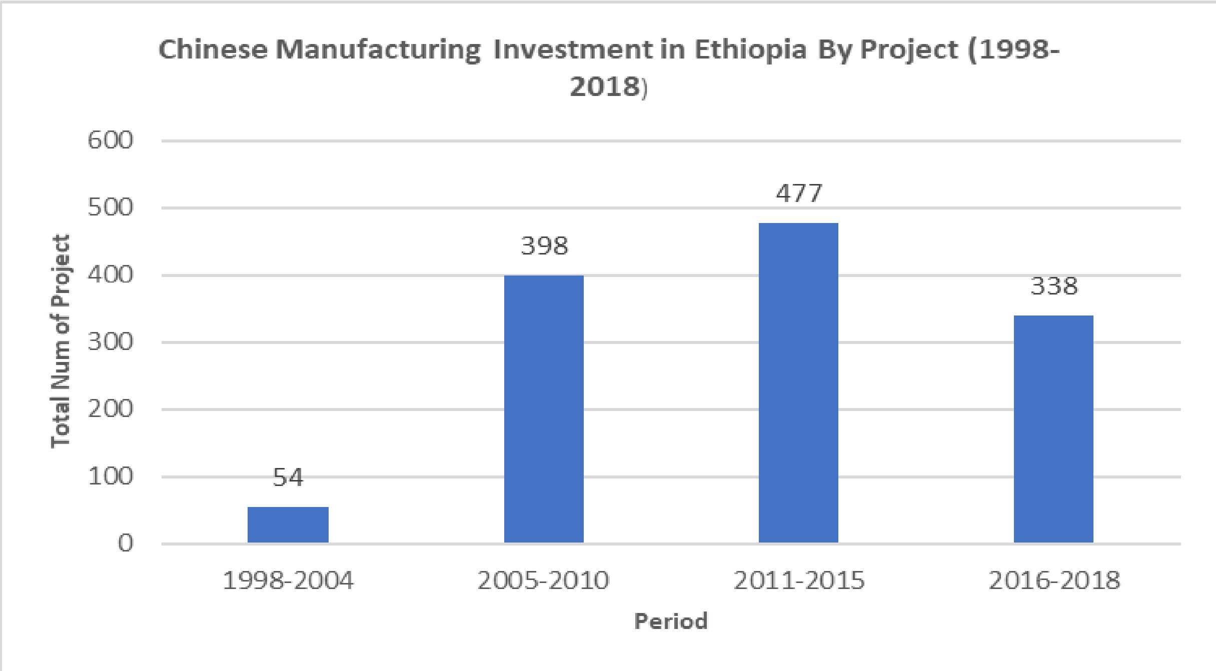
The war and separation of Eritrea and associated internal problems in Ethiopia hindered economic development efforts just before the early 2000s (Nicolas, 2017). However, when political stability returned, the country appeared a natural fit for China and its 'Going Out' policy. This is because Ethiopia favoured government interventions and an industrialisation strategy led by the state. Indeed, Ethiopian policymakers often referred to China as a source of inspiration for its success in driving economic transformation with a major role of the state. Ethiopia follows lessons from industrialization in latecomers and especially some East Asian countries, like South Korea, Singapore and China (UNIDO, 2018; Gebrehiwot, 2019, p.230). In 2002 and 2003, a full-fledged Industrial Development Strategy (IDS) was established based on the government's broad development vision of the ADLI (Gebreeyesus, 2017)). The IDS emphasised export-led industrialisation and focused on labour-intensive industries, the development of infrastructure to support rapid economic growth, and the development of small enterprises for massive job creation and poverty reduction (FDRE, 2002). This strategy constituted an embryo of the future industrial policy in the country, at least on paper. Sectors such as textile and garment, leather and leather products, agricultural processing, construction industries, micro and small-scale enterprises (MSEs) and the cement industry were prioritised at the time and continued featuring prominently in subsequent government plans (Gebreeyesus, 2017).

Following the announcement of new policy initiatives from the IDS (which include the Agricultural and Rural Development Policy) onwards, Ethiopia's economic development process has been led by a series government development plans. These plans include the Sustainable Development and Poverty Reduction Programme (2002–2005), the Plan for Accelerated and Sustained Development to End Poverty (2005–2010), and the Growth and Transformation Plans I and II (GTPI 2010–2015, and GTPII 2015–2020). (UNIDO, 2018). GTPI and GTPII are probably the boldest expressions of Ethiopia's industrialisaiton ambitions. The goals of the GTP I and II are to transform Ethiopia, by 2025, into a middle-income country (National Planning Commission, 2015). To attain this goal, one of the keys parts is the development of the light manufacturing sector (ibid p.16). In sum, the period between 1998 and 2004 was an exploratory period for Ethiopia. Subsequently, Ethiopia's FDI started to increase (US$2,080 million) at a very moderate pace (see Figure 4).

4.4.2.1. *Chinese Manufacturing FDI in Ethiopia (1999–2004)*

The launch of the Forum on China–Africa Cooperation (FOCAC) in 2000 marked the beginning of China's visible activities in Ethiopia (ibid, p.9). Before 2004, however, very few Chinese firms were present in Ethiopia due to the political turbulence and unfavourable investment environment in the host country (see Figure 4). In 2002, Chinese OFDI in Ethiopia was only US$2.7 billion (flow) and US$29.9 billion (stock). During this period, very few Chinese firms invested in Ethiopia, and there were only six manufacturing investment projects in operation between 1998 and 2002 (see Figure 5).

Figure 5: Chinese manufacturing investment projects in Ethiopia (1998–2018)



Source: Author, calculated and compiled based on data collected from EIC (2018)

4.4.3. Development Period (2005–2010)

Economic growth accelerated and was sustained after 2004 and Ethiopia attracted US$1650 million of FDI during this period (2005–2010). The Ethiopian government formulated the Plan of Action for Sustainable Development and Eradication of Poverty (PASDEP) (2005/06–2009/10) as the first Five-Year Plan launched in 2005. The plan focused on sectors such as leather and leather goods, meat processing, cement and steel, apparel and textiles, food processing and beverages and horticulture (Oqubay,2019a, p.614). One of the earliest sectors to develop was floriculture. With initially Indian and subsequently Dutch engagement, floriculture is particularly suited to the employment of a large labour force, and, while it is classified as agriculture, it is an excellent testing ground for industrial development given many similarities in organizational capabilities and labour process with labour-intensive factories, which leads some authors to use it as example of ‘industry without smokestacks’ (Newfarmer, Page and Tarp, 2018) and also of industrial policy (Aiginer and Rodrik, 2020; Altenburg and Rodrick, 2017). In the case of Ethiopia, mostly women were employed, and there were many opportunities for the transfer of expertise to small-scale Ethiopian entrepreneurs (Clapham, 2017, 2018). Another sector that developed prominently was cement, particularly thanks to a rapid expansion in domestic demand driven by the infrastructure and real estate development growth. From the PASDEP (2005/10) to later GTP Five-Year Plans, the development of the cement industry has been prioritised by the GoE (Oqubay, 2015, p.132). Although the sector has been opened to foreign investors since the first investment proclamation of 1992, FDI only entered the industry after domestic consumption expanded to create excess demand.

4.4.3.1. *Chinese Manufacturing FDI in Ethiopia (2005–2010)*

During the third FOCAC Summit in 2006, the Programme for China–Africa Cooperation in Economic and Social Development was launched. The aim of this programme was to share China’s experience with attracting investment and creating FDI growth through utilising SEZs as major tools. SEZ projects in 19 countries (including Ethiopia) were identified by the Chinese government under this programme (Nicolas, 2017, p.15). In the context of cooperation between China and Ethiopia in diverse areas such as agriculture, telecoms, energy and infrastructure, EZ-based cooperation has also developed (Brautigam, Weis and Tang 2015; Fei, 2020, 2018; Fei and Liao 2020). As discussed earlier, the mindset of growth led by the state drawing on the ‘East Asian developmental state’ (Oqubay, 2015) has enabled the continued transference of industrial strategies from China to Ethiopia, particularly concerning EZs.

The post-2008 period marked the emergence of several Chinese private firms relocating their industrial capital in the form of OFDI to Ethiopia. Chinese OFDI rose drastically, and its investment amount was nearly six times greater than the previous six years (see Figures 5 and 6). At the beginning of the implementation of PASDEP (2005/06–2009/10), the GoE generally welcomed all kinds of foreign investment regardless of whether that was to focus on exporting or the domestic market (W. Chen, 2019). Most Chinese manufacturing firms that invested there were small or medium in scale and solely focusing on Ethiopia’s local market for low-end products such as textiles, garments and plastic slippers (ibid).[51] Increasingly, investment opportunities whispered through ‘*koukou xiangchuan*’ (word of mouth) from family and kinship, friends and Chinese overseas networks.[52]

[51] This claim is based on author’s fieldwork conducted in 2017/18. More details in subsequent chapters of this thesis.

[52] ibid

Meanwhile, the increasing foreign aid projects and engineering contracts that Chinese firms (mainly SOEs) obtained in Ethiopia also spurred great demand for building materials. There are strong backward linkages with infrastructure development and housing projects for the building material industry (Oqubay, 2015). The demand for building materials such as cement, steel rebars and flat glass, etc. have increased with the construction boom since 2008 (Gebreeyesus, 2017)

The Eastern Industry Park is Ethiopia’s very first industry park, open since 2008, developed and operated by the Chinese private firm Jiangsu Yongyuan Investment Co. Ltd (hereinafter referred to Jiangsu Yongyuan Group). It is also China’s first Overseas Economic and Trade Cooperation Zone (OETCZ) in Ethiopia under the FOCAC framework. As of September 2018, there were 86 firms in the EIP, and 78 of these are Chinese private firms, which have created 14,794 jobs for locals (calculated and compiled by the author based on the EIP Committee data collected in October 2018) (see Chapter Five for more details). The EIP is a mixed industry park, where firms are mainly engaged in textile and garment production, cement production, steel rolling, aluminium rolling, ceramic tiles and footwear and automotive assembly.

The EIP has received a great deal of support from the Ethiopian government (even though it is not a shareholder). This support has come from the highest levels, including visits from the prime minister. As well as Ethiopia’s commitments, the Chinese government has also shown support through its OTECZ programme at central and local levels. The central government provides support such as grants to developers of up to US$44 million and US$294 million in long-term loans. Other support also includes the covering of up to 30% of the costs of feasibility studies and scoping visits and up to 50% of the moving costs and expenses and rebates on the loans from Chinese banks (Brautigam and Tang 2011).

4.4.4. Rapid Development Period (GTP), 2011–2015

In the 2010s, Ethiopia’s industrial development vision aspired to make the country the leading manufacturing hub in Africa by 2025 (EIC, 2018). In 2010, the GoE began to implement its first Growth and Transformation Plan (GTP I, 2010/11–2014/15), which took agricultural development as the primary source of the economy, implementing an industry-led economic development strategy, encouraging the development of both export-oriented industries and import substitution industries. During the GTP I period, Ethiopia issued 2,164 investment licences to foreign investors, with a total investment of ETB187.3 billion (US$9.36 billion) (MOFCOM, 2017, pp.27–8). As a result, the textile and apparel industry has attracted investments from Bangladesh, India, South Korea, China and Turkey. In the short term, the country’s economic plans involve becoming the main textile-apparel-production country in Africa. In fact, a larger share of investment in the manufacturing sector goes to the textile and garment industry (Whitfield, Staritz and Morris, 2020).

However, the most illustrative case of ADLI with clearer linkages between agriculture and manufacturing is the leather products industry. Shoes, for example, are well adapted to the country's massive livestock resources (Clapham, 2018). Concentrating on areas of comparative advantage, the industry has been able to recover from the initially devasting impact of Chinese competition. Huajian is the very first large-scale, labour-intensive, export-oriented Original Equipment Manufacturer (OEM) [53] from China investing in Ethiopia, where it began operating in 2011:[54]

Huajian started producing in the EIP in Ethiopia in 2012 and then decided to expand its production by creating its own industrial zone (the Huajian International Light Industry City) in 2015. Huajian Light Industry City is a flagship project with a demonstration effect on 'South–South cooperation' under the BRI. Huajian International Light Industry City is projected to procure a US$2 billion investment and yield US$4 billion in returns over ten years (Huajian International Light Industry City brochure).

This makes clear that the Ethiopian government has shifted its focus from an investment-driven initiative towards an industry park-driven one (Lin and Oqubay, 2019). Ethiopia sees industrial park investment in strategic locations and sectors as the generator of more jobs, the accelerator of increased and diversified exports, an earner of foreign currency, a means for more significant transfer of technology and a stimulator of socially and environmentally responsible urban development (Fei, 2017; Oqubay 2019a). Studying the Chinese experience of hub development and industrial parks, Ethiopia's policymakers learned lessons for themselves. They also looked at other countries and their development, including South Korea, Vietnam, Singapore and Mauritius (Cheru and Oqubay, 2019, p.297):

> Since 2011, the government has constructed 12 industrial parks and the total number – including private industrial parks – has reached 19. The plan is to construct a total of 30 industrial parks by the end of 2025. The parks are expected to attract investment into selected and largely export-oriented activities. The priority sectors include textile and apparel, leather products, agro-processing, pharmaceutical products and information and communications technologies (ICTs). (EIC, 2020, p.16)

The shift in industrial policy is the main impetus for the increase in FDI flows to Ethiopia since 2012. Investors have been particularly attracted to the establishment of modern industrial parks that will

[53] OEM (Original Equipment Manufacturer) is a production outsourcing setup where a buyer (which is the owner of a brand name) provides the design, the product specifications and any other production detail to a manufacturer that executes the production or the assembly.

[54] As of April 2018, Huajian had 6,543 local employees (Author's fieldwork).

have everything required to support such investments and the building out of any commercial operation (ibid). The development of industrial parks has been a marked success in attracting and facilitating high quality investment (ibid). During the GTP I (2010/15), the total FDI flow to Ethiopia reached US$6,732 million, exceeding the accumulated amount of the previous 12 years (1998–2010) (see Figures 5 and 6).

4.4.4.1. *Chinese Manufacturing FDI in Ethiopia (2011–2015)*

The combination of Ethiopia's focus on industrialisation and China with its 'Going Out' strategy and the BRI programme has strengthened China-Ethiopia ties. China's BRI has promoted the creation of industrial parks, and this has led to it playing an important role in Ethiopia's industrial park development. 'We should explore a new mode of investment cooperation, working together to build all forms of industrial parks such as overseas economic and trade cooperation zones and cross-border economic cooperation zones, and promote industrial cluster development', declares the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road issued by the National Development and Reform Commission and Ministries in China (Diplomat, 2020).[55]

Chinese FDI in Ethiopia ranked first during the GTP I. Subsequently, Chinese manufacturing FDI continued to increase, especially after China launched the BRI in 2013 (see Figure 5 and Figure 6). In sum, this was the period when Chinese FDI to manufacturing really picked up and the period when Ethiopia's industrial policy was at its most intensive phase.

4.4.5. All-round, Strategic Development Period (GTP II, 2016–2020)

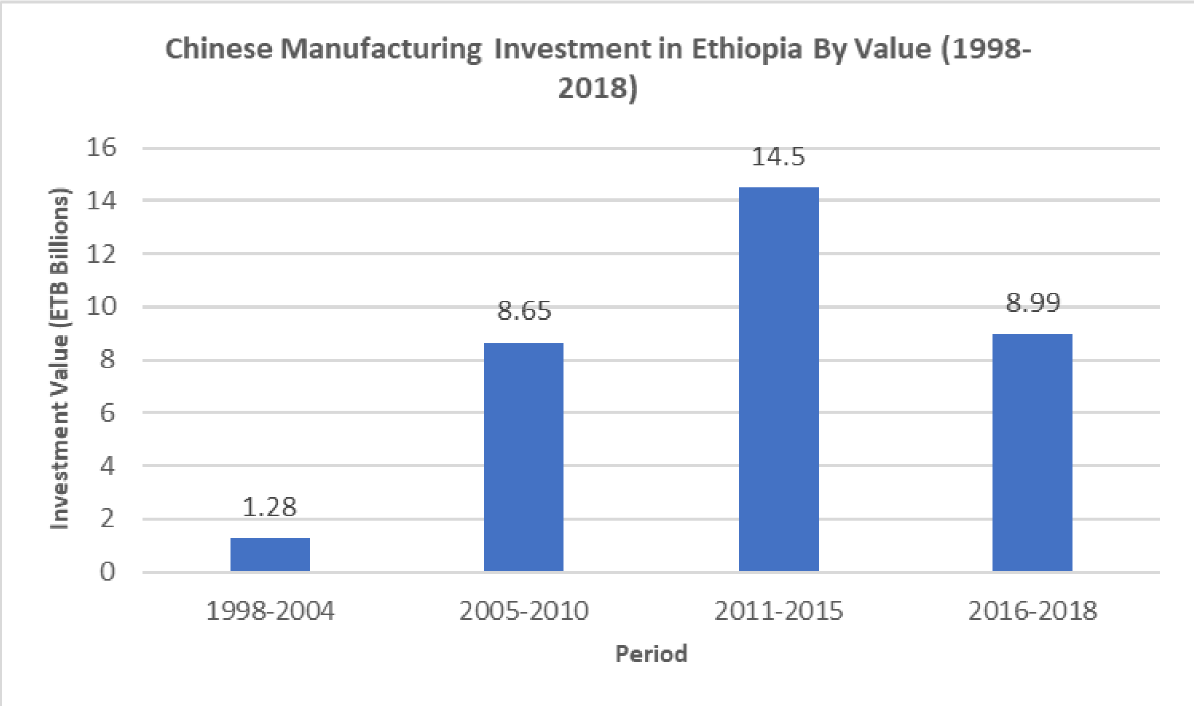
During the GPTI period, Ethiopian policy combined 'facilitative' policies with those got prices 'wrong' (Oqubay, 2019a, p.616). Based on the first GTP, Ethiopia's policymakers critically learned and drew lessons from other countries (such as China, South Korea, Singapore and Vietnam's industrial development models and experiences) to design and launch the GTP II (2015/16–2019/20) (Oqubay, 2015, 2019a; W. Chen, 2018c; Whitfield, Staritz and Morris, 2020). A key aspect of the GTP II is for Ethiopia to reduce its dependence on imported goods. Industrial park development can help Ethiopia to improve its domestic production of goods such as sugar, textiles, vehicle and cement that will comply with international standards and quality benchmarks. Import substitution is crucial for the country to manage its foreign currency shortages (UNIDO, 2018, p.35). This is combined with a more aggressive push towards export promotion especially in the manufacturing sector (Oqubay, 2019a).

[55] See http://se.china-embassy.org/eng/zgxw/t1249920.htm [accessed on Dec10, 2020]

Thus, a two-track strategy to grow foreign exchange through a combination of import substitution and export promotion is the closest to some of the most successful East Asian industrialisation experiences.

During the second GTP (2016–2020), FDI in Ethiopia was even more significant. From 2016 to 2018 alone, Figure 6 shows Chinese Manufacturing Investment Projects in Ethiopia (1998–2018) flows reached US$11,316 million (see Figure 4), which was far more significant than any previous period.

Figure 6: Chinese manufacturing investment by value in Ethiopia (1998–2018)



Source: ibid

4.4.5.1. *Chinese Manufacturing FDI in Ethiopia (2016–2020)*

In recent years, China–Ethiopia cooperation has continued to deepen. China has become Ethiopia's largest trading partner, investor and project contractor (MOFCOM, 2017, p.10). Until the end of 2017, Chinese OFDI in Ethiopia reached US$2.3 billion. With the further supportive 'Going Out' policy that the Chinese government is promoting, deepening cooperation driven under the BRI programme and an enabling investment climate that the GoE is committed to creating, a new wave of Chinese private firms have started investing in Ethiopia.

Available statistics on Chinese FDI in manufacturing into Ethiopia reveal a marked increase between 1998 and 2018. The main take off took place in 2005-10 but the two recent periods (2011-15 and 2016-18) also saw a continuation in the trend with a slight decline in the average volume of investment per year in 2016-18, perhaps signalling a greater number of smaller scale investments (Figure 5 and Figure 6).

During GTPII (2016–2020), the GoE focused on a brand-driven strategy by developing industrial parks with high specialisation and attracting the whole supply chain to invest in Ethiopia (such as PVH in Hawassa Industry Park) (EIC, 2018). This is called by Ethiopian policymakers 'building verticality', whereby persuading a leading brand makes it easier to attract the higher-quality suppliers-investors from their global production network (Oqubay,2019a, 2019b; Mihretu and Llobet 2017; Schaefer and Oya, 2019a). As a result, more first-tier suppliers for big brands from the Global North, such as JPTE (in Hawassa Industry Park), Antex and Jiangsu Sunshine Group (in Adama Industry Park), etc. invested in Ethiopia.

In recent years, the GoE has been more dedicated to attracting capital, and encouraging knowledge or technology-intensive, value-added strategic manufacturing industries such as the pharmaceutical industry to invest in Ethiopia. Both Sansheng Pharmaceutical Ltd's and Humanwell Pharmaceutical Ethiopia Plc's parent companies are publicly listed on the stock market in China, which has invested in Ethiopia in 2016 and started production in June 2018 (Vision, 2018, p.5; EXPOGROUP, 2018) and 2017, respectively. A new Industry Park – Kilinto Industry Park in Akaki Kality – that specialises in the pharmaceutical industry is under construction (EIC, 2018).

Therefore, the situation is evolving towards a more diversified set of investors, both within the dominant textile and apparel industry and outside, with a view of creating distinct industrial ecosystems and clusters of the kind observed historically in industrialised nations, especially Germany and the USA (Best, 2018).

4.4.6. Summary

This section has given a broad overview of the dynamics of Ethiopia's economic development and industrialisation since 1991. Sino–Ethiopia relations have evolved from political and diplomatic engagements in the last century to full-edged strategic cooperation and partnership, with a special focus on manufacturing development. The growth in Chinese FDI in Ethiopia has been remarkable, now surpassing other countries in Africa. Both countries' interests have converged, with Ethiopia seeking to attract FDI to accelerate its manufacturing capabilities based in its SEZs, and China looking to export aspects of its development model and relocate surplus capacity and labour-intensive industries (Nicolas, 2017; Cheru and Oqubay, 2019).

4.5. Conclusion

Different types of Chinese private firms and new capitalist elites have emerged and been nurtured during the 40 years following the Reform in China. Private firms went from non-existence to controlling about two-thirds of China's industrial production during the first three decades of China's Reform (Naughton, 2017). In the past decade, the Chinese private sector has become even more vibrant and diverse. Therefore, to understand the nature and dynamics of Chinese OFDI in Ethiopia, it is necessary to explore what types of firms are present in Ethiopia and define their characteristics, in relation to the Chinese context they originate from. These questions, together with the motives and determinants of Chinese private firms' investment in Ethiopia, will be explored in Chapter Five, on the basis of primary evidence.

As noted throughout the chapter, China's 'Going Out' policy has been driven and shaped by both domestic and international factors (Wang, 2016). China's evolving domestic economic conditions have pushed the Chinese government to adopt a multidimensional investment strategy overseas. Although much progress has been made to enhance the private sector's OFDI by the central government, its local improvisation largely depends on individual firms or groups of firms. Significant asymmetry between the enactment of government policies at provincial/local levels and firms' realisation on the ground still exists (Shen, 2015; Gu, 2011). Firms' 'Going Out', or the globalisation of capital, is of course not uniquely Chinese and is driven by a capitalist logic of accumulation that can be found in other experiences of firms' globalisation (Lee, 2017, p.650). However, there may be particularities linked to China's political and economic conditions that affect the way firms invest overseas. Based on this contextual analysis, it is argued that three attributes resulted in Chinese firms' decisions to participate in the 'going out' process. The first is China's evolving domestic economic situation; the second is the rise of neoliberal globalisation; and the third is the specific development and evolution of the Chinese private sector. Further, region-specific dynamics are distinctive features in China's particular political system. Given the fact that most Chinese private investors in Ethiopia are actually from three regions (Guangdong, Jiangsu and Zhejiang provinces), understanding these development models ('Dong'guan model', 'Su'nan model' and 'Wenzhou model') is highly useful for any study of the history of firms and their relations with the government, as well as for the background of entrepreneurs.

It is clear that, in addition to China's context, Ethiopia's political economy conditions have had a profound impact on Chinese OFDI. As discussed above, most early investors were private SMEs and trans-local firms,[56] and they were solely focusing on Ethiopia's domestic market. With the experience

[56] See Section2.2.2.4, Footnote 20 for the full definition.

that early entrants accumulated and their familiarity with the investment environment, they started expanding and diversifying their businesses on the one hand and leveraging themselves by consolidating Chinese overseas networks to facilitate new firms from their hometowns to invest in Ethiopia. Synchronously, a new wave of private firms also started to invest in Ethiopia's manufacturing industry since the post-2008 financial crisis. Some were invited by the GoE and supported by Chinese local and provincial governments, while others were encouraged and led by their buyers from the Global North.

The evolution of the Chinese investment in Ethiopia in the past two decades, especially the post-2008 period (and 2013 onwards) has been rapid and dynamic, thus requires more empirically grounded comparative research, which is what the subsequent empirical fieldwork-based chapters attempt to offer.

5. Motives and Determinants of Chinese Private FDI in Ethiopia

5.1. Introduction

Common perceptions regarding Chinese engagement in Africa are that it is one-dimensional and sometimes biased.[57] One common problem with this perception is the seeming acceptance of 'methodological nationalism' whereby the national origin of a firm/agency determines outcomes. The main issue with this tendency is that it conceals the highly significant heterogeneity of Chinese actors overseas, and, as argued in this chapter, ignores the variety of Chinese capital, not only in terms of the well-known dichotomy between private enterprises and SOEs but also within each of these groups of firms. Moreover, 'methodological nationalism' attached to the attributes of Chinese firms also ignores the importance of the context of African countries that host overseas investors, as if African states and societies were not able to shape how foreign actors and firms operate in their countries.

In Ethiopia, both official statistics and empirical evidence that were collected in the course of this research show that the Chinese private sector plays a dominant role in manufacturing FDI both by the number of projects and by value (see below). Not only is there the economic impact from Chinese private firms to consider, but also their social, political and cultural influences on the host country are so significant that they should not be neglected or underestimated. Lee (2017, p.4) critically points out that instead of paying too much attention to ownership (state or private) and singular nationalism (as 'Chinese' firms), we should focus more on the core interests of capital, and its relations with states and societies.

This chapter will focus on two objectives. First, it will identify varieties of Chinese private capital in Ethiopia and produce a typology from a set of relevant criteria. Second, it will explore their concrete motives and drivers to invest in Ethiopia. Capturing the main similarities and differences between different types of private firms and entrepreneurs is vital to understand how processes of accumulation and business development in a new setting unfold, given a wide range of different contextual factors.

This research argues that Chinese private FDI in Ethiopia is part of an ongoing learning process, which is highly diverse, fluid and involves mutual interaction between different types of investors, between capital and the state, and between capital and labour. 'Methodological nationalism' obscures existing

[57] See Chapter Two for more details.

variation and results in an empirical trap, whereby similarities among firms are interpreted as manifesting some intrinsic national attributes, and differences are concealed.

Consistent with Lee (2017), Sun (2017) and Shaefer and Oya's (2019a) arguments, this research's findings suggest that instead of solely emphasising a firm's ownership and nationality, other factors such as sector specificities, particular firm characteristics and the national or local political economy context are of more significance in explaining the variation and dynamism in motives and drivers of Chinese private investment in Ethiopia.

Following this introduction, Section Two will give a brief overview of the presence of Chinese OFDI in Ethiopia in terms of scale and trends. Section Three will document the existence of different types of Chinese private firms in Ethiopia and then elaborate on the main characteristics of firms since the post-2008 period. A typology of private firms in Ethiopia's manufacturing sector will be developed in this section. Section Four will explore the main motives of Chinese private firms investing in Ethiopia, and the most crucial factor that drove them to invest in a particular sector and choose to produce exports or operate in the domestic market. By taking a comparative analysis of the light manufacturing industry and the construction materials industry, both the convergence and divergence of firms' interests will be explored, and implications will be discussed.

The evidence presented in this chapter is based on an analysis of a combination of data from different sources, including the following: (a) primary and secondary data that I collected from both government agencies and firms through interviews and visits; (b) a survey of 16 Chinese private manufacturing firms (14 based in the EIP)[58] between January and April 2018, complemented with (c) 96 semi-structured interviews, including 86 interviews with 20 firms (among them 74 interviews with 15 firms were conducted in the EIP) and ten interviews with both Chinese and Ethiopian government agencies and business associations (see Appendix B, Interview Code for more detail). Frequent follow-up visits also took place between October 2018 and June 2019. Firms were selected as analytically relevant and generally exemplary cases of Chinese private investment in Ethiopia's manufacturing sector in the post-2008 period.

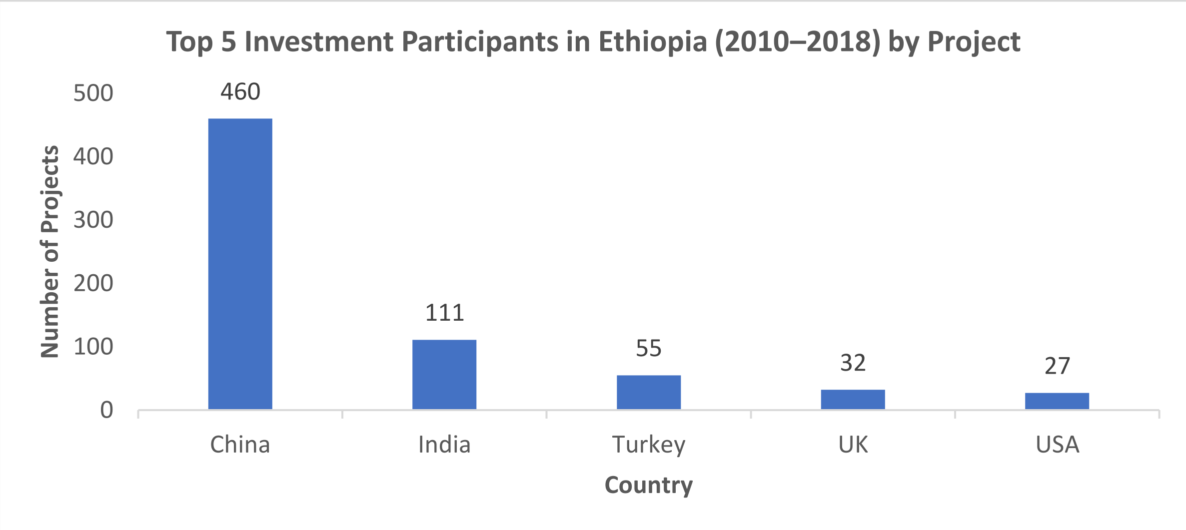
5.2. The Presence of Chinese OFDI in Ethiopia

China has become Ethiopia's largest source of investment, its most important trade partner and the major supplier of infrastructure construction services in recent years. According to the Ethiopian Investment Commission's data (2018), China ranked first in the past two decades with 1,149

[58] Eastern Industry Zone PLC officially changed its name on June 14, 2018 to Eastern Industry Park PLC (internal document provided by EIP on July 20, 2018). Thus, in this thesis, the Eastern Industry Zone is named Eastern Industry Park (EIP).

investment projects permitted (including those that were joint with local firms and non-Chinese foreign firms). Between 1998 and 2018, there were in total 839 investment projects in operation with an accumulated investment value of ETB 37.07 billion (equivalent to US$1.34 billion)[59] (EIC, 2019a), accounting for 31.8% of OFDI in Ethiopia from all countries (EIC, 2020). Between 2010 and 2018, China's OFDI to Ethiopia increased steadily and ranked first by both the number of projects and investment value. In terms of the number of projects (in operation), China ranked first (460), followed by India (111), Turkey (55), UK (32) and US (27) as can be seen in Figure 7.

Figure 7: Top 5 investment participants in Ethiopia (2010–2018) by project



Source: Author, analysis based on data collected from the EIC (2018)

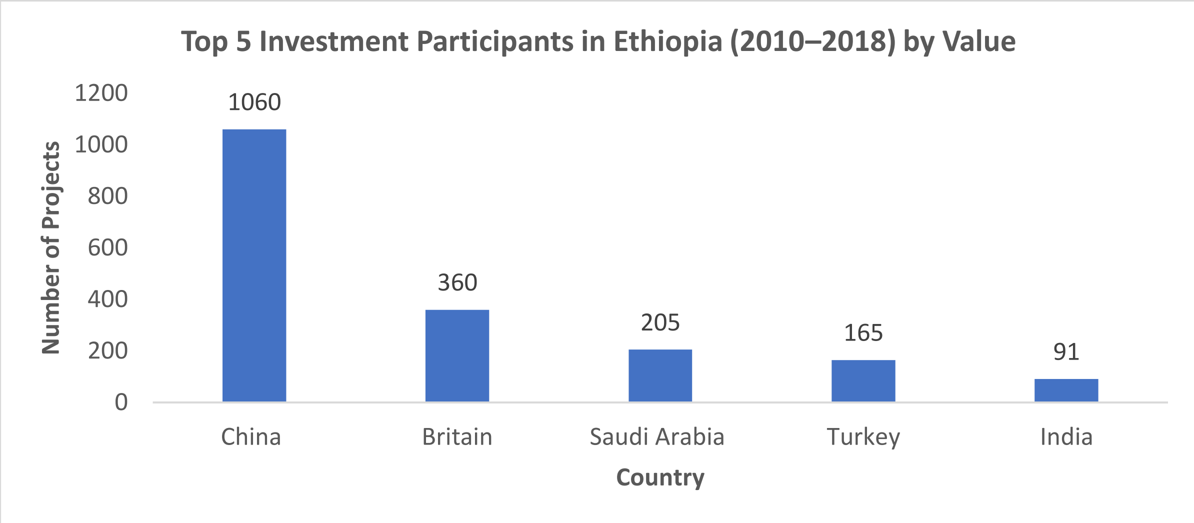
In terms of investment value, China's FDI accounted for 42.3% of the total investment between 2010 and 2018.[60] China ranked first (US$1,060 million), followed by the UK (US$360 million), Saudi Arabia (US$205 million), Turkey (US$165 million) and India (US$91 million).[61] This is shown in Figure 8.

[59] The exchange rate refers to the average conversion rate for 2018 https://www.exchangerates.org.uk/USD-ETB-spot-exchange-rates-history-2018.html [accessed on Jan10, 2019]

[60] China's FDI in this thesis refers to FDI from mainland China only.

[61] The exchange rate refers to the average conversion rate for 2018 https://www.exchangerates.org.uk/USD-ETB-spot-exchange-rates-history-2018.html [accessed on Jan10, 2019]

Figure 8: Top 5 Investment participants in Ethiopia (2010–2018) by value



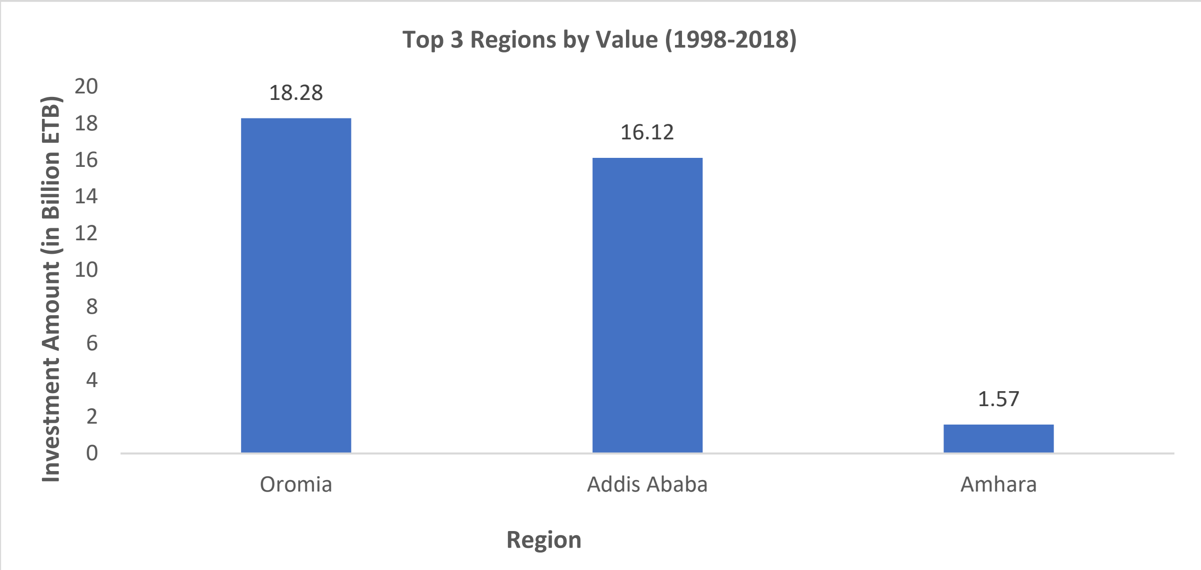
Source: Author, analysis based on data collected from the EIC (2018)

5.2.1. Main Features of Chinese OFDI in Ethiopia

5.2.1.1. *Geographical Distribution of Chinese OFDI in Ethiopia*

Regarding geographical distribution, Chinese investment in Ethiopia's manufacturing sector is mainly concentrated in Oromia regional state (ETB 18.28 billion) and then Addis Ababa (ETB 16.01 billion) (EIC, 2019). This is shown in Figure 9, the third-largest investment recipient is the Amhara region, where the total investment value is less than one-tenth of that in Oromia (ETB 1.57 billion) (ibid).

Figure 9: Geographical distribution of Chinese FDI in Ethiopia's manufacturing industry: Top 3 regions by value



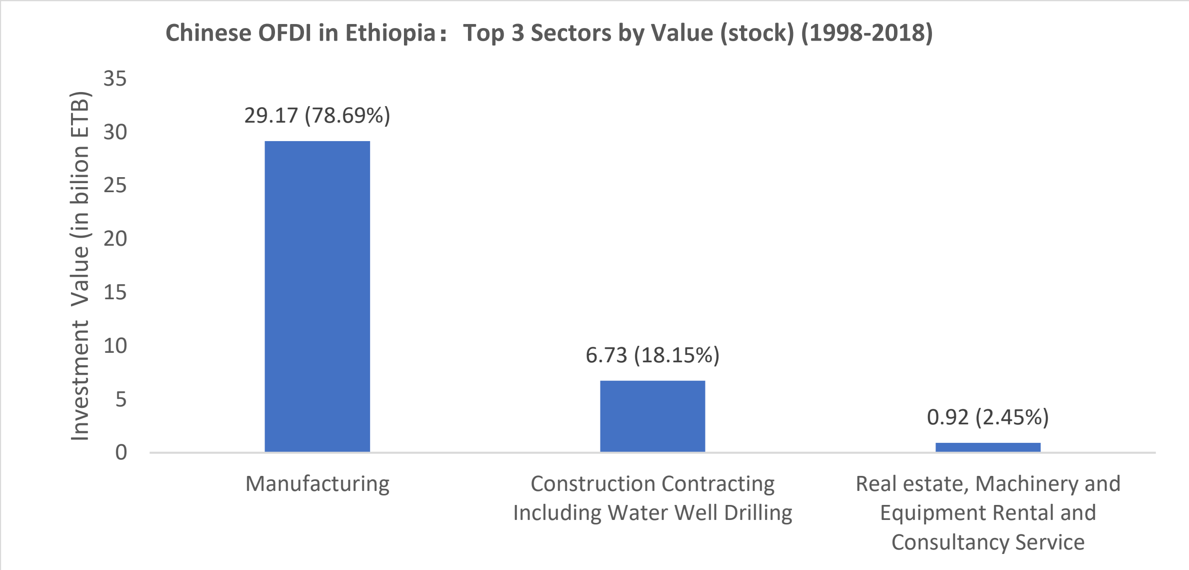
Source: Author, calculated and compiled based on the data collected from EIC (2019)

The reason why Chinese FDI is concentrated in these two regions is mainly that Addis Ababa is the primary consumption market in Ethiopia and the Oromia regional state is close to the capital city and has plentiful resources, abundant cheap labour and arable land (CCM2-4-2, CCM3-1-b). The connectivity between Dukem (Oromia regional state) and Addis Ababa has become stronger with the continuous improvement of infrastructure development (CCM-17-1-b). For instance, the Addis–Djibouti Railway started operation in January 2018. Also, the Adama expressway opened in September 2014, connecting Addis Ababa to Adama directly (Addisfortune, 2014). The expressway passes through industrial parks (IPs) such as the Adama industrial park, making logistics faster and easier by leaps and bounds. This creates corridors that enable manufacturing investments in the area, especially for firms in export markets.

5.2.1.2. *Sectoral Distribution of Chinese OFDI in Ethiopia*

Concerning the sectoral distribution, it is evident that Chinese investment in Ethiopia mainly concentrates in manufacturing. This sector is followed at some distance by construction, real estate, and machinery leasing and consulting. The manufacturing sector accounts for the lion's share, as seen in Figure 10.

Figure 10: Chinese OFDI in Ethiopia: Top 3 sectors by value (stock) (1998–2018)



Source: Author, calculated and compiled based on data collected from EIC (2019)

In the past two decades, investments (stock) in the manufacturing sector reached ETB 29.17 billion, accounting for 78.69% of total Chinese investment by value. Construction (ETB 6.73 billion with 101 operating projects), real estate and machinery leasing and consulting (ETB 0.92 billion with 104 operating projects) were second and third, with 18.15% and 2.45%, respectively, in terms of value (EIC, 2019) (see Figure 10). The construction sector does not feature prominently in FDI statistics in Ethiopia. This contrasts with the fact that Chinese construction firms are ubiquitous, especially in infrastructure projects. As explained in Chapter Two, this is because these firms primarily engaged in the provision of construction services without necessarily creating greenfield investment according to the UNCTAD definition.

Brautigam (2015 cited in Chapter Three) warns that we should be careful 'not to mix apples and elephants'. It is dangerous to mix contracts with FDI as it could mislead the analysis, and in this case, it overestimates the impact of Chinese state FDI. Chinese SOEs are indeed playing a predominant role in the construction sector in Ethiopia, but this is mainly through project contracting rather than FDI. This means that the private sector has been playing a large role in Chinese OFDI in Ethiopia, mainly in the manufacturing industry. This challenges the common perception of Chinese engagement in Africa being dominated by SOEs in mining and infrastructure construction sectors (see Chapter Two for more details).

5.2.2. Summary

This section has presented some basic facts about Chinese OFDI in Ethiopia. First, Chinese OFDI in Ethiopia ranks first both by the number of projects and by value. Second, Oromia state is the largest recipient of Chinese OFDI in the manufacturing sector due to its proximity to Addis Ababa. In addition, there are abundant and cheap resources (for example a large trainable young labour force and plentiful raw materials and land) in the region. Third, manufacturing investment is the largest Chinese OFDI source in Ethiopia, and most of the investors are from the private sector.

Although official statistics have flaws and may underestimate the real impact on Chinese private FDI in Ethiopia (see Section 3.2.3 for more details), data analysis in this section has already demonstrated that private investment from China is much more significant (in terms of number and value) than conventional wisdom has perceived (such as construction FDI accounting for the lion's share and coming mainly from SOEs).

5.3. A Variety of Chinese Private Firms in Ethiopia

Chinese FDI in Ethiopia has been increasing significantly since the post-2008 period, with the emergence of a variety of Chinese private firms exporting their industrial capital to Ethiopia's manufacturing sector. This section illustrates the significant heterogeneity among such firms, thereby refuting perceptions of Chinese capital as monolithic. This section also answers questions including what types of Chinese private firms are present in Ethiopia and in what sectors, and reviews their main characteristics concerning scale, origin, market structure, main products, investment status and access to finance. Based on the collation of data (see Section5.1 for more detail), a typology of Chinese private firms in Ethiopia's manufacturing sectors is developed.

5.3.1. Who Are They? Where Are They From?

Unlike SOEs, it is challenging to track the geographical origin of Chinese private firms in Ethiopia. While central SOEs need to obtain an 'Overseas Investment Permit' through the Ministry of Commerce (MOFCOM), local and provincial SOEs need to obtain this permit from the local or provincial Department of Commerce. Firms involved in engineering projects are required to register with the MOFCOM and regularly report to them. Therefore, the MOFCOM can track information about the domestic location of these SOEs from their 'licences'. However, this is not the case for private firms as registration is not mandatory. The status of many small investment projects has not been accurately tracked by the MOFCOM or local African investment authorities (Xia, 2019, p.2). In recent years, the MOFCOM has changed from registration to a filing system to ease procedures for overseas investment (CG2)[62] (see Chapter Four for more details). Although all investments need to register at the EIC and the Ministry of Trade and Industry (MOTI), information collected does not include which regions these

[62] Interview with the Chinese government official, see Appendix B. Interview Code for more detail.

investment projects come from. Therefore, if anyone wants to know the origin of these private firms, the only way is to ask the investors directly.

5.3.2. Presence of Chinese Private Firms in Ethiopia

When looking at the total number of firms investing in Ethiopia, the private sector is much more important. According to a MOFCOM official (Ethiopia), around 95% of Chinese firms in Ethiopia are from the private sector (CG2). This estimate has not considered two groups: the first is those who have invested in Ethiopia without registering with the MOFCOM. Those firms either invested in Ethiopia with capital transferred from a third country or illicitly brought cash to the host country. Early investors (mainly SMEs) chose not to register with the MOFCOM for two main reasons. The first was to avoid time-consuming bureaucratic procedures and to grasp the best investment opportunities quickly. The second is because registration is no longer mandatory, so firms (investors) can go about their business without rigid supervision from the Chinese government (Du and Zhang, 2017).

The second group are those who register as 'trans-locals'.[63] For instance, some Chinese have joined with local partners by using locals as firms' legal representatives, but the real owners are Chinese. There have been examples where foreign investors (including Chinese) have married local Ethiopian citizens to take advantage of certain benefits and rights. Occasionally fake marriages have been identified by the authorities where the marriage was purely for business investment reasons. By doing so, foreign investors could engage in industries that are not open to foreigners. These kinds of cases are difficult to find and can only be found through investigation of a particular firm or operation in detail. If we include these two groups, the number of Chinese private firms in Ethiopia is even more significant than official figures suggest (also see Sun, 2017).

5.3.3. The Main Characteristics of Chinese Private Firms in Ethiopia

Given the fact that tracking all private firms in Ethiopia is extremely difficult and unrealistic with the limited time and resources of PhD fieldwork, as a compromise, I decided to take the EIP as an industrial hub and a sample of private firms in Ethiopia. A mixed research methods approach was used to capture the main characteristics of Chinese private firms in the post-2008 period. Secondary data on all firms at the EIP was collected from the EIC and the EIP Management Committee (EIPMC). This is complemented with my participant observation (which took place over six months in the EIP), a survey of 14 firms, and 74 semi-structured interviews with 15 firms in the EIP.

[63] See Footnote 20 for the full definition.

As the first industrial park in Ethiopia constructed, developed, operated and managed by a Chinese private firm, the EIP has captured a mix of Chinese investors (both early investors and latecomers) mainly from the private sector. The EIP is a mixed industrial park with various manufacturing sectors (refer to Chapter Four for detailed justification). As of September 2018, there were 86 firms in the EIP and 79 are Chinese firms. Private firms account for the lion's share in the EIP: 78 of 86 are Chinese firms and only one is a local SOE.[64] Additionally, 38 out of 79 Chinese firms are in the light manufacturing industry, while another 28 are in the construction materials industry, accounting for 48% and 35% of the total Chinese firms, respectively.[65]

Of light manufacturing firms, the majority are in the textile/garment industries (35 out of 38) while the remaining are in leather products and footwear sectors. Most light industry firms moved into the EIP after 2013 (ibid). While in the construction materials sector, firms are dispersed in different sub-sectors, including grinding station, steel products, aluminium, ceramic products and gypsum boards.

According to internal EIP data (2018), until 2018, Chinese firms in the EIP created 14,794 jobs for locals, with an average localisation rate of 92.57% (see Table 8). The localisation rate is consistent with Shaefer and Oya's findings (around 90%) (2019a, p.22).

[64] Calculated and compiled by the author based on the internal data the EIP Committee provided in October 2018.

[65] ibid

Table 8: Employment status and localisation rates in the EIP

Context of Firm	Number of Firms	Job Creation (Total)	Job Creation (Local)	Localisation Rate
All Firms in EIP	86	16,244	15,032	92.54%
Chinese Firms in EIP	79	15,982	14,794	92.57%
Chinese Light Manufacturing Firms	38	11,918	11,371	95.41%
Chinese Construction Materials Firms	28	3,097	2,671	86.24%

Source: Author, calculated and compiled based on EIP Committee data collected in October 2018

The sector matters significantly in any discussion of the number of jobs that firms created and their localisation rate. Given the same location, localisation rates are found to be much higher in light manufacturing firms (95.41%) than construction materials firms (86.24%). This is partially attributed to the nature of different industries, such as those marked by high levels of labour, capital and energy intensity, as well as the relative demand for skilled labour, which is scarcer in Ethiopia.

Regarding the size of the firm, most Chinese firms in the EIP are small and medium in scale according to the Chinese criteria for classifying SMEs.[66] Most light manufacturing firms (37 out of 38) are small or medium sized. Huajian is the only firm that could be defined as large-scale within this group. Among 28 construction materials firms, even firms such as East Cement and East Steel are regarded as the largest Chinese cement plant and steel mill in Ethiopia, but they are still defined as SMEs according to Chinese standards (in terms of both investment value and employment).

In terms of origin, Zhejiang province ranks first concerning the total number of firms in the EIP and Jiangsu province ranks second (CCM2-3). Although there are only a few firms from Guangdong province, a firm like Huajian[67] is regarded as an exemplary case of a successful large-scale, export processing industry relocating its industrial capital to Ethiopia.

According to my survey findings, only one out of eight surveyed light manufacturing firms were 100% export oriented; the remaining were mainly focused on textile and garment production for Ethiopia's domestic market. However, with a requirement imposed by the Ethiopian government, they started exporting despite the proportion being relatively small (between 15–40%). The pressure of accessing foreign exchange (forex), renewing business licences combined with incentives such as the extension

[66] Refer to Preface for Chinese definition of SMEs.

[67] Huajian Group was established in Dong'guan, Guang Dong Province, China in 1996. By 2017, Huajian Group had 11,000–12,000 employees worldwide and 40 production lines (Huajian Light Manufacturing brochure).

of tax holidays and duty-free imports have further pushed light manufacturing firms in the EIP to export (see Chapter Seven, Section 7.4.3, Export Target for more details). The construction materials sectors are regarded as an import substitution industry (ISI) in Ethiopia, and all surveyed construction materials firms (6 out of 6) are solely manufacturing products for the domestic market.

In terms of ownership structure, survey findings show that 11 out of 14 firms are private limited companies (PLC), one out of 14 is a public limited company and one is a sole proprietorship. Despite different ownership types 'on the surface' (in legal terms), the majority of firms (eight out of 12) in practice still stick to a family or owner-operated business model. There is no clear-cut distinction between ownership and management. In most cases, the owner of the firm is also the manager of the firm. This is more obvious in light manufacturing firms than construction materials firms. Most Chinese managers and expatriates in textile/garment firms in the EIP are either family members or friends (author's observation). Among construction materials firms, comparatively more capital-intensive industries such as cement and steel plants tend to hire more salaried professional managers and expatriates with higher qualifications and skills, while comparatively small- and medium-size aluminium, steel pipe and wood factories tend to hire more acquaintances. According to my survey findings, the only firm that adopts a management regime with international standards is a publicly listed company, which started its operations in Ethiopia in November 2017.

These findings are consistent with Huang (in Chapter Four) that the modern corporate system has not been implemented at many Chinese private firms. As argued by Song (2011) in Chapter Two, this is partially attributed to the fact that Chinese private firms' 'Going Out' lagged behind Chinese SOEs and their internationalisation is still at an early stage.

In terms of the source of financing, most companies (13 out of 14) interviewed chose self-financing (e.g. retained earnings, savings, personal loans) as their primary source of finance. Firms claimed that they very rarely applied for a loan from a local (Ethiopian) commercial bank to get working capital for daily operations because the interest rate is too high. To obtain a loan from a bank in China is either very difficult or too expensive for private firms due to the discriminatory regulation in the private sector (survey, 2018). Under the Belt Road Initiative, Beijing has launched a series of programmes to support private firms who are interested in 'Going Out'. However, firms claim that Chinese government financial support doesn't have much impact on private firms' decision-making for investment (survey, 2018; also see Xia, 2019). In principle, all firms can solicit private equity investment through the China–Africa Development Fund (CADFund) as long as they match two criteria: the first is that the firms' background and credit need to meet CADFund's standards; the second is that the investment project value should be above US$50 million. In reality, this programme does not benefit most private SMEs in Ethiopia as either the firm's background does not qualify, or the project size is not large enough (CG3). Meanwhile, the drawback of private equity investment is that it is difficult for the CADFund to perform due diligence on the proposed project. Thus, to mitigate potential risk, CADFund primarily considers SOEs, listed firms or large private enterprises as investment targets (ibid).

According to my survey findings (2018), firms in the light manufacturing industry already have more relevant experience than those from the construction materials industry. The average relevant market experience that light industry firms have in China is 15–20 years (survey, 2018). Before investing in Ethiopia, they either had factories or trading companies in China: two out of eight export to the US and European countries for brands or retailers. Six out of eight firms in the light manufacturing industry claim that they have built long-term relations with Ethiopian clients (10–15 years) before investing in Ethiopia.

In terms of the construction materials industry, four out of six firms have relevant experience in China (ibid). The remaining two firms stated that they engaged in different sectors in China, and their investment in Ethiopia is solely for opportunity and market-seeking. They were enticed by friends telling them profitability was potentially much higher in Ethiopia than in China (where competition is more significant). They expected profits to be exceptionally high in Ethiopia, offsetting all the risks of setting up there with no previous experience.

As discussed in Chapter Two, *guanxi* networks play an important role for Chinese firms to achieve internationalisation. There are broadly three types of networks that firms can hear about investment opportunities through, as shown in Table 9.

Table 9: Main guanxi networks to discover investment opportunities

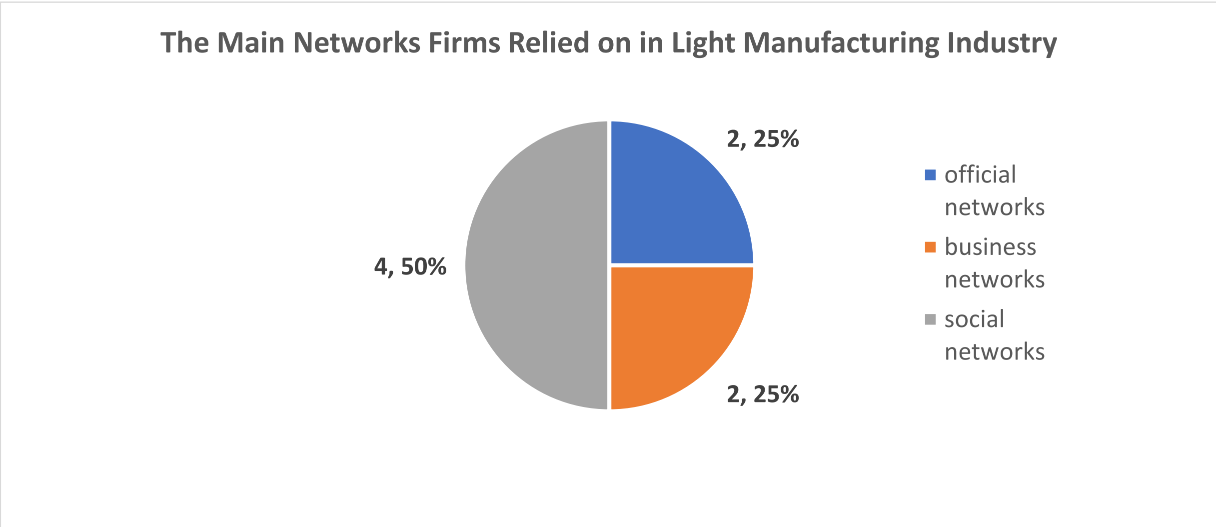
Type A. Official Networks (Formal)	Invitation from high government officials, state-led Chinese business council(s), such as (CCPIT)
Type B. Business Networks (Formal)	Invitation from clients, business partners, or private business association(s)
Type C. Social Networks (Informal)	family members, friends and/or Chinese overseas network ties

Source: Author's elaboration

Type A is through official networks. That means that a firm's initial visit was through an invitation by senior government officials or state-led business councils, such as the China Council for the Promotion of International Trade (CCPIT). Type B is through business networks, which means that firms know the investment opportunity from their clients, business partners or private business associations. Type C is through social networks, which means that firms obtain investment opportunities through either family or friends' recommendation and Chinese overseas network ties.

Although most firms interviewed claimed that they went through both formal and informal networks to obtain investment information, findings showcase that social networks play a vital role at the early stage for Chinese investors to capture investment opportunities in Ethiopia (also see Xia, 2019). According to the survey, ten out of 14 claimed that they learned about investment opportunities through social networks (four in the light manufacturing industry and six are the construction materials industry). This is shown in Figure 11.

Figure 11: The main guanxi *networks firms rely on in the light manufacturing industry*



Source: Author, calculated and compiled based on project survey data collected in 2018

It is evident that firms in the construction materials industry rely heavily on social networks (ibid) to obtain information on investment opportunities, a figure of 100%. In the light manufacturing industry, however, the picture is more diverse (see Figure 11): two firms, of medium to large scale, which are comparatively successful in China, were invited by the senior government officials from Ethiopia on the one hand and supported by local and provincial governments from China on the other hand. Both were light industry firms that invested early on in the EIP (started operations in 2012 and 2013, respectively). Two other firms have long-term business relations with Ethiopian clients (relationships lasting 10–15 years), and they were invited by their clients to investigate investment opportunities. The remaining two were through social networks.

Many early investors in the construction materials industry come from Jiangsu province. As discussed in Chapters Two and Four, industrial development in China is highly regionalised, and the development model for each of these regions differs based on their industrial history and also shapes the nature of productive sectors and firms that thrive. The history and origin of firms matter. In this context, it could refer to an entrepreneur's origin as many Chinese private firms are family businesses or owner-operated firms; thus, it is highly intertwined with the entrepreneur's background (such as entrepreneur's family, education and work experience) and *guanxi* networks.

5.3.4. Typology of Firms

This section proposes a typology of Chinese private firms based on the collation of data and sources (see Section5.1 for the full elaboration). This typology is built based on the following criteria: scale, origin, sector, main market, the main *guanxi* networks for discovering investment opportunities and the main reason they invested in Ethiopia (see Table 10).[68]

[68] Typology of firms developed in this thesis has three pre-selected criteria: 1. Firms that invested in Ethiopia between 2008 and 2017; 2. Firms are either in the light manufacturing industry or the construction materials industry; 3. Firms were fully operational during the time the author conducted research (2017/18). Therefore, although there is a new tendency of Chinese private investments in Ethiopia since 2015, which is interesting to be noted, these firms (such as Chinese firms in Hawassa, Adama and Kombocha Industrial Parks, etc.) are at the early stage in the Ethiopian market. Most were either under construction or had only started trial production in 2017/18. Thus, they are inappropriate to be categorised in the typology of firms for this research.

Table 10: Typology of Chinese private firms

	Type 1	**Type 2**	**Type 3**
Scale	SME	Large	SME
Origin	Zhejiang province	Guangdong province	Jiangsu province
Sector	• Family business and/or merchant-evolved specialised the light manufacturing industry • Small – medium - scale construction materials industry	• Large-sale export processing industry • For international brands and/or retailers from the Global North	• Owner-operated firms in the construction materials industry • Comparatively larger-scale light manufacturing industry
Region-specific development model	'Wenzhou Model' • Private sector dominant economy (Ang, 2016, p.190) • Long entrepreneurial history and an extensive network of emigre merchants (ibid) • '*Baotuan chuhai*' ('Going Out' in groups) • Strong *guanxi* networks	'Dong'guan Model' • 'World Factory' for low-skill, labour-intensive processing industry • Pioneer 'Flying geese' model in China (inward FDI on the one hand, and absorbed the supply of cheap raw materials and labour from the interior provinces on the other hand)	'Su'nan Model' • Strong linkages with local governments
Main Market	Ethiopia's domestic market	Export market	Ethiopia's domestic market
Main source of knowing investment opportunity	A combination of business networks and social networks	Official networks	Social networks
Main Reason to Invest in Ethiopia	Host country market	Access to the international market	Host country market
Representativeness	Highly exemplary	Exemplary but also unique	Highly exemplary

Source: Author's elaboration

My survey findings show that the three most exemplary regional development models elaborated in the EIP: 'Wenzhou model', 'Dong'guan model' and 'Su'nan model'.

Based on surveys, interviews and substantial observations that I conducted, it can be concluded that there are mainly three types of private firms that are present in Ethiopia's manufacturing industry (see Table 9). As noted previously, 29 out of 38 firms (accounting for 76%) in the EIP are light manufacturing SMEs, focusing on Ethiopia's domestic market. They are mainly from Zhejiang province. Type One features firms that are family businesses or merchant-evolved specialised light industry from Zhejiang province, and fit the 'Wenzhou model'. These firms have the features of '*Baotuan chuhai*' ('Going Out' in groups) and strong network ties (see Chapter Four for more detail). A combination of *guanxi* networks enable them to discover investment opportunities in Ethiopia.

Type Two features firms in large-scale export processing industries from Guangdong province, and fit the 'Dong'guan model'. It also represents the pioneer 'Flying geese' model in China, which attracted inward FDI (mainly from Hong Kong, Taiwan and Southeastern Asian countries) on the one hand, and absorbed the supply of cheap raw materials and labour from the interior provinces on the other hand. In the case of investment in Ethiopia, official networks play a vital role in the discovery of investment information. Access to the international market is the main reason to invest in Ethiopia.

Type Three features owner-operated firms in the construction materials industry, and larger-scale, higher-tech light manufacturing industry from Jiangsu province, which fit the 'Su'nan model'. Having strong linkages with local governments is one of the key features for this type of firm. Social networks play a crucial role in the discovery of investment information (see Table 9).

5.4. Why Are Chinese Private Firms Investing in Ethiopia?

Sections 5.2 and 5.3 have shown the heterogeneous nature and characteristics of Chinese private firms in Ethiopia. Despite their differences, private firms still need to make money. However, there are different ways of making money and various motives and determinants that influence firms' decision-making. As discussed in Chapter Two, Lee (2017) argues that Chinese state capital follows a profit optimisation logic, in contrast to global private capital follows a profit maximisation logic. Although Lee did not particularly pay attention to Chinese private capital in Africa, her conceptual framework is highly useful for this research.

This section will adopt Max Weber's and Karl Marx's notion of capital accumulation, taking a comparative analysis of Chinese private OFDI in the light manufacturing industry and the construction materials industry to explore their main motives and determinants. It will evaluate whether Chinese private capital follows Chinese state capital's logic of profit optimisation or global private capital's logic of profit maximisation, or other motivations that matter more, and why.[69] This research will also look at what Ethiopia has done to lure private manufacturers despite the lack of manufacturing experience and for what purposes Chinese private manufacturers have invested in the country. Finally, it will investigate whether the interests of Chinese private firms differ across different manufacturing sub-sectors and, if so, why.

As elaborated in Chapters Two and Four, firms' 'Going Out' is pushed by precarious domestic conditions and fierce competition due to increasing globalisation on the one hand and pulled by the supportive government policies and potential opportunities on the other hand. The 'Push and Pull' framework employed by Shen (1990) was initially used to explain the motives and determinants of early foreign investment in China from Hong Kong and Taiwan since the 1980s. It is also applicable to the case of Chinese private investments in Ethiopia's manufacturing sector. The 'Push and Pull' framework is useful to organise the data of this project (see Table 11) to analytically explore the most common drivers of investment and at the same time illustrate some of the more specific considerations within a given pattern, and reasons for specificities.

Table 11: Push and pull framework

'Push' Factors	**'Pull' Factors**
A. Cost factors (increasing production costs) • labour cost • energy cost **B.** (Legal) cost of doing business **C.** Environmental cost	**A.** Cost factors (lower production costs) • abundant, inexpensive trainable labour • cheap energy cost • availability of abundant raw materials[70] **B.** Market Factors • growing demand and high profit in the domestic market **C.** Political Economic Factors • bundles of preferential investment incentives (for export) • committed government • political stability[71] • macroeconomic conditions

Source: Author's elaboration

As discussed in the previous two sections, Chinese private investments in Ethiopia's light manufacturing industry and construction materials industry have highly heterogenous features

[69] See Chapter 2, Footnote10 for the notion of 'profit maximisation' and 'profit optimisation'.

[70] Raw materials here refer to those necessary for manufacturing (i.e. tannery, sandstone, pumice, limestone for clinker production), see pp.153-4 for more examples.

[71] It refers to the period when interviewed firms made decisions to invest in Ethiopia, mainly between late 2010 and early 2016.

concerning market structure and type of firms. In terms of market structure, there are two types of Chinese light manufacturing firms in Ethiopia. The first type is (early) investors with a focus on Ethiopia's domestic market, and the second type is firms that only export to US and European markets. As opposed to light manufacturing firms that all had similar businesses in China before investing in Ethiopia, firms that invested in Ethiopia's construction materials industry are very diverse and do not follow a simple logic of relocation or expansion (see Section 5.3.3). Before investing in Ethiopia, many early investors had no relevant experience of the sector they were investing in, in China. This factor particularly applies in certain sectors such as cement where profitability is exceptionally high.

Generally, interviews with some firms suggested that it was easier for entrepreneurs in the light manufacturing industry to benefit from different types of networks to find out about investment opportunities in China and especially overseas. Those operating in the construction materials industry were more dependent on fewer *guanxi* networks (social networks in particular) and sources of information. Based on these features, this section firstly divides the analysis of motives and determinants into two sub-sectors given their particularities in the Ethiopian context: (a) light manufacturing industry and (b) construction materials industry.

5.4.1. 'Push' and 'Pull' Factors of Investing in Ethiopia's Light Manufacturing Industry

As discussed in Chapters Two and Four, private firms' 'Going Out' is partially due to the various constraints they encountered in China. This thesis argues that Chinese light manufacturing firms are pushed by several factors. The first factor is increasing production costs (labour costs in particular) in China. The second factor is the late commercial payment costs. Finally, the third factor is the environmental cost. Meanwhile, firms' investments in Ethiopia are pulled by, firstly, the abundant, affordable and trainable labour and much lower production costs; secondly, by growing demand and high profits in the domestic market; and finally, a combination of the access to the international market, preferential investment incentives offered by the GoE and the committed host country government (see Table 12).

Table 12: 'Push' and 'pull' factors of investing in the light manufacturing industry

Sector	Type of Factors	Factors	Comment
Light Manufacturing Industry	Push Factors	Increasing production costs (labour costs in particular)	Common for all firms but affects export firms in particular
		Late commercial payment costs	Specific to traditional SMEs
		Environmental costs	Common for all firms but affects traditional SMEs in particular
	Pull Factors	Abundant, affordable and trainable labour and much lower production costs	Common for all firms but affects export firms in particular
		Growing demand and high profit in the domestic market	Specific to traditional SMEs
		A combination of the access to the international market, preferential investment policy and committed host country government	Specific to exporters

Source: Author's elaboration based on interviews and surveys

Although firms in the light manufacturing industry face similar challenges and follow similar business models, the author's empirical findings show that even within the same sector, motives and determinants of firms vary significantly. This research illustrates that firms' interests also differ concerning the type of firm and market structure (domestic or export market), among other characteristics. This section argues that the unit of production cost matters more significantly than any individual item of cost. The percentage of cost composition varies depending on the type of firm and sector specificities. For instance, labour cost is the most critical factor that affects large-scale export firms while late payment cost and environmental cost more significantly affect traditional family-owned SMEs.

5.4.1.1. *Increasing Production Costs in China*

Increasing production costs (labour costs in particular) are a common 'Push' factor for all light manufacturing firms' 'Going Out', and it particularly affects large-scale export firms due to their specific positions in GPNs. Drawing from the new international division of labour (NIDL) thesis,[72] pursuing low-wage costs is usually the motive that drives transnational corporations (TNCs) from developed economies to export industrial capital to developing economies, in the form of subcontracting or FDI (Lo, 2012). Buyers with brands and retailers from the Global North are leading firms in global apparel/textile value chains. These leading firms have major brand names and good distribution channels, and they usually organise cross-border production and distribution networks through purchasing and subcontracting (Zhang, 2014). Manufacturers often obtain orders through two channels: either intermediate agents (traders and overseas buyers) or directly connecting to brand companies and retailers (Gereffie et al., 1994).

China's integration into the global economy has increased over the previous 30 years. China has benefited from its comparative advantage and manufacturing (labour-intensive manufacturing) capabilities (Nolan, 2014). As noted in Chapter Four, Guangdong province is well-known for its low-skill, labour-intensive export processing industry. Manufacturers there rely extensively on the basis of 'dormitory labour regime' with inexpensive migrant workers and the supply of cheap raw materials from inland China (Zhang and Peck, 2016). However, with increasing production costs (labour costs in particular) during the past two decades, manufacturers' comparative advantages are diminishing in China.

Chinese low-cost manufacturing industries have targeted other Asian and African counties for new factory locations due to the rising labour costs in China (Knoerich, et al., 2021, p.6). Huajian is an exemplary case of this type of export firm. It is a traditional large-scale OEM in Guangdong. Huajian suffers from both decreasing production unit prices squeezed by buyers, and the increasing production costs in China at the same time. Huajian's situation is partially attributable to its specific position in GPNs. Huajian sticks to the traditional export processing industry, as the owner believes that is what they know how to do best. After two decades of development (since its establishment in 1996), Huajian failed to develop a strong brand due to its weak distribution, marketing and sales. Instead of partnering with leading firms, Huajian relied heavily on agents (traders and buyers) to acquire orders from the Global North (CCM1-1). This shows the weakness in Huajian's organisational capabilities.

Consequently, Huajian's production volumes are highly dependent on orders from intermediate agents (traders/buyers), which reflect seasonal fluctuations in global markets and the 'sourcing squeeze' typical of footwear production networks (Anner, 2020). Given the prevailing 'price squeeze'

[72] See Chapter Two for more detail.

exercised by leading firms, intermediate traders/buyers put more pressure on manufacturers such as Huajian to operate at razor-thin margins and keep their production costs down (ibid). If Huajian is unable to reduce its production costs, traders/buyers will source from other suppliers with lower unit prices, and Huajian will lose orders. In the past ten years, the unit production price has gone down, while production costs (especially labour costs) have increased significantly in China. 'Chinese hourly wages have risen from $0.43 in 2000 to $2.88 in 2013, an annual increase of 16%' (Mckinsey, 2018, p.55). Huajian's average monthly wage (actual wage before tax) in China increased remarkably in the past two decades (CCM1-1). In 2017, its wage in Dong'guan was 2.5 times higher than it was in 2008 (ibid).

Responding to the increasing production costs, many manufacturers along the coastal regions have chosen to relocate their industrial capital to either inland China or surrounding countries (such as Vietnam, Cambodia and Bangladesh) since the turn of the century. Huajian also followed this trend and moved parts of its production to Jiangxi province in 2002. However, wages in inland China also increased rapidly in recent years. As a result, the wage discrepancy between workers from coastal regions and inland China has been shrinking (CCM-1-6). Huajian's average monthly (basic) wage for production line workers in Dong'guan, Guangdong province was around 2,000 CNY in 2017 (equivalent to US$294), and about 1,600–1,700 CNY (equivalent to US$235) in Ganzhou (a city in Jiangxi province) (ibid).[73]

This implies that for companies exporting in highly competitive GPNs, China has become a high-cost location even though very high productivity partly offsets these trends compared to countries like Ethiopia, where labour productivity is very low. In fact, Huajian has substantially reduced its overall employment, combining employment in China and Ethiopia (see Table 13) (CCM-1-6). The decrease in employees in China has not been offset by the increase in employment in Ethiopia. Total employment stands at about 12,747 in 2017, much lower than 21,200 in 2012, implying that Huajian's total production might have gone down. Evidence suggests that Huajian's operations in China might have stagnated or scaled down. It might also be in trouble and struggling to compete. In relocating production to Ethiopia, Huajian is trying to maintain its comparative advantage (low unit of production cost).

[73] The average CNY to US$ exchange rate in 2017 was 1: 0.417. See: https://www.poundsterlinglive.com/bank-of-england-spot/historical-spot-exchange-rates/usd/USD-to-CNY-2017 [accessed on Dec 10,2020]

Table 13: Employment (China vs Ethiopia)

Year	Employment (China)	Employment (Ethiopia)/(Chinese)	Localisation rates (Ethiopia)
2012	21,200	1,000 (100 Chinese)	90.90%
2015	9,500	4,619 (179 Chinese)	96.27%
2017	6,000	6,747 (204 Chinese)	97.07%

Source: Author calculated and compiled based on CCM1-2 and CCM1-1 (2018)

Undeniably, the cheap cost of labour is one important determinant that attracts labour-intensive light manufacturing firms such as Huajian to invest in Ethiopia. The Ethiopian government perceived this as an opportunity to develop an export-oriented labour-intensive manufacturing industry. In Huajian, the ratio of average nominal wage between Chinese workers and Ethiopian workers was at least 1:6 to 1:7 in 2012, and this ratio almost remained the same in the following six years. By 2018, the average wage for production line workers in China was 3,600 CNY after taxes (CCM1-2), while for local workers, it was around ETB 2,000–2,500 after taxes (equivalent to 500-600 CNY) (CCM1-11).

However, it is the unit production cost that matters more significantly than the relative wage level. Huajian strives to optimise labour and capital to achieve a lower unit cost of production. Wages in Ethiopia are six to seven times cheaper than China, while the average productivity rate of local workers in Huajian has increased to 50–60% of that of a Chinese worker in China. In addition, the potential for local workers to improve their productivity is high. Thus, firms such as Huajian see the huge potential for business expansion in Ethiopia. Resultantly, in China, Huajian scaled down its production and focused more on industrial upgrading (including research and design, production processes and machinery upgrading) and strengthening its sales, marketing and distribution departments so that it can cooperate directly with brands. Then, in Ethiopia, Huajian not only imported more advanced machinery (compared to their machinery in China) from Germany but also committed to stepping up workers' training to offset Ethiopia's disadvantage of low productivity. As a result, by 2017, the number of local workers increased to more than 6.7 times the number in 2012.

A clear division of production can be seen in Huajian's factories in China and Ethiopia; its Dong'guan factory manufactures high-end shoes with more sophisticated craftsman, with a high unit price and a small number of orders. The Ganzhou factory manufactures middle-end products with relatively larger orders and lower unit prices. Since 2012, Huajian partially relocated its capital to Ethiopia and expanded gradually. Its Ethiopian factory initially focused on producing comparatively simple, low-end products with large orders and low unit prices. After years of training, mid-end products such as boots and even vulcanised shoes (products that require more sophisticated skills) can now be produced in

Ethiopia. Huajian has planned to relocate 60% of its production capacity to Ethiopia by 2020 (CCM1-7-c).

Nevertheless, even firms that focus on the same export market might operate in different GPNs. It is important to note that sector specificities (in particular product and market), the type of firm (origin, economies of scale and history), and a firm's position in GPNs matter as these factors determine when firms need to 'go out' and why. China's variegated sub-regional capitalism implies that firms that thrive in different regions also have region-specific features. Because of their long history of being prosperous and having access to greater capital resources in southern Jiangsu (Naughton, 2007), TVEs from there tend to be bigger and more technologically sophisticated than TVEs in other regions (Zhang and Peck, 2016). As a result of the privatisation of SOEs and TVEs, private light manufacturing firms in Jiangsu province are generally larger in scale and focus on more value-added products.

Jiangsu Sunshine Co., Ltd (from now on referred to Sunshine) is a publicly listed company from Jiangyin, Jiangsu province, China established in 1986. Sunshine invested in Ethiopia in 2017 and started production in January 2018. Ethiopia is the first country in which Sunshine invested overseas. Unlike other low-end textile firms which either moved their factories to inland China or surrounding countries decades ago, Sunshine only has one factory in Jiangyin. Its 'Going Out' was quite late, as Sunshine specialises in manufacturing high-end woollen textiles and fabrics. Unlike traditional OEMs, Sunshine has a strong brand name and well-established sales and distribution channels. The Chinese Commerce Department has recognised the 'Sunshine' brand name as a special name brand of China and one that should be fostered and developed. It is also notably the only company from the Chinese Textile Industry that has won the accolades of 'World Brand' and 'Garment Export Inspection Exemptions'.[74] Sunshine is the world's largest wool textile manufacturer and high-grade apparel producer. Its products are regarded internationally for their high quality and sophistication. It has established long-term mature relations with clients in both domestic and international markets.

The General Manager of Sunshine claimed that the main reason Sunshine invested in Ethiopia is due to the rising production costs in China (CCM14-a). In addition to the increasing wages, with the reform of the social welfare system in China, large-scale labour-intensive firms also need to bear the larger burden of paying workers' insurance and pension costs (CCM14a). Moreover, Sunshine also encountered difficulty in recruitment in China, even the average monthly wage for an operator has been increased to 8,000 CNY, and few people are willing to work in the factory (CCM14-a). The General Manager concluded that

[74] See Sunshine official website: http://www.china-sunshine.com/m/index.php/Home/index?en=en for more details.

> it is inevitable that labour-intensive industries will move to places with lower labour and production costs. Even if Ethiopia does not have the advantage of zero tariffs on exports, we (Jiangsu Sunshine) will still relocate here. It is just like how the textile industry relocated from Japan, South Korea and SEA countries to China two, three decades ago. During that period, China did not have a preferential policy such as zero tariffs to export textile products to the US and European markets either. (ibid)

Sunshine aims to relocate all its capital to Ethiopia in the coming years (CCM14). It is clear to see that its main motive to invest in Ethiopia is for industrial relocation to maintain its competitive advantage.

Light manufacturing firms' 'Going Out' is more a tendency for the whole industry than any individual firm. The increasing production costs are a common factor for all firms but affect export firms in particular. It is evident that variation is highly significant in the light manufacturing industry. Firms' positions in GPNs and the type of firm (origin, history and scale) matter and determine when to 'go out' under the common pressure of increasing production costs.

5.4.1.2. *Late Commercial Payment Costs*

Late commercial payment costs are another 'Push' factor for all light industry firms, and this particularly affects traditional family-owned SMEs who rely heavily on '*ren qing*' (personal relationships) and trust to do business. As discussed in Chapter Two, family, *guanxi* networks and patron–client ties together play a dominant role for private economy coordination (Zhang and Peck, 2016, p.56). '*Ren qing*' refers to 'the emotional distance between people, a tool to be used, exchanged or even traded, and a basis of judgement on matters and personal interest' (Pinderhughes, 1983 cited in Wang and Pak, 2015, p.107). In China, '*ren qing*' is highly valued. It can help provide opportunities for business and assistance in times of need, but it can also create problems because it often results in the poor enforcement of contractual obligations between firms tied by personal relations, especially in the private sector.

For instance, Haibo Manufacturing PLC is a garment firm (a typical Type 1 firm) established by Mr Zou in 2015. According to Mr Zou, the most important trigger for him to 'go out' was the problem of late commercial payments among private firms in China. For example, Mr Zou signed a contract with a client that had a six-month payment term. Eventually, it took one and a half years to receive the payment. If Mr Zou had sued his client, he might have been able to receive the payment earlier, but he would have lost trust in his industry as no other firm would be willing to do business with him thereafter. Delays in payment caused Haibo working capital issues, required to maintain normal factory operations. Mr Zou had to borrow money from his family and friends many times in order to make up shortfalls in working capital. Reputational risk in a context where trust matters and business is done through '*ren qing'* is an important matter. This kind of case frequently happened after 2013

(CCM3-1-a). Some of Haibo's clients went bankrupt and ran away, and their invoices remain unpaid and have not been recovered.

According to the author's informants,[75] this situation is common among family-owned SMEs that rely more on '*ren qing*' and trust (Type 1 firm). It reflects the weak enforcement of the law in the private sector (Zhang and Peck, 2016), and it also provides evidence that some firms' investment in Ethiopia is to redress their institutional disadvantage in China.

5.4.1.3. *The Environmental Cost*

Another common 'Push' factor is the cost of keeping up to date with environmental standards. The Chinese government (both central and local) set stringent regulations for manufacturing firms to deal with pollution and industrial waste. The 'Atmospheric Pollution Prevention Action Plan', introduced in 2013 by the Chinese government, sought to reduce harmful particulates and improve air quality to better benchmark levels by 2017 (MAZAS, 2018). New environmental regulations have had a tremendous impact on Chinese manufacturers. Many factories face surprise inspections that result in fines or closures pending compliance with environmental regulations. More than 14,000 factories closed in 2018, creating knock-on effects in supply chains that continued into 2018 (ibid). In the light manufacturing industry, the environmental cost particularly affects traditional textile firms, which have higher levels of pollution from dyeing and spinning processes.

As discussed in Chapter Two, China's resilient political system of centralised control and decentralised improvisation implies that the implementation of environmental regulation is also highly fragmented and uneven across different regions. Local governments from coastal regions launched more stringent policies to expel low-end, high-polluting firms (Ang, 2018). In recent years, all textile firms in the Yangtze River Delta (Zhejiang and Jiangsu provinces) have been forbidden from using boilers powered by coal. While Chinese manufacturing companies are entering a New Normal, they need to either upgrade their technology by using electric boilers or relocate their operations elsewhere (CCM5-2).

Until 2017, Dongfang Spinning, Dyeing and Printing PLC was the first and the largest Chinese textile firm (in terms of cumulative investment) in the EIP. Its parent company is from Jiangsu province (classified as Type 3 firm). Due to the increasingly stringent environmental regulation, Dongfang in China cannot grow any larger (CCM5-2). Its headquarters devotes to industrial upgrade. While their headquarters' focus is solely on high-end product manufacturing and research and development (R&D), Dongfang partially relocated its industrial capital (certain obsolete and polluting production

[75] See Appendix B, Interview Code (CCM3-1-a, CCM5-1-a, CCM6-1-c, CCM7-2, CCM12).

processes, according to China's environmental standards) to Ethiopia and gradually upgraded its equipment to meet the environmental standards in the host country. For instance, when Dongfang started operating in 2013 in Ethiopia, it used boilers powered by wood. In 2016, Dongfang spent nearly 200–300 million ETB to purchase boilers with water membrane dust removal technology from China and shipped them to Ethiopia. Now Dongfang is using new boilers in Ethiopia that pollute less. According to a senior manager at Dongfang, electric boilers will replace the current boilers in the coming years and, by then, the pollution in Ethiopia will be even lower (CCM5-1-a).

Meanwhile, Dongfang continues to upgrade its operations in China. At present, its business at headquarters is still profitable. Even though the total number of textile mills is decreasing in China, its market share remains the same. [76] Dongfang's motivation for investing in Ethiopia is thus a combination of industrial relocation and expansion (it expanded its production capacity and invested in three new factories in Ethiopia in recent years).

New strict environmental regulation has been handled differently by large-scale 'national champions' such as Jiangsu Sunshine. Although Sunshine also had to comply with increasingly stringent environmental standards set by the Chinese government, it has been able to easily meet these new environmental standards because of its strong financing capability and its continuous upgrading of its production processes (CCM-14-a). This also reflects the fact that the composition of the unit of production cost for each firm varies. Some firms (such as Huajian and Sunshine) face more stress from increasing labour costs while others (such as Dongfang) face greater pressure from increasing costs of environmental regulation compliance.

The Chinese government is eager to move its low-tech, labour-intensive industries to other developing economies, preferably those in African nations (Lin, 2012). It is evident to see that the new Chinese policy on environmental regulation is driving obsolete and polluting sectors and firms from China, and particularly those firms that have not invested in upgrading their production processes. It further demonstrates that some firms' 'Going Out' is to redress their comparative disadvantages in China. In the end, this is all about increasing production costs. The environmental cost indirectly adds costs to the total cost of production, which puts further pressure on manufacturing firms as a whole. New regulation and legal enforcement require firms to comply and upgrade their production processes, referred to as environmental costs, which implies that manufacturers total production costs increase. It further demonstrates that light manufacturing firms are moving out, mainly because of the increase in production costs.

[76] Qualitative interview conducted by Professor Tang Xiaoyang for the IDECA project (internal), 2018.

5.4.1.4. *Growing Demand and High Profits in Ethiopia's Domestic Market*

Firms' investment in Ethiopia is also pulled by the potential market opportunities that the host country offers. Ethiopia's domestic market has specific factors that have attracted early Chinese investors. As stated in the previous section, the majority of early investors in Ethiopia's light manufacturing industry (textile, garment and plastic slippers) are SMEs (see Type 1 firms).[77] Chinese private investors, similar to other non-Chinese foreign investors (such as Indian, Lebanese and Turkish investors), usually try to maximise their comparative advantages when selecting which industry to enter in Ethiopia. Consistent with Chapter Two, home country advantages (Rugman and Li, 2007; Rui and Yip, 2008) and network-based advantages (Buckley et al., 2007; Morck et al., 2008) are two comparative advantages that Chinese private investors have.

Before investing in Ethiopia, many of them have had long-term trade relations with Ethiopian clients. Thus, they already had some knowledge of Ethiopia and understand the investment climate, preference and seasonality in the local market.[78] These early investors were pulled by the lure of profit, economies of scale with low-end products, and potential expansion in Ethiopia's domestic market. Firstly, firms see Ethiopia as a country with robust economic growth and a large and growing population. This means there is potential for substantial market demand for low-end products such as textiles, garments and plastic slippers. Secondly, there is the possibility of relocating their production facilities from China to Ethiopia and being closer to their new consumers for a relatively lower cost. Some production facilities might be regarded as outdated and polluting in China but are still regarded as comparatively advanced machinery according to Ethiopian standards.

The third is due to low entry barriers for the sector. According to my surveys, all firms that invested in Ethiopia's domestic market were self-financed, and there was a lack of competition amongst indigenous producers.

Fourthly, Ethiopian traders make large profits from imports, and these profits have lured Chinese firms. By relocating industrial capital to Ethiopia, Chinese manufacturers have a price advantage to compete with Ethiopian traders for imported goods. Areas such as retail trade, import trade and wholesale trade in Ethiopia are limited to Ethiopian nationals and the Ethiopian diaspora,[79] which include the sourcing of goods such as garments, textiles and footwear. Consequently, some local merchants act

[77] Firms from Zhejiang account for a majority, thus they are a typical example of Type 1 businesses, but there are also firms who have adopted such a model from other regions.

[78] Based on survey findings and interviews (CCM3-1-a; CCM4-1-a; CCM6-1-a, see Appendix Interview Code for more details).

[79] See Council of Ministers Regulations (no. 270/2012) for full lists of activities reserved for domestic investors.

with monopoly powers, taking advantage of information asymmetry, sourcing goods with a reasonably low price from China (such as Yiwu and Guangzhou) and selling them at a highly inflated price in Ethiopia. Many of these goods are in high demand, and the possibility of producing locally as an import substitution activity that makes more profit than producing in China is highly attractive.

According to my interviews,[80] Chinese manufacturers' profit margins are much higher in Ethiopia than in China. Moreover, firms can respond quickly to changes in demand and secure more longer-term orders. With the potential to produce at scale within Ethiopia and avoid the costs of exporting from China, firms could make substantially larger profits. It is evident that early investors who mainly focused on Ethiopia's domestic market had different considerations on short and long-term profits (survey, 2018). All these firms followed a profit maximisation logic but with different core interests. Some firms aimed to earn high profits as soon as possible, while others tried to create sustainable profit in the long term by increasing market share and displacing competitors. Some firms were more concerned with industrial relocation as they no longer wished to have any production in China while others focused on expansion.

5.4.1.5. *A Combination of Preferential Investment Incentives and the Committed Host Country Government*

Access to the international market and preferential policies (The African Growth and Opportunity Act (AGOA)[81] and Everything But Arms (EBA)[82]) play a dominant role in attracting export-oriented light manufacturing firms to invest in Ethiopia. As discussed in Chapter Four, under conditions of strained Sino–US trade relations, by relocating production to countries such as Ethiopia, firms can bypass trade policy barriers quickly (Lin and Kimura, 2010). For instance, if textile firms export textile products from China to the US, they have to pay 30–40% tariffs on their goods. However, if firms manufacture in Ethiopia and then export to the US and European countries, firms enjoy zero tariffs and have no restrictions on export quotas (CCM12). There are 38 countries benefit from the AGOA in Sub-Saharan Africa (AGOA, 2019), and 34 African countries enjoy the EBA.

Firms that choose to invest in Ethiopia have also other considerations. According to my surveys and interviews, the reason why exporting firms invested in a landlocked, resource-scarce country (Ethiopia) was also due to its attractive preferential investment incentives offered by the GoE, such as tax holidays on corporate and income tax (Gebreeyesus, 2014). In addition, the GoE allowed the importing

[80] See Appendix B, Interview Code (CCM3-1-a; CCM5-1-a; CCM6-1-a).

[81] See https://agoa.info/about-agoa.html for more detail.

[82] See https://trade.ec.europa.eu/tradehelp/everything-arms for more detail.

of equipment, machinery and spare parts to be free from duties and taxes. They also provided financing support through a pre-shipment financing scheme (Whitfield, Stariz and Morris, 2020, p.13). This also requires a committed host country government to facilitate and manage FDI with an evolving vision as well as strategic industrial policy. A combination of these factors enabled exporting firms to maximise cross-border investment incentives provided by the GoE.

However, the dynamics of export-oriented light manufacturing firms are highly significant as these sectors are constantly changing and subject to shifting pressures. Motives and determinants for firms such as Huajian (Type 2 firm) and newcomers such as JPTE show divergent interests. This is because these two firms are different types of producers, and thus they have to deal with different buyers, participating in different GPNs. The level of embeddedness between buyers and these two firms differ.

5.4.1.5.1. Attracting the 'Leading Goose'

Ethiopia's industrial development vision aspires to make the country the leading manufacturing hub in Africa by 2025 (EIC, 2018). The first 'Growth and Transformation Plan' (GTP I (2010–2015)) was established in 2010, aiming to drive growth and transformation by developing a vibrant manufacturing and industrial base. The export-oriented manufacturing industry has been prioritised as a key strategic industry and benefited from policy reform. The GoE identified which sectors were a priority and what were the most promising sources for better quality FDI. They had also targeted firms as 'leading geese'. This came from their realisation that they need to attract technologically advanced firms from countries with higher costs that could benefit from Ethiopia's cost advantages (Brautigam et al., 2018, p.164).

As the first large-scale, export-oriented manufacturing firm from China, Huajian is playing the role of a 'leading geese', exploring new markets that give other potential investors assurances that investments of such a kind in Ethiopia are feasible (see Chapter Six for more details). As mentioned in the previous section, Huajian's investment in Ethiopia was mainly through official networks (see Typology), which differed significantly from other light manufacturing firms. Its investment in Ethiopia was facilitated by the then Prime Minister Meles Zenawi on the one hand and supported by the Chinese government (both central and local levels) on the other. The Deputy Chairman of Huajian (CCM1-1) claimed that the most critical determinant for Huajian to invest in Ethiopia was a series of preferential policies, especially the preferential export policy for export-oriented enterprises to the US and European markets (AGOA and EBA) (ibid). For instance, if Huajian wants to export shoes from China to the US, it incurs a tariff of 37.5% of the value of its goods, while it enjoys zero tariffs if exporting from Ethiopia.

Although Huajian claimed that the quota-free access to the international market is the most important reason that attracted it to invest in Ethiopia, its political recognition of being a successful 'leading geese' is also one of Huajian's top motivations (Brautigam et al., 2018). Therefore, one can conclude that Huajian is an exceptional case and its investment in Ethiopia follows the logic of profit optimisation (includes political influence) (see Chapter Six for more details).

5.4.1.5.2. Creating Clusters by Building a Vertical Supply Chain

The Ethiopian government's strategy during the GTP II (2016–2020) has been to develop industrial parks with high specialisation and attract investment into Ethiopia from the entire supply chain (EIC, 2018). Since the start of the GTP II, the GoE has shifted its strategy from one that is reactive to a proactive stance (Staritz and Whitfield, 2017, p.17). Instead of reacting to investors that were approaching them, the GoE began to approach firms to attract them to Ethiopia. This included approaching buyers of apparel exports and some transnational producers, accessory suppliers and textile mills. The GoE has also been looking to tailor the design of industrial parks to these companies' needs (ibid).

The GoE offers efficient investment solutions for manufacturing industries to locate to the country, enabling them to enjoy remarkable competitive advantages (EIC, 2017, p.12). The GoE understands that, due to their abundant labour force, cheap electricity costs and potential for forward and backward linkages, the Ethiopian textile and apparel industry can enjoy a considerable comparative advantage (ibid, p.14). Quota-free access to the US and European markets, bundles of preferential investment incentives, and the 'Made in Africa' brand have become 'selling points' for the GoE to strategically attract global brands to invest in Ethiopia and help Ethiopia integrate into GPNs.

Since GTP II, there is a new wave of Chinese export firms in the light manufacturing industry who have started investing in Ethiopia. The Ethiopian government's industrial policies aimed at the apparel industry have evolved as the government learned about the importance of GVC dynamics and, in particular, that global buyers are the key drivers who encourage their first-tier suppliers to invest in new countries (Whitfield, Stariz and Morris, 2020, p.11).

As opposed to Huajian, whose clients are mainly traders or buyers for brands based in the US and Europe, these newcomers have long-term and established relations with global brands as their strategic suppliers. These firms' investment in Ethiopia is driven by both buyers and the government of Ethiopia to form a vertical integration of the supply chain. Global buyers are changing their strategic engagement with suppliers operating from new countries. A growing trend can be seen in the reduction of risk related to global buyers' (predominantly US buyers) reliance on suppliers operating out of Asian countries. These buyers are shifting some of their sourcing to suppliers from Sub-Saharan Africa and in particular Kenya and Ethiopia (Whitfield, Stariz and Morris, 2020). This has been exemplified by the case of the Hawassa Industry Park (HIP), a flagship industry park in Ethiopia, showing tripartite cooperation between the PVH Group,[83] the GoE and strategic suppliers of PVH.

PVH, as both an investor and buyer, plays a key role in Ethiopia's textile and apparel industry, particularly in the HIP (EIC, 2017, p.14). Attracted by a combination of preferential investment incentives and the committed host country government, PVH decided to invest in Ethiopia and brought its strategic suppliers from different countries with it. JPTE is a fabric mill in the HIP, which was established and registered in July 2016 and started operations at the end of 2017. JPTE's investment came from its parent company, Wuxi Jinmao Company Ltd (from now on Wuxi Jinmao), which is one of the long-term suppliers for the PVH Group.[84]

According to the senior manager of JPTE (CCM13-1-a), Wuxi Jinmao's decision to invest in Ethiopia was encouraged and led by its buyer PVH on the one hand and supported by the Ethiopian government on the other hand. PVH promised that its orders to Wuxi Jinmao would not be reduced while it was investing in Ethiopia (CCM13-1-b). According to the Chairman of Wuxi Jinmao, the establishment of JPTE is the result of win-win cooperation among three parties, the Ethiopian government, PVH from the US and Wuxi Jinmao from China, to create a vertical supply chain in a textile industry park:[85]

> The project is led by PVH Corp, with the Ethiopian government offering land, and building shed for Hawassa Industry Park in Hawassa, SNNP, and invested by Wuxi Jinmao, forming an industrial supply-demand relationship. PVH will ensure orders. In this way, it will help to reduce cost mutually to seek for long-term development and win-win strategy for the three parties.[86]

Firms such as Wuxi Jinmao's investment in Ethiopia is primally for profit maximisation with a focus on industrial upgrades and market expansion. With the increasing internationalisation, those first-tier manufacturers themselves start to diversify their industries and seek new markets. In fact, Wuxi Jinmao's main business is garments, which accounts for 56% of the overall business. Textile and pet products (such as pet beds, crate mats, toys, apparel and accessories) account for 22%, respectively (see Figure 12). JPTE belongs to the 'Department of Textiles' organisationally in Wuxi Jinmao (ibid). In the past, PVH was its biggest customer, and PVH's orders accounted for 50% of Wuxi Jinmao's total

[83] The anchor for the Hawassa park is the US company PVH, which owns major global fashion brands such as Tommy Hilfiger and Calvin Klein (EIC, 2017, p.14).

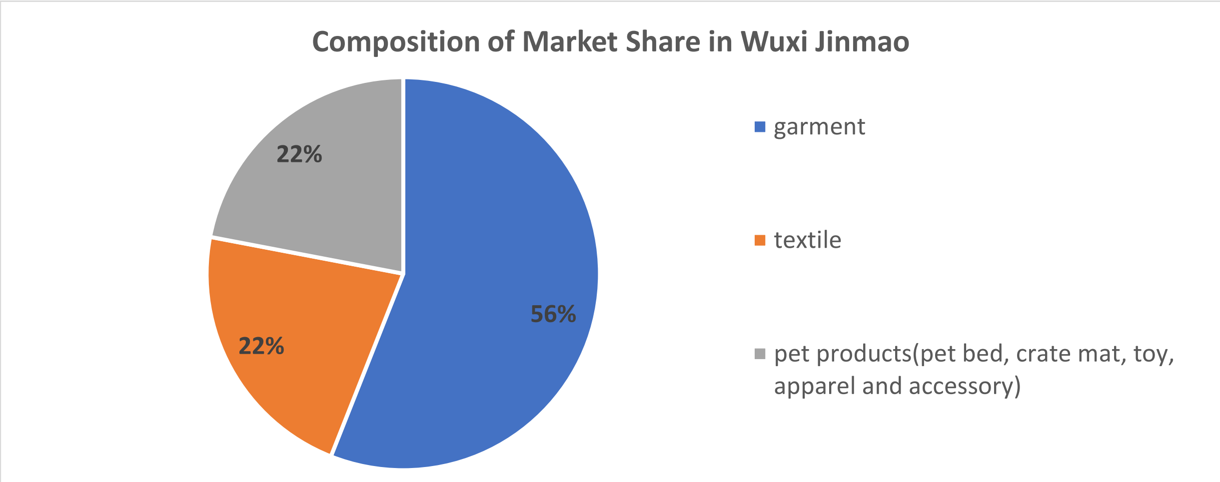
[84] Internal doc from JPTE, Feb 2018.

[85] Speech of the Chairman of Wuxi Jinmao in the Completion Ceremony for JPTE on Jan 18th, 2018.

[86] Ibid.

exports. As Wuxi Jinmao expanded, its industry and customers grew increasingly diversified. Although PVH is still the largest client for Wuxi Jinmao, its percentage for Wuxi Jinmao's total export volume has reduced as Wuxi Jinmao has expanded into the European market (CCM13-1-a).

Figure 12: Composition of market share in Wuxi Jinmao



Source: Author, calculated and compiled the data (see Appendix B, CCM13-b for more details)

The above implies that the industrial relocation of Chinese light manufacturing firms to Ethiopia has been driven by both buyers and the host country government. Even for firms focused on exporting, firms' motives and determinants of investing in Ethiopia differ significantly, depending on firms' positions in GPNs, the type of firm and sector specificities and the host country's political economy conditions.

5.4.2. 'Push' and 'Pull' Factors of Investing in Ethiopia's Construction Materials Industry

The construction materials industry is generally more capital-intensive than the light manufacturing industry. It is an import substitution industry (ISI) that has been prioritised in Ethiopia's economic agenda since 2005 (Gebreeyesus, 2014; 2017; Oqubay, 2015). According to Xia (2019, p.3), construction material firms' relocation to African countries has been pulled by the increasing demand for raw material supplies due to the infrastructure boom in the continent and pushed by the regulatory pressure in China to expel overcapacity and polluting industries. However, the Push and Pull framework is only partially applicable to the analysis of motives and determinants of Chinese private investment in Ethiopia's construction materials industry. This is because the accumulation logic is not simply industrial relocation, expansion or a mix of both like it is in the light manufacturing industry. The type of firm and sub-sector matter significantly and have profound implications when we look at Chinese private investment in the construction materials industry.

There are, in general, two types of private firms that are present in Ethiopia's construction materials industry. The first type is investors who have related business operations in China (their investment in Ethiopia relates directly to their business experience in China), and the second are those that do not. 'Push' factors do not apply to the second type of firm as they have no related business in China.

In addition to the type of firm, sub-sector contextualisation is highly important because it affects decisions on what to invest in and how. The capital and energy intensity, economies of scale and scope (amount of resources allocated) and a long cycle of investment (technological features) are main characteristics for sub-sectors such as clinker production and large steel mills. Other sub-sectors such as steel pipe, cement (grinding station), aluminium products and gypsum plants are less capital-intensive and have a lower barrier to entry. Based on these features, the most common and specific factors that attracted private firms to invest in Ethiopia's construction materials industry will be explored with a focus on a particular sub-sector. Variations of these will also be assessed (see Table 14).

Table 14: Push and pull factors of investing in construction materials industry

Sector	**Type of Factors**	**Factors**	**Comment**
Construction materials Industry	Push Factors	The increasingly difficult operational climate in China	Specific for firms who have related business in China
	Pull Factors	Growing demand and generous profit margins in Ethiopia's domestic market	Common for all firms
		Low production cost (energy cost in particular)	Common for all firms but affects particularly more capital-, energy-intensive sub-sectors
		The committed host country government and political stability	Common for all firms
		Macroeconomic conditions in Ethiopia	Common for all firms

Source: Author's elaboration based on interviews and survey data

This section argues that the growing demand and generous profit margins in the host country market, low production costs, a committed host country government, political stability and, finally, macroeconomic conditions in Ethiopia are four main factors that have driven Chinese private firms to invest in Ethiopia's construction materials industry.

5.4.2.1. *Increasingly Difficult Operational Climate in China*

The increasingly difficult operation climate in China is a specific Push factor that drove private SMEs who have a related business to 'go out'. As discussed in Chapter Four, the construction materials industry was identified under the national strategy of '*guojin mintui*' (the state advances and private companies retreat) as needing restructuring (Kroeber, 2016). China has accelerated the pace of implementing measures after 2008 to restructure certain industries, particularly after entering its 'New Normal' (beginning in 2013). Many SMEs in the construction materials industry are facing difficulty in operating in the domestic market (Luthje et al., 2013). The movement of 'overcapacity' industries to developing economies is in line with China's current structural change agenda.

Zhenzhen Steel and East Steel are both steel plants located in the EIP. Prior to investing in Ethiopia, both had related businesses in China. Zhenzhen is a small-scale steel mill that was invested in by a Zhejiang entrepreneur (classified as Type 1 firm). It was established in 2017, and it mainly recycles steel scrap from the host country market to manufacture steel products (CCM15). East Steel is a large-scale Chinese joint venture between two private investors from Jiangsu province (classified as a Type 3 firm). The 'Going Out' embraced by both firms was pushed by decreasing profitability due to overcapacity in China. Firstly, profit margins for steel products have decreased greatly in China as raw material commodity prices have increased dramatically since 2012 (after China entered the 'New Normal'). This drop was accompanied by demand deficiency due to surplus capacity. Secondly, responding to the challenge of overcapacity, the Chinese government stressed the policy of 'the state advances, the private sector retreats'. Consequently, SMEs in the steel sector have to either shut down or relocate their industrial capital.

5.4.2.2. *Growing Demand and Generous Profit Margins in Ethiopia's Domestic Market*

Unlike the light manufacturing industry that targets both the domestic market and export market, the construction materials industry solely focuses on Ethiopia's local market. The massive development in infrastructure sectors in Ethiopia indirectly creates demand up and down the supply chain. The growing demand in the host country market and lucrative profits are the most common factors that drive Chinese private firms to invest in Ethiopia's construction materials industry. For example, generous profit margins were the key factor that attracted Zhenzhen and East Steel to invest in Ethiopia. Specifically, the price of steel bars in Ethiopia was 5,000 CNY/tonne in 2014, while in China it was around 2,000–2,200 CNY/tonne. Even considering the fact that Ethiopia's transportation and logistics costs are much higher than China's, there was still around 1,000 CNY/tonne net profit (CCM15). In 2017, net profit from steel bars in Ethiopia could reach 3,000 CNY/tonne (CCM2-1-b).

Both Zhenzhen's and East Steel's investment in Ethiopia is for industrial relocation. They are both pushed by an increasingly difficult operational climate (falling profitability and change in government policy) in China and pulled by the growing demand and lucrative profits in Ethiopia. Their investment in Ethiopia is to pursue profit maximisation with a focus on industrial relocation.

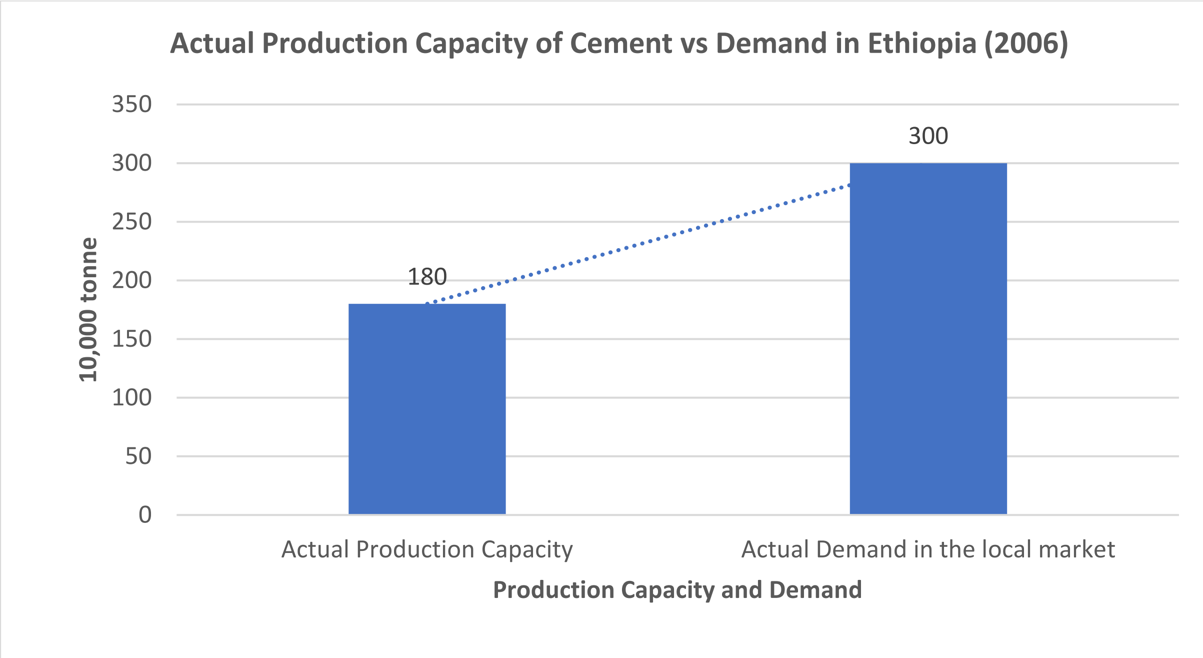
Contrary to light manufacturing firms which obtained investment opportunities through a combination of *guanxi* networks (official, business and social networks), private investors in the construction materials industry came to know about investment opportunities mainly through social networks. Many investors had no experience of the prospective industries they were looking to invest in, in Ethiopia. Taking the cement industry, for example, it is found that most early investors in Ethiopia had no relevant experience in China. Motivations for investing in the cement sector are particularly diverse: some were speculative and focused on high short-term profits, while others were focused on gradually building businesses from a small project and capitalising on opportunities in the long run.

Most construction materials firms are owner-operated,[87] thus the entrepreneur's background (such as origin, education, work experience and their *guanxi* networks) has a significant impact on investor's investment decisions. For instance, Mr Qian Xiao,[88] a Zhejiang entrepreneur, was the first Chinese private investor in Ethiopia's cement industry. He established Red Fox PLC in 2006 and started cement production in March 2007. In 2006, when Mr Qian visited his friend in Ethiopia, he noticed a potential investment opportunity: there were only three cement plants in Ethiopia, and the demand for cement was far greater than the supply (CCM17-1-a) (see Figure 13). Moreover, the price of cement in Ethiopia was much higher than in China (it was sold at 2,000–2,300 CNY/tonne, ten times the price in China (200 CNY/tonne) in 2006) (ibid). Mr Qian decided to invest in Ethiopia after completing comprehensive due diligence.

[87] This finding is based on a combination of interviews, surveys and author's observations.

[88] Interviewee signed the consent form and agreed that the author could use the information he provided (see Appendix G for the Sample of Consent Form).

Figure 13: Actual production capacity of cement vs demand in Ethiopia (2006)



Source: Author, calculated and compiled based on CCM17-1-a, 2017

Another case is Mr Lu Qiyuan, an entrepreneur from Jiangsu province. Mr Lu was also an early investor in Ethiopia's cement industry. In fact, Zhongshun Cement is Mr Lu's first[89] investment project in Ethiopia. Mr Lu had no experience in the cement industry and his initial visit to Ethiopia was to investigate the steel pipe industry. Similar to Mr Qian, the growing demand and generous profit were key factors that attracted Mr Lu to invest in the cement sector. Mr Lu believed that Ethiopia's development model has a certain similarity to China's (especially 'Su'nan model') in the past three decades. This sense of familiarity made him feel more confident to invest in Ethiopia (CCM2-1-b).

Both Mr Qian's and Mr Lu's investments preceded the 'Belt Road Initiative'. When they invested in the cement industry, there was no special incentive except a two-year tax exemption. They both heard about investment opportunities through their social networks. The triumphant story of Mr Lu's and Mr Qian's investment in Ethiopia's cement industry had been widespread through 'word of mouth' and caught the attention of many other private investors. In 2009, five more Chinese-owned cement plants (mainly mini plants) started operation. Unavoidably, there were some speculators with short-sightedness. They lacked understanding of the cement industry and did not have a long-term development strategy.

[89] 'First' here refers to the first investment project that started operating.

Fierce competition caused price hikes and market distortions, and in 2013, the Ethiopian government eventually closed the gate to foreign investors in the cement industry (MOFED, 2015; Gebreeyesus, 2015; Oqubay, 2015). However, for entrepreneurs such as Mr Qian and Mr Lu, motives for investing in Ethiopia were not solely for seeking quick profits in the short term. Another motivation was to consolidate their existing networks and look for more opportunities to invest in Ethiopia and beyond. With the initial capital that both entrepreneurs accumulated and the proximity of the host country market, they started leveraging opportunities and diversifying their investments.

Mr Qian sold his cement plant and invested in its downstream industry. He established Tsehay Real Estate in 2011, the first Chinese private company to start real estate projects in Ethiopia. This project was joint with a Chinese mixed-ownership firm (for Phase I and II) (CCM17-1-a). While Mr Lu continued investing in the cement industry, he was also diversifying his business interests in the industrial park project and other construction materials industries.[90]

These examples showcase how profit maximisation is the common accumulation logic for all construction material firms despite the fact that they follow different core interests. While some firms seek high, quick profits in the short term, entrepreneurs such as Mr Lu and Mr Qian focus on long-term expansion and new opportunities in the host country. However, Mr Lu's and Mr Qian's investment trajectories differ significantly, which further demonstrates that entrepreneur's background and the type of firm are important factors that have had an impact on investors' investment decision and strategy.[91]

5.4.2.3. *Low Production Costs*

Pursuing lower production costs is another common factor that drives Chinese investment in Ethiopia's construction materials industry. This factor affects more capital-intensive and energy-intensive sectors such as cement, steel and ceramics than it does small mills or plants. As discussed above, with the increasing concern for environmental protection, rising labour costs and production costs (especially energy costs) in China, private firms, especially SMEs, in the construction materials industry struggle to make a profit. However, Ethiopia has the advantage of an affordable and abundant labour force, cheap energy (electricity in particular) and high quality natural resources (such as limestone, clay and sand) which complements the cost disadvantages from China.

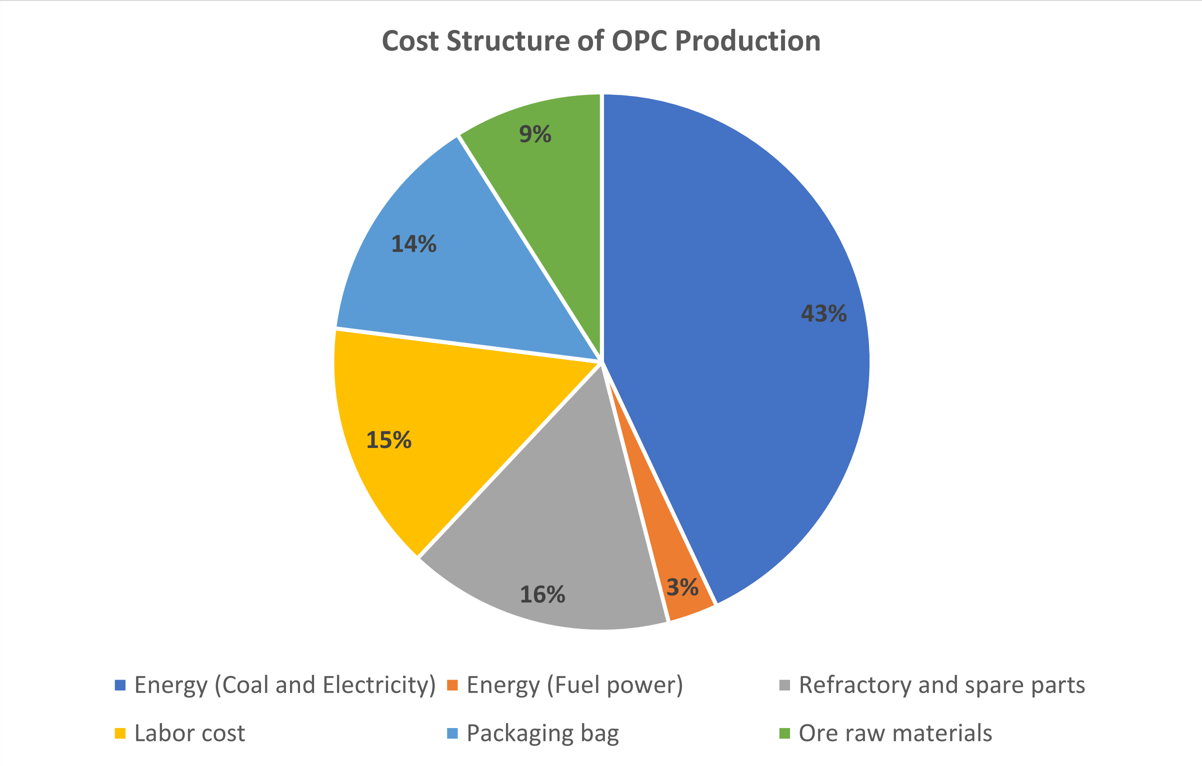
Although the average wage in construction materials sectors is higher than light manufacturing sectors, labour costs account for a smaller proportion of overall production cost (Oqubay, 2015). Instead of

[90] See Section 5.3.3 for more detail.

[91] This aspect has been further explored in Chapter Six.

low labour costs, the overall cost efficiency is of greater importance. Energy is the main constituent of production costs for certain construction materials sub-sectors such as cement. In the cement industry, the labour component is not significant compared to energy and raw materials costs. The cost of electricity and burning materials are the main components of energy costs (Oqubay, 2015, p.142). Energy costs are the most important component in Ordinary Portland Cement's (OPC) total production costs, accounting for nearly 46% (coal 43% and fuel power 3%, respectively), while labour costs only accounts for a small proportion (15%) (FCM1-3) (see Figure 14). To produce one tonne of OPC, approximately 110 KWh of electricity and 110kg of coal are required (FCM1-1).

Figure 14: Cost structure of OPC production



Source: Author, compiled based on data provided by Sinoma (FCM1-3)

Ethiopia has cheap electricity and its tariffs are even cheaper than those in many African countries (Oqubay, 2015; MOFD, 2015). The industrial electricity price in China ranges from 0.78 CNY (US$0.11)/KWH to 0.81 CNY (US$0.12)/KWH,[92] while in Ethiopia it is 9–10 times cheaper (from 0.3664ETB (US$0.019)/KWH to 0.7426 ETB (US$0.039)/KWH (MOFCOM (Eth) 2017, p.35).[93]

[92] Author calculated based on CEIC data, available at: https://www.ceicdata.com/en/china/electricity-price [accessed on January 10, 2019]

[93] Prices may differ according to regions and types of the factories.

This is critical for more energy-intensive industries such as medium to large-scale cement (clinker production), steel and ceramic producers.

5.4.2.4. *A Committed Host Country Government and Political Stability*

However, cheap and abundant energy alone is not sufficient for successful construction materials production. Industries such as cement and steel require a consistent power supply. The economics of scale, capital and the energy-intensive nature of the construction materials industry all imply that entry and exit are much more difficult than the light manufacturing industry. The GoE plays an essential role in the success of investment projects (Oqubay, 2015). A forward-thinking, facilitating government is of great importance to ensure the efficiency of industrial organisation, consistency of government policies and political stability. According to my survey findings, all construction materials firms claim that political stability is one of the important determinants for them to invest in Ethiopia.

Another main driver for investing in Ethiopia has been the Ethiopian government's commitment to supporting investors. This is a common determinant for all construction materials firms, especially those sectors that have more complex vertical integration and are more sensitive to the domestic political economic conditions. Clearly, supportive government policy and incentives triggered investment in the construction materials industries. Sub-sector dynamics matter as different sub-sectors have divergent features, which requires different levels of state intervention. For instance, due to the more complicated upstream and downstream ties and corresponding services (e.g., financing, logistics and transportation), the cement industry (clinker production) requires the host country government to play a greater role in industry organisation than sub-sectors such as gypsum boards and wooden products.

5.4.2.5. *Macroeconomic Conditions in Ethiopia*

Ethiopia's macroeconomic conditions also matter, and it is one of the important concerns for Chinese construction materials firm's investment decisions. Ethiopia has capital controls and is a foreign exchange constrained country (Senbeta, 2013). In recent years, the shortage of forex has become more severe, acting as a warning signal to foreign investors to carefully consider in what to invest (particularly capital-intensive import substitution industries that rely heavily on raw material importation) (UNIDO, 2018).

The availability of raw material inputs is a critical factor that determines in which sectors Chinese investors will engage, which is particularly important in the construction materials sectors. There is a positive correlation with access to forex and raw material importation. According to my surveys, results show that apart from a small number of sectors such as ceramic products, gypsum boards and wooden products, which can source the majority of raw materials locally at a low price, most construction materials sectors rely heavily on imports (see Table 15).

Table 15: Examples of raw materials that rely heavily on importation in the construction materials industry

<table>
<tr><th>Sector</th><th>Imported items relevant to a particular sector</th><th>Imported items relevant across sectors</th></tr>
<tr><td>Steel products</td><td>• rebar
• steel billet
• steel structure
• cold rolled steel roll</td><td rowspan="4">• chemical products
• accessories
• high quality coal</td></tr>
<tr><td>Cement</td><td>no other raw materials to import</td></tr>
<tr><td>Ceramic products</td><td>Glaze</td></tr>
<tr><td>Wood products</td><td>no other raw materials to import</td></tr>
</table>

Source: Author, calculated and compiled based on a survey conducted in April 2018

Diyuan Ceramic (DYC) is a medium-scale ceramic production plant set up by Wenzhou entrepreneurs from Zhejiang province in 2016 that started production in December 2017 (CCM11-1). According to DYC (CCM11-2), in addition to the market demand and cheap production costs in Ethiopia, the availability of raw materials is another important determinant that drove them to invest in the ceramic industry during a time when Ethiopia suffered from a shortage of forex.

The host country's priority is also an important factor that drives Chinese investors there to invest. Taking the cement industry as an example, although raw materials such as limestone, sandstone, clay, gypsum and pumice are plentifully available in Ethiopia, cement production depends heavily on importing coal and heavy fossil fuel (HFO) for production. Nevertheless, since the cement industry is a strategic sector for Ethiopia's industrialisation, importing coal and HFO has been prioritised by the government (Oqubay, 2015). 'To improve energy efficiency and support cement producers, the government imported bulk coal' (Oqubay, 2018, p.17). Thus, cement firms have little difficulty in importing materials.

However, this is not the case for steel production (such as reinforced steel bars) as the majority of materials need to be imported. To ensure the high quality of steel bars, East Steel needs to import 100% steel billet from Ukraine (CCM8-1-a). Unlike export-oriented light manufacturing firms, which have the privilege of accessing forex, it is more difficult for construction materials industries (apart from the cement industry) to access forex. Given the fact that importing production inputs such as steel billet is very capital-intensive, the forex amount that can be approved from the Ethiopian national bank directly determines the firm's production volume and profitability. Although East Steel had good business between 2014–2016, it stopped production for nearly a half-year in 2017 due to the shortage of USD to import raw materials for production. This explains why there were very few new investments in this sector in recent years despite its high profitability. It is a sector where macroeconomic conditions and the consequent effect on the availability of forex is critical, more than in other sectors.

5.4.3. Summary

The previous sections elaborated comparisons across firms and showcased the significant diversity that exists even in the same industry. It is found that Chinese private capital is not different from global private capital in terms of core motives to enter new markets. Evidence shows that profit-making and market-seeking are common interests for Chinese private firms to invest in Ethiopia. However, there is substantial variation between firms both across sectors and within the same sector in terms of how these firms seek profits and markets and what other considerations shape their investments, especially in conditions of uncertainty. Most Chinese private firms follow a profit maximisation logic – except for Huajian, which follows the profit optimisation logic.

Pursuing lower production costs is the most common determinant for both industries to invest in Ethiopia. In the light manufacturing industry, increasing production costs (labour costs in particular), costs of doing business and compliance costs for environmental regulations are the main Push factors that drove firms to 'go out'. On the other hand, the low production costs (inexpensive, abundant and trainable labour), growing demand and generous profit in Ethiopia's domestic market, bundles of preferential investment incentives and the committed host country government are attractive Pull factors for Chinese investors to invest in Ethiopia (see Table 16).

Table 16: The 'push' and 'pull' paradigm for manufacturing industries

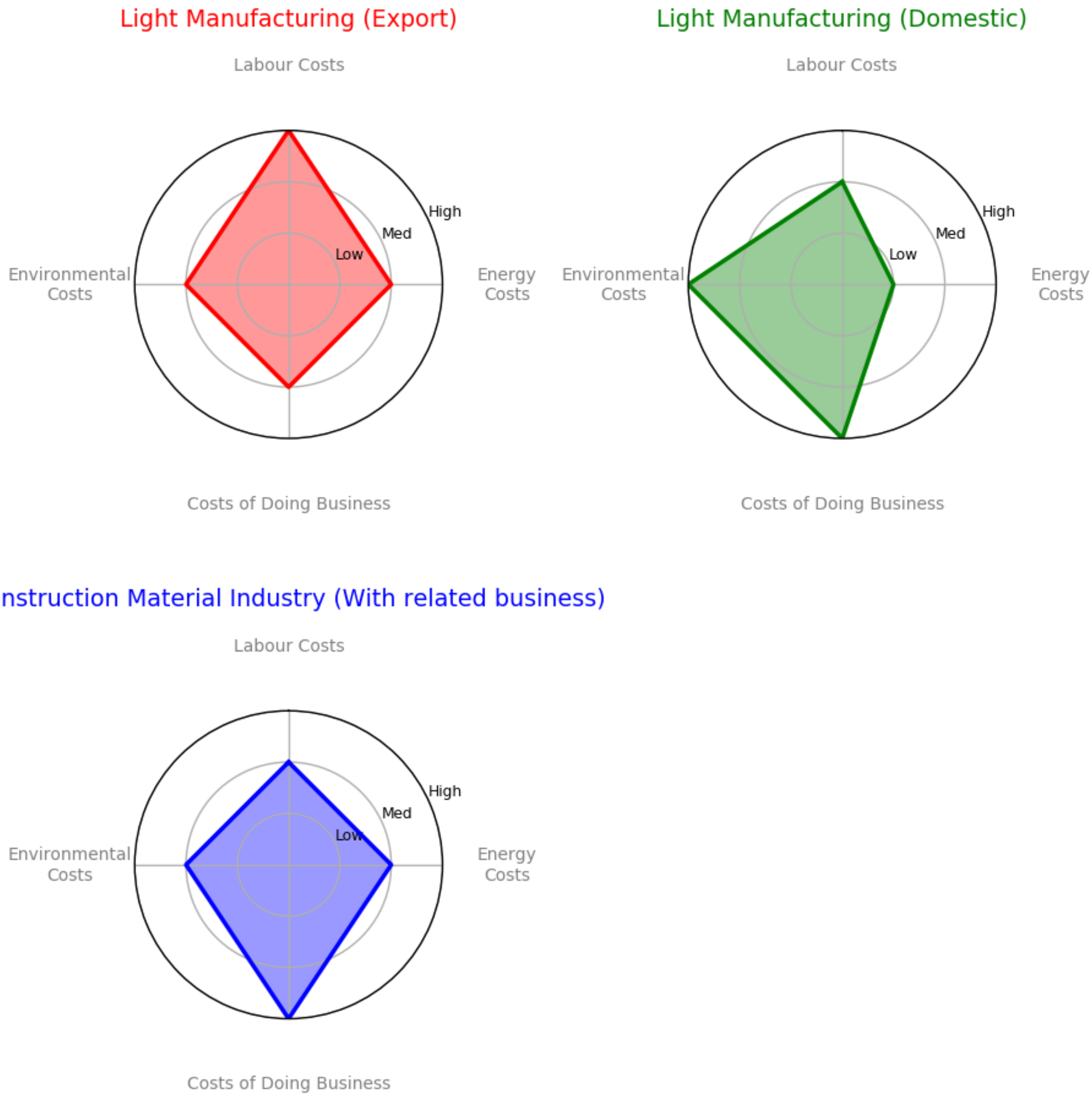
Industry	Type of firm	Factors									
		Push Factors			Pull Factors						
		The Increasing production cost			Low production cost		Market factor	Political economic factors			
		Labour costs	Energy costs	Cost of doing business (legal cost; compliance cost)	Labour costs	Energy costs	Increasing demand in the domestic market	Bundles of preferential investment Incentives (for export)	A committed host country government	Political stability	Ethiopia – macroeconomic conditions
Light manufacturing Industry	Firm focuses on export market										
	Firm focuses on domestic market										
Construction materials industry	Firms have related business										
	Firms have no related business										

Source: Author's illustration

However, variations exist within the same sector (market) and across different sectors. The type of firm and market structure matter significantly, especially the contrast between prime movers like Haibo and Dongfang that are operating in Ethiopia's domestic value chain and export firms such as Huajian, and more recent arrivals such as JPTE and Jiangsu Sunshine that may be operating in other GPNs.

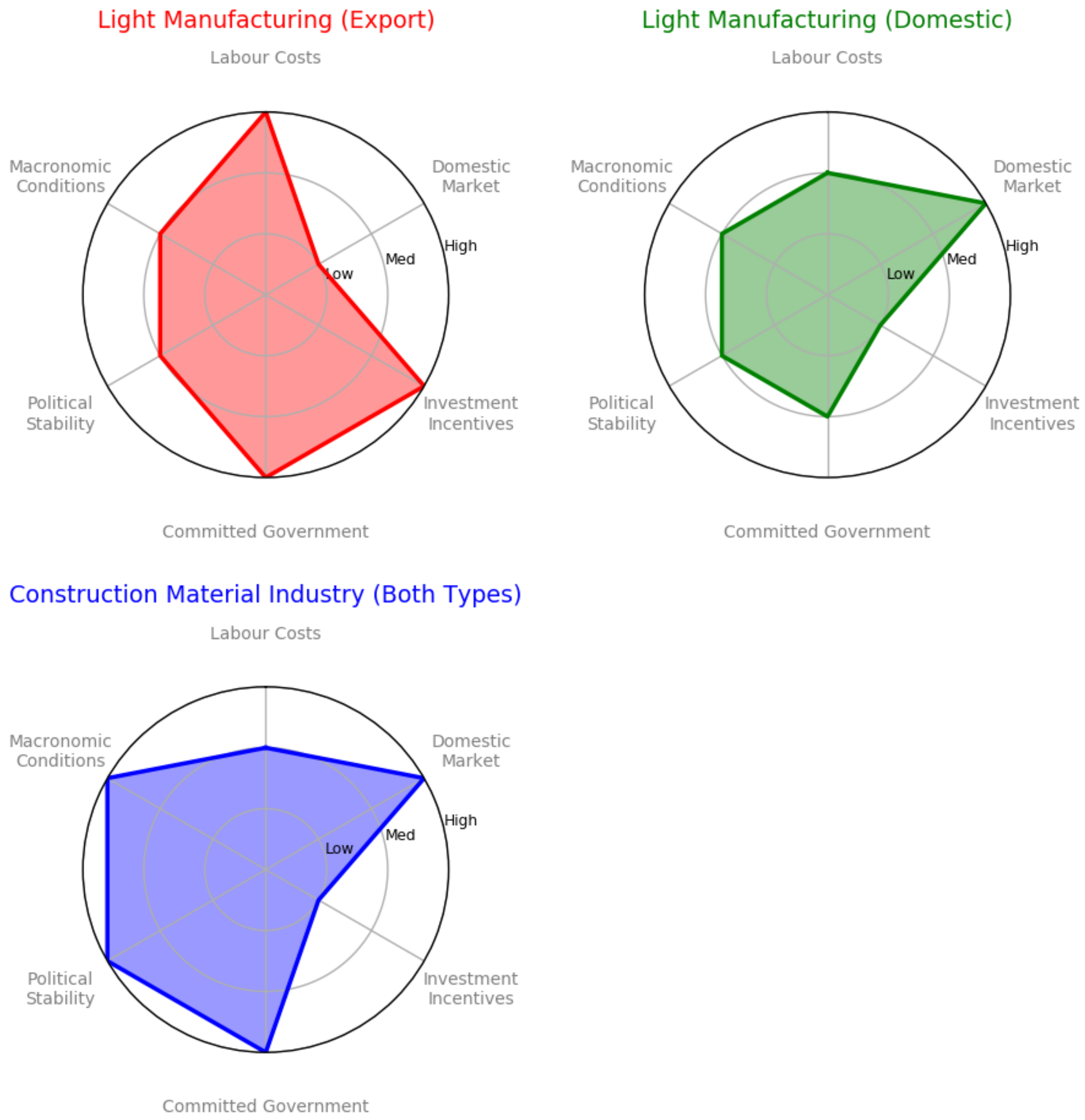
Mentioned in Figure 15 and Figure 16, labour cost is the most critical Push factor for large-scale export firms. Even for firms focus on the same market, their 'Going Out' is based on different considerations. Sector specificities (in particular product and market) and the type of firm (origin, history and scale), and firms' specific roles in GPNs are important variables that help to explain such differences.

Figure 15: Degree of common and specific push factors for Chinese manufacturing firms to invest in Ethiopia



Source: Author's elaboration

Figure 16: Degree of common and specific pull factors for Chinese manufacturing firms to invest in Ethiopia



Source: Author's elaboration

The quota-free access to international markets is one critical determinant that drives export firms to invest in Ethiopia. This is accompanied by bundles of preferential investment incentives provided by the GoE. However, a country that Chinese private firms chose to invest in also depends on the performance of the host country government. To attract large-scale 'leading geese' at an early stage of industrialisation is not easy. It requires a dedicated government to create a healthy investment climate and to ensure that both soft and hard infrastructure are in place. Thus, lower production costs, bundles of preferential investment incentives and a committed host country government are the three essential determinants that together pulled export firms to invest in Ethiopia. However, it is difficult to tell which one is most important.

Huajian is a unique case that follows the accumulation logic of profit optimisation with a focus on the political influence of Sino–Ethiopian industrial cooperation and strategic complementarity. In contrast, new export firms' investments (such as JPTE) in Ethiopia solely follow the logic of profit maximisation with a focus on the market expansion. Its investment in Ethiopia is led by both the Ethiopian government and their long-term buyer. Consistent with Whitfield, Staritz and Morris's argument (see Chapter Two), findings in this chapter showcase that firms' interests to invest in a particular country and sector not only depend on the type of buyers that Chinese manufacturers deal with and their level of embeddedness, but also the political economic conditions of Ethiopia.

The cost of doing business and environmental costs are the most significant Push factors for traditional SMEs' 'Going Out'. The increasing demand and high profit in the domestic market and political stability are the two most critical determinants for (early investors) traditional family-owned SMEs to relocate and expand in Ethiopia. In the end, 'Going Out' is a tendency for the entire light manufacturing industry rather than any individual firms. Researchers at the China–Africa Research Initiative at the Johns Hopkins School of Advanced Internal Studies argue that manufacturing will inevitably shift to Africa as costs in China rise, drawing on Akamatsu's 'flying geese' concept to do so (*Financial Times*, 2019b).

In terms of the construction materials industry, it is found that the growing demand and high profit in Ethiopia's domestic market are the key factors that drive all Chinese private firms to invest in Ethiopia. Whether firms have related business operations in China is a criterion to distinguish different types of firms in the construction materials industry. The Push factor only applies to firms who had related business in China. These types of firms' 'Going Out' was pushed by increased regulatory pressures. Consequently, small-medium private firms have to either relocate somewhere else or shut down.

The five important Pull factors that attracted firms to invest in Ethiopia are common to all construction materials firms. These are the lure of high profits and market demand, low production cost (energy cost in particular), committed government and political stability, and host country's macroeconomic conditions. Entrepreneur's background and the type of firm are also critical factors that led to different investment decisions and strategies. Among construction materials firms, entrepreneurial spirit is an essential determinant for Chinese private FDI in Ethiopia, particularly for new greenfield investment where investors have no relevant experience.

The construction materials industry is more subject to the host country's political economic conditions. Sub-sector context matters as the political economy of each sub-sector vary significantly. It implies that power relations, institutional context and networks of each sub-sector differ and offer different opportunities and present various obstacles that firms must navigate. For instance, cement clinker production requires higher levels of state intervention than other sub-sectors such as gypsum board or flat glass.

One thing is found in common for both Chinese private firms invested in light industry and the construction materials industry: firms' investments in Ethiopia still heavily rely on entrepreneur's *guanxi* networks and home country advantages (similar regional development path and experience in the manufacturing industry). It is found that the entrepreneur's origin (hometown's economic development), family background, education and work experience are important factors that have influenced initial investment decisions.

5.5. Conclusion

In conclusion, this chapter has shown evidence of heterogeneity among Chinese private firms in Ethiopia. Moreover, the particularities of China's capitalism are critical to understanding the motives and determinants of Chinese private investment in Ethiopia. For example, the notion of 'fractions' (Knoerich et al., 2021) or 'varieties' of capital (Zhang and Peck, 2016) is critical to look at the heterogeneity of Chinese capital and unpack it. Instead of homogenising all private firms into one category, this chapter first identified different types of Chinese private firms in Ethiopia according to their history, scale and origin of investment.

This research has also illustrated the divergent motives and determinants of these firms' investments in Ethiopia's manufacturing sectors and their focus on domestic and export markets. Findings in this chapter revealed that firms' 'going out' strategies were pushed by the increasing costs in China (i.e. wage and other production costs, environmental costs and late commercial payment costs). Those costs partially apply to China's structural change and the government policies at regional and local levels (i.e. environmental regulations) and weak legal enforcement ('absence of the rule of law' according to Milanovic (2019)), as discussed in Chapter 2.

Researchers have argued that, far from constituting a homogenous and static group, Chinese private investments in Ethiopia are highly diverse, fluid and complex. Motives and determinants of these firms differ significantly, not only across sectors but even within the same sector (or same market). Apart from sector specificities (product and market), this chapter has demonstrated that the type of firm (in terms of scale, history and origin of investment) and the entrepreneur's background (family and educational background, business experience and *guanxi* networks) are also important variables to explain such variation. Context is also key, as both China's and Ethiopia's political economy conditions (at both national and sub-national levels) have, to a certain extent, contributed to respectively 'push' and 'pull' Chinese private firms to invest in Ethiopia.

Increasingly, Ethiopia has been seen as an emerging destination for light industry (i.e. textile, apparel and footwear) and has attracted transnational suppliers (from middle-income economies such as China and India) and global brands (mainly from the global north), many of which have relocated their industrial capital there. Chinese firms have found that Ethiopia has reasonable productivity levels and, crucially, the potential for higher output. Their entry into Ethiopia was driven mainly by its proactive industrial policies and its committed political leadership (Oqubay, 2019a), which highlights the country's comparative advantage (i.e. low water, electricity and wage costs, a large and young labour force and favourable access to the US and EU markets) as a major selling point. Ethiopia also has infused OFDI strategically into its national development and structural transformation agenda.

Ethiopia's case has profound implications for other African countries. It demonstrates that a landlocked country with limited natural resources can achieve rapid industrialisation and economic growth through a proactive industrial policy. Further, Ethiopia's case has, to a certain extent, refuted the assertion that African countries are passive or impotent of OFDI.

As noted in Chapter 3, few comparative analyses (exceptions include X. Tang, 2019a, 2019b; Fei, 2017, 2020) have been conducted to target different types of Chinese private investment in Ethiopia due to a lack of access to informants (which requires a high level of *guanxi* and trust). Analytically, scholars rarely have undertaken the variegated capitalism approach to explore Chinese firms' internationalisation activities (except Fei (2020) 's work, which applies the VC approach to understand China's investment dynamics in Ethiopia from the labour perspective). However, this approach yields a variety and depth of insights crucial to other scholars' future and ongoing work and fills gaps in the literature.

Moreover, most existing studies have relied on secondary data, even though it is widely known that official data regarding private investment in countries such as Ethiopia is often outdated and biased (see Chapter Three for more detail). Although a few related studies review investments undertaken by Chinese PEs based on primary data (mainly interviews and surveys), the validity of the findings is questionable, especially when there are differences between official data and observable facts. Ethnographic studies are essential to cross-check the data and interpret differences, contradictions and relationships.

This study filled in some gaps by drawing insights from political economy and economic geography perspectives (the variegate capitalism approach in particular), using mixed methods (especially ethnographic studies) to explore the divergent motives and determinants of Chinese private investments in the light and construction materials industries. It revealed that most private firms in Ethiopia are from specific coastal regions (Zhejiang, Jiangsu and Guangdong provinces) and have region-specific characteristics.[94] In line with Ang's (2018) argument, this study found that Chinese investment led by private firms in Ethiopia follows a specific sequence of events (i.e. firms from coastal regions 'go out' first, then those in inland China).[95]

As discussed in Chapter Two, although the 'Going Out' strategy was crafted and has been promoted by Beijing, firms' actions take place far from Beijing's direct control (Lee, 2017). Firms are more subject to policies, institutional context and politics in their hometown(s). Thus, regional and local governments will be more efficient and effective in solving problems (such as access to financing) that firms from the same region have encountered. Relatedly, region-specific mechanisms might provide much-needed policy, legal and institutional support (i.e. easier access to financing) for private firms investing in Ethiopia (see Chapter 8 for more detail).

[94] It is important to note that these region-specific development models are not static but highly fluid and evolve over time.

[95] Both the author's observations and official data show that, increasingly, firms from other regions (inland China, such as Shandong, Hu'nan and He'nan province) have started to invest in Ethiopia in recent years. Despite the low number of firms from these regions, it is important to keep observing their investment patterns and regional government policies.

6. How Have Chinese Private Firms Consolidated Their Investments in Ethiopia, To What Extent Have Their Accumulation Trajectories Varied and Why?

6.1. Introduction

In Chapter Five, evidence of heterogeneity among Chinese private firms in Ethiopia was shown. The divergent motives and determinants of their investments in Ethiopia's manufacturing sectors and their focus on domestic and export markets was also illustrated. The heterogeneous characteristics of a variety of Chinese private capital imply that their interests, logic, strategy and capacity to consolidate their investments vary significantly. This chapter assesses variations of Chinese private firms' accumulation trajectories [96] and explores to what extent they differ, and why. Comparative ethnographic research on three types of Chinese private firms in Ethiopia (according to the typology developed in Chapter Five) will be used in this chapter to explore their distinct accumulation logic and core interests, the process of accumulation, and what caused these differences.

Following the introductory section, Section Two will compare these three types of Chinese private firms' accumulation logic and core interests to invest in Ethiopia. Features of these firms (in terms of history, origin and scale), entrepreneurs' background and their *guanxi* networks to obtain investment opportunities and succeed at an early stage of investment in Ethiopia will be assessed. Section Three will explore the process of accumulation in terms of managing production constraints and market imperatives, given a dominant managerial ethos that is specific to each firm. This section will answer questions that include what kinds of production constraints firms encountered during their accumulation process, and how they managed to overcome them. It also asks if firms replicate the same production model and managerial ethos that they had in China, or if they adopt a new one based on local realities, and why. The evolution of firms' strategy and capability in adapting to their new environment will be assessed. Section Four concludes.

[96] See Section 2.3.2 for the definition of 'accumulation trajectories' used in this thesis.

6.2. Divergent Accumulation Interests and Logic

This section considers the variation of firms' accumulation trajectories at an early stage of development. It will also seek to understand their core interests and accumulation logic that drove them to invest in Ethiopia. This section will answer questions which include how these different types of Chinese private firms achieved their original accumulation in China, the constraints they encountered in their early stages of investment in Ethiopia, and how they managed to overcome them. This section will take private firms from the garment, footwear and cement sub-sectors as three exemplary cases to compare and contrast their logic of accumulation and process of consolidating investments in Ethiopia. According to my survey findings, interviews and EIC data, these three sub-sectors are where Chinese private FDI is deployed in Ethiopia, are highly exemplary.

Each case was carefully selected based on the typology of firms developed in Chapter Five, including 1. type of firm (scale, history and origin of investment); 2. sector specificities (in a particular sector and market); 3. entrepreneur's background (family, education and work experience); 4. main *guanxi* networks of knowing investment opportunities; and 5. logic of accumulation. All cases are leading firms in each typology (see Table 17).

Table 17: In-depth case studies

Characteristics		Type of Firm		
		Case 1 (Type 1 Firm)	**Case 2 (Type 2 Firm)**	**Case 3 (Type 3 Firm)**
1. Type of firm (scale; history; and origin of investment)		A family-owned SME from Zhejiang province; 'Wenzhou Model'	Traditional large OEM from Guangdong province; 'Dong'guan Model'	Owner-operated firm from Jiangsu province; 'Su'nan Model'
2. Sector Specificities	Sector	Garment	Footwear	Cement
	Main Market	Domestic	Export	Domestic
3. Entrepreneur Background		Second generation of the new urban capitalist elite: • Born in the 1980s to a merchant family in Zhejiang province • Family owns a garment factory and a trading company • Dropped out of university to develop his family business	First-generation of the new urban capitalist elite: • Born in the 1960s to a farming family in Jiangxi province • Experienced 'cultural revolution' and didn't complete secondary school • Joined the military • Worked as a rural migrant worker after retiring from the military • Established the first private shoe mill in his hometown (Nanchang, Jiangxi province) • Was the first investor of footwear manufacturing industry from mainland China to move to coastal regions (Dong'guan) in 1996	First-generation of the new urban capitalist elite: • Born in the 1970s to a farming family in Jiangsu province • Completed secondary school education • Worked as a migrant worker • Established *ge ti hu* (individual enterprise business) and became a sub-contractor • Was appointed as the General Manager in a joint venture (J.V.) (it was joint with TVE and a Taiwanese firm) • Established his own steel pipe company in his hometown • Invested in the US but failed in the end
4. Main *guanxi* networks of knowing investment opportunity		A combination of business networks and social networks	Official networks	Social networks
5. Logic of Accumulation		Profit maximisation	Profit optimisation	Profit maximisation[97]

[97] Profit maximisation can be seen as a form of optimisation. In this thesis, it refers to profit-making in monetary term. It could be either long-term or short-term. Profit optimisation includes other utilities, such as pursuing political title and/or social status. See Chapter 2 Footnote 10 for the full elaboration.

Source: Author's own elaboration based on her fieldwork

Case Study 1 features a typical SMEs in the garment sector from Zhejiang province, China, investing in Ethiopia and focusing on its domestic market (see Table 17). Haibo Garment PLC (from now on referred to as Haibo) is highly exemplary in terms of early investors from Zhejiang province in Ethiopia's light manufacturing industry.

Case Study 2 features a traditional large-scale, export-oriented, Original Equipment Manufacturer (OEM) from Guangdong province. This firm is integrated into global production networks (GPNs) mainly in the US and European markets with large retailers and high street brands (see Table 17). Although few Chinese manufacturing firms in Ethiopia are from Guangdong province (CCM2-3-a), as discussed in Chapter Five, Huajian's investment in Ethiopia is unique. It stands out because of its catalytic role in helping attract other Chinese investment into the light manufacturing industry in Ethiopia. Indeed, Huajian is the very first and the largest labour-intensive, export-oriented Chinese manufacturer in Ethiopia, and soon became a flagship investment thanks to the support from both the Ethiopian government (at the prime ministerial level) and the Chinese government (at various levels). This investment has been used as an example of the 'win-win' China–Africa relations connecting private investments from China with the imperatives of economic transformation in Ethiopia.

Case Study 3 features an owner-operated firm in the cement sector, originally from Jiangsu province. Zhongshun Cement Manufacturing PLC and East Cement PLC (from now on called Zhongshun and East Cement, respectively) are both greenfield investments in Ethiopia[98] (see Table 16 for more detail). As discussed in Chapter Five, this is an exemplifying case where an entrepreneur seizes a new market opportunity despite not having experience in that sector before, something that is particularly common among those investors focusing on the domestic market of the host country.

As mentioned in Chapter Five, although these three firms accumulated according to the logic of profit maximisation (for Haibo and Zhongshun) and profit optimisation (for Huajian), they are quite different from the firms analysed by Lee (2017) in Zambia. Lee's comparison operates between global private capital and Chinese state capital in the mining and construction sectors; she does not focus on the analysis of Chinese private capital. This study adds another layer of comparison by looking at different types of Chinese private capital in manufacturing industries to assess variations of different accumulation interests and logic.

[98] Zhongshun is a grinding factory located in the EIP, Oromia Regional State. East Cement is the largest Chinese cement plant for clinker production in Ethiopia, located in Fiche, Gebreguracha, Oromoia Regional State, 130 miles from Addis Ababa.

As discussed in Chapter Two and Five, Chinese private firms' 'Going Out' lagged behind the globalisation of Chinese state capital. These firms are also quite different from traditional transnational corporations from developed countries, especially in the sense that global private capital's accumulation logic is shaped by shareholder value maximisation. In contrast, most Chinese private capital in Ethiopia originates from family-run SMEs,[99] where shareholders of firms are either family members or friends; thus, they are not strictly shareholders according to UNCTAD's (2016) definition of TNCs (see Chapter Five for more details). Most Chinese private firms tend to be owner-operated and are more singularly focused on profits and new market opportunities.

It is important to note that many Chinese private firms (especially early investors in the textile/garment sectors) are similar to firms from emerging markets, such as India, Lebanon and Turkey. These Indian, Lebanese and Turkish-owned firms are also medium-sized family-run businesses. Therefore, many Chinese private investors are much closer to those SMEs from emerging market economies than global corporations with factories and supply chains in various countries.

One striking feature of these Chinese private firms is the sources of finance for their investment projects. Unlike global private capital (composed of mainly global corporations from Western countries), which can effectively raise funding through venture capital, banks and financial markets, Chinese private capital tends to be self-funded. Chinese private capital struggles to access finance from the mainstream national financing system (Nolan, 2014). This is also the case for these three types of private firms. In contrast to global private capital, all of these three firms' investments (at least their initial investments) were self-financed. Getting loans from export credit agencies at provincial or local levels for these firms was highly complex and time-consuming due to the poorly functioning credit system for the private sector in China.

Given these characteristics and how many of these firms developed organically through successful business and the profits generated therein, it is vital to explore the history and origin of the firm, the specific entrepreneur's background and finally the firm's or entrepreneur's *guanxi* networks to obtain investment opportunities and succeed during the early stage of their investments in Ethiopia.

6.2.1. History and Origin of the Firm

As discussed in Chapter Two, industrial development in China is highly regionalised (Luthje, Luo and Zhang, 2013) due to China's particular political system and economic development (Milanovic, 2019;

[99] As discussed in Chapter Five, very few firms in Ethiopia are publicly listed companies. Even some large-scale firms have boards of directors and shareholders that are either family member or friends, implying that the interest of shareholders is equivalent to the interests of the owner.

Dinh, 2017; Zhang and Peck, 2016). Lee (2017) points out that China's developmental state is different from its East Asian neighbours, characterised by significant heterogeneity, which can be reflected in the co-existence of regional and local-characteristic developmental states alongside a strong centralised governance system (also see Zhang and Peck, 2016; Dinh, 2017; Ang, 2018). Thus, each region has a particular industrial history that shapes the development model and the nature of productive sectors and firms that thrive. The selected firms for case studies are from the Zhejiang, Guangdong and Jiangsu provinces, respectively.

6.2.1.1. *Haibo and the 'Wenzhou Model'*

Haibo's trajectory encapsulates the 'Wenzhou Model', which encompasses small and medium-scale family-owned firms in the light manufacturing industry (see Chapter Four for more detail). Having strong network ties, '*baotuan chuhai*' ('Going Out' in groups), and intense reliance on the market to coordinate all aspects of production are three striking features of the 'Wenzhou model'. The owner of the business, Mr Zou, relied on his network of close business contacts to obtain market knowledge and look for opportunities in Ethiopia. His family-run company already had long-term trade relations with Ethiopian clients before investing in Ethiopia, and these relations generated the kind of trust over time that helped this investor gain intimate knowledge of Ethiopia's market.

Invited by his Ethiopian clients, Mr Zou first visited Ethiopia in 2009 (CCM3-1-a). The potential for profitable investment lured Mr Zou to consider Ethiopia as an opportunity for business, but the main driver was late payment cost (see Chapter Five for more details). Such problems are critical for Mr Zou, whose business relies heavily on '*ren qing*'[100] (personal relationships) and trust. After this type of problem escalated in 2013, Mr Zou decided to relocate industrial capital to Ethiopia (ibid).

6.2.1.2. *Huajian and the 'Dong'guan Model'*

Different from Haibo, Huajian had a stronger production base in China before investing in Ethiopia. Even before Huajian moved to inland China (in 2002), it was already a successful large-scale footwear OEM in Guangdong province. Guangdong province is well-known for the 'Dong'guan model' (see Chapter Four for more detail). The prosperity of the model depends on the openness to foreign trade and investment on the one side; on the other side, it is quite open to migrant workers and cheap raw materials from other parts of China (Naughton, 2017, p.318). Factories in the region are mainly export-oriented manufacturers of light, labour-intensive products. As discussed in Chapter Five, Huajian exemplifies this 'Dong'guan model'. In 1996, Mr Zhang established Huajian in Dong'guan, Guangdong

[100] See Chapter Five for the full definition.

province. It was the peak period for the export processing industry in the region, with foreign investments mainly from Hong Kong, Macao and Southeast Asia[101] contributing to this growth (Ang, 2015).

Mr Zhang was the very first shoe manufacturer from inland China to invest in Guangdong province during that period. Huajian competed against other OEMs that had partnered with investors from Hong Kong or Taiwan in Dong'guan. OEMs were placed under pressure by global leading firms who wanted lower prices and better sourcing requirements (Whitfield, Staritz and Morris, 2020). Huajian was a 'leading goose' of the first wave of 'flying geese' in China, relocating its industrial capital from the coastal region to the inland region in 2002. As mentioned in Chapter Five, Huajian relocated and expanded its industrial capital to Ganzhou, Jiangxi province due to the increasing production costs along coastal regions.

To attract investment, many of these businesses received subsidies in the form of cheap land from the local governments in China. This is the general strategy from which businesses can benefit. The Ganzhou government granted Huajian a large plot of land below market value to build its footwear production base. Huajian's relocation and expansion in Ganzhou had significant socio-economic impacts. Apart from export revenue generation, which directly boosted tax revenues for the local government, Huajian created many industrial (non-agricultural) jobs. During peak periods, Huajian employed over 25,000 employees in Ganzhou (compared to 12,000 employees in Dong'guan). Also, Huajian built a 'labour reservoir' for the footwear industry by setting up a vocational school in Ganzhou (CCM1-6).

Huajian has gained a positive reputation in China due to its significant contribution to job creation and skills transfer, generating export revenue and gradually building good relations with the Chinese government.

6.2.1.3. *Zhongshun, East Cement and the 'Su'nan Model'*

Mr Lu's early trajectory is an exemplary case of the ' Su'nan model', which is broadly characterised by the predominance of capital-intensive industries with close connections to the local government. Unlike Haibo and Huajian, Mr Lu didn't have the same business before investing in Ethiopia. Mr Lu's main business in China is in the steel pipe manufacturing industry.[102] He established a steel pipe plant in May 1995 in Zhangjiagang, Jiangsu province (CCM2-1-b). It specialised in precision high-frequency

[101] Many were members of the Chinese diaspora living in Southeast Asian countries.

[102] See Qiyuan Group company website for more details: http://www.qiyuangroup.com/guanyuwomen/chengchanglicheng/; http://www.qiyuangroup.com/xinwenzixun/128.html [accessed on 9 May 2019]

welded pipe mill and cold cutting saws for export markets (especially to the US) (ibid). Currently, his parent company in China is quite successful. It employs 105 workers and produces goods worth over 200 million CNY annually, with an approximate profit margin of 25% (50 million CNY) (ibid). The firm subcontracts components to small factories for processing, and they then send them back for final assembly. By doing so, Mr Lu's firm can focus more on research and development (R&D), the production process, material, products and upgrading machinery (ibid).

6.2.2. Entrepreneur's Background

Drawing upon the analysis in Chapter Two, a strong entrepreneurial spirit (taking risks combined with a strong work ethic) is one distinct determinant that drives private firms to invest overseas. China's economic boom in the past four decades and its consequences are of great importance to understand the evolution of urban capitalist elites. Drawing from Milanovic's analysis of China's political capitalism (2019), it is essential to trace which class these entrepreneurs (new capitalists) came from before their embrace of capitalism to understand the varieties of Chinese private capital's 'going global'.

Arguably, all three entrepreneurs display strong entrepreneurship attributes. However, they also differ concerning various factors, such as family background, education and work experience. In this sense, there are several details that matter: the social groups in which they originated, how they climbed the social ladder in China and the process that led to their consideration and access to information regarding investment opportunities in Ethiopia.

6.2.2.1. *The Owner of Haibo*

Mr Zou represents the second generation of the new urban capitalist elite. He was born in 1988 in Yiwu,[103] a county city in Zhejiang, which is well-known as 'the largest small commodity wholesale market in the world' (*People's Daily*, 2017). Mr Zou's family background has inevitably had an impact on his investment decision-making. His family has had a garment factory since 1998. His mother owns a trading company for textile and garment products, initially focusing on China's domestic market, and later moving into exports to countries such as Dubai (UAE), Chile, Madagascar, Iran and Ethiopia (CCM3-1-a). His family's main economic activity evolved gradually from that of an individual household-based mill and petty trade (self-employed entrepreneurs) to a small- to medium-scale family business manufacturing and trading in the light manufacturing industry; thereby becoming part of the new urban capitalist elites, which is typical in Zhejiang province.

[103] Yiwu is a county-city under the Jinhua municipal city, Zhejiang province.

Zou described himself as a 'risk-taking young entrepreneur', and claimed that this 'spirit' was inherited from his family (ibid). Mr Zou was enrolled at Wenzhou University[104] to study I.T. but, after one year, he decided to drop out and help to expand his family business. Before investing in Ethiopia, Mr Zou had been working in his family garment manufacturing business for 6–7 years. This experience gave him the know-how, knowledge of the market and buyers, as well as the basic organisational capabilities needed to run a factory with these characteristics. During this process, he also learned about Ethiopia's market through trade with Ethiopian clients (ibid).

6.2.2.2. *The Owner of Huajian*

Starting from scratch, Mr Zhang Huarong took three decades to go from a rural migrant worker (from a peasant household in the inland rural area of China) to a member of the thriving urban capitalist elite, as a successful large-scale OEM entrepreneur. With this trajectory, many portray him as an example of a successful self-made businessman. Mr Zhang experienced China's early socialism and the post-Reform era. As a member of the first generation of private entrepreneurs since China's Reform, Mr Zhang also has certain common characteristics: he started from scratch and has a strong entrepreneurship ethic (being bold). He firmly believes it was the spirit of frugality and hard work that enabled him to escape poverty and eventually achieve his capital accumulation (see corporate ethos for more detail).

Zhang was born to a peasant family in Nanchang, Jiangxi Province (an inland province) in 1958, during the era of '*da yue jin*' (The Great Leap Forward, GLF: 1958–1960)[105] (Vision, 2018). According to Mr Zhang, during that time (1959–1961), China suffered from 'Famine Disasters' (1959–1961),[106] and he was raised eating mostly rice-water (ibid). As he said, 'When I went to school, I encountered the Cultural Revolution'.[107] Mr Zhang's family was too poor to pay for his education. Eventually, he had to quit school and joined the army (ibid). 'I would do anything but not farming. At that time, I did not want to make a fortune; my only wish was to leave the countryside', Mr Zhang told the *Southern Metropolis Daily* (cited in Vision, 2018).

After Zhang retired from the army in 1982, he took various jobs and eventually worked for two years as an apprentice at a shoe factory in Zhejiang province. This experience as a wage worker taught him craftsman skills for shoemaking and gave him an intimate knowledge of the footwear industry (CCM1-

[104] Wenzhou University is a comprehensive public university in Wenzhou city, Zhejiang province. See https://m.cucas.cn/school/detail?sid=13 for more detail.

[105] See Appendix AA1 for the full explanation.

[106] See Appendix AA1 for the full explanation.

[107] 1966–1976 represents the years of the Cultural Revolution.

1). When he returned to his hometown in 1984, he raised 4,000 CNY with his family, bought three sewing machines and hired eight staff and eventually set up a small shoe mill. It was the first private shoe factory in Jiangxi province during that period. Most factories were either SOEs or '*renmin gongshe*' (Communes).[108]

After 12 years, his business in Jiangxi was operating steadily and growing slowly. One Taiwan businessman approached Mr Zhang to discuss setting up a joint venture in Dong'guan (CCM1-1). Mr Zhang thought that was an excellent opportunity as Dong'guan had already become the 'world factory' that attracted buyers from the Global North. In 1996, Mr Zhang brought his 80 staff to Dong'guan and established Huajian. However, the Taiwan businessman did not invest in the end. All the investment in Huajian was self-financed by Mr Zhang (ibid). As the first OEM from inland China, Huajian encountered ferocious competition from factories in Dong'guan that were financed by investors from Hong Kong and Taiwan. When starting, to get large orders from buyers, Huajian had to reduce its unit price and make minimal profits with products to fight off the competition. However, by directly controlling all steps of the production process, Mr Zhang was able to reduce costs considerably. Gradually, Huajian started building its reputation, obtained more orders from overseas buyers and traders (mainly from Hong Kong) and was able to access GPNs successfully (ibid).

6.2.2.3. *The Owner of Zhongshun and East Cement*

Although Mr Lu also experienced the era of early socialism and post-reform in China, his initial accumulation trajectory was very different from Mr Zhang Huarong's. Mr Lu was born in 1965 to a peasant family in Shazhou county (now called Zhangjiagang city),[109] Jiangsu province. He finished secondary school in 1980 and listened to his parents' suggestion to master one craft. Mr Lu learned carpentry skills when he was 16-years old. In 1982, he became a migrant worker in Hainan province (CCM2-1-a). In the late 1980s, because of the robust development of Shanghai, surrounding areas such as southern Jiangsu province also benefited from spill-over effects. Mr Lu perceived business opportunities in his hometown. He decided to move back and became a '*ge ti hu*' (个体户) (individual enterprise business)[110] to sell hardware. Later he set up a small hardware plant with 15 staff (ibid). Meanwhile, he also became a sub-contractor for some construction projects. By supplying

[108] Source: China Huajian International Light Industry City Brochure, 2017.

[109] Zhangjiagang is a county-city under Suzhou municipal city's governance. It was formerly a county called Shazhou but was upgraded to a city in 1986 (Pang, 2012).

[110] Individual enterprise business which by law could have no more than seven employees (Kroever, 2016) (refer to Chapter Four, p.3 for the full definition).

construction materials and doing subcontracting work offered by SOEs and TVEs, Mr Lu established close connections with them.

As noted earlier, the typical 'Su'nan model' in the 1990s was to engage in joint TVEs with foreign firms. Such joint ventures with TVEs in Jiangsu province usually had strong local government support (see Chapter Four for more detail). Industries ranged from building materials, chemicals, textile/garment and food processes. In 1989, Mr Lu was appointed General Manager in a joint venture to manufacture steel pipes.[111] In 1994, he quit that joint venture and set up his current steel pipe firm, which has operated to the present day.

6.2.3. *Guanxi* Networks and Success in the Early Stage of Investment in Ethiopia

6.2.3.1. *Haibo*

Given its low entry barriers (low fixed costs and relatively simple technology) and its labour-intensive nature (mainly semi- and un-skilled workers), the threshold for investing in the small or medium-scale textile/garment industry in Ethiopia is comparatively low (Staritz, Plank and Morris, 2016). Haibo is Mr Zou's family business, which is 100% self-financed. The initial investment of Haibo was 10 million CNY; until 2018, the cumulative investment reached 60–70 million CNY (CCM3-1-a).[112] In addition to the intimate knowledge of the Ethiopian market, Mr Zou's investment (installation) was quite smooth (it was fast and did not encounter any serious problems). It was established in June 2015 and started production in August of the same year.

Although Haibo is a purely private firm with its business aims and plans, its improvisation on the ground and therefore investment decisions have been increasingly shaped by the host country government's interests. During the GTP II (2016–2020), the Ethiopian government started pushing all light manufacturing firms to export. However, creating a business to export was not part of Mr Zou's initial motives to invest in Ethiopia. Still, as a result of the Ethiopian government's efforts, Haibo was required to export (see Section 6.3.1.1.2 for more details).

Responding to the host country government's policy, Mr Zou negotiated with the EIC, and both sides agreed to increase exports for his older factory (Haibo) gradually; meanwhile, he began to set up a new garment factory called Ao Fan (in 2017) that solely focused on the export market (CCM3-1-a). According to Zou, Ao Fan will export 80% to foreign markets for the first year of its operation and then increase to 100% from the second year. It was initially set up in the Huajian Light Industry City in 2017

[111] This joint venture was with a TVE from Zhangjiagang city and a Taiwanese firm.

[112] Interviewee signed the consent form and agreed to allow the author to use information he provided, including disclosing the firm's financial status, in this thesis.

and started operations at the beginning of 2018. Due to some disputes with Huajian Light Industry City over rent, Mr Zou relocated Ao Fan to the Eastern Industrial Park at the end of 2018 (ibid).

6.2.3.2. *Huajian*

As discussed in Chapter Five, Huajian follows the logic of profit optimisation, and political influence is one of the key motives for it to invest in Ethiopia. In contrast to the traditional way investors seek investment opportunities, by using their business and/or social networks and exploring available information on the country, Huajian was initially invited by the GoE for investment purposes after Ethiopian leaders visited China. When then PM Meles Zenawi visited Guangzhou, China, in 2011, Huajian was one of the leading export firms recommended by the Guangzhou provincial government. It was recognised as a successful OEM in the region with a close connection to the provincial government.

The initial investment process, from Mr Zhang's first visit (in October 2011) to deciding to invest in Ethiopia and start production (in January 2012), took only three months. The quick decision to invest in Ethiopia was primarily attributed to the dedication of the host county government. PM Meles Zenawi provided all the necessary support and coordinated procedures at a senior official level. This support has, in no small extent, resulted in the term 'Huajian speed'. In 2012, the first year that Huajian started production, its exports accounted for 52.5%[113] of the total leather product exported from Ethiopia, a phenomenal achievement for a single firm.

The experience of Huajian reflects the industrial strategy of Ethiopia's government at the time and their strong commitment to attracting leading foreign investments (or 'the leading geese') at a very early stage. By doing so, they hope these leading geese would act as examples and could be used to attract bigger waves of similar investors, including those within the same or similar GPNs. It makes sense for the government to provide all the necessary support and preferential policy with strong backing from the Prime Minister's Office (PMO) level. Huajian's success could be seen as proof that Ethiopia has succeeded in attracting successful manufacturing businesses from overseas.

After this initial success, it was no surprise that a scaling up of operations was announced shortly after. Plans to establish the Ethio-China Huajian International Light Industry City (from now on referred to as Huajian Light Industry City) were announced in 2015, with a scale of operations and level of employment expected to dwarf what had been achieved with the first shoe factory in the EIP. Huajian Light Industry City is a flagship project with a demonstration effect on 'South–South cooperation'

[113] Calculated by the author based on the export data Huajian provided.

under the BRI. It also serves as a platform that bridges Guangdong province and Ethiopia to promote the integrated development of Ethiopian industrial cities.[114] Huajian's investment path in Ethiopia has been evolving to a combination of 'semi-political semi-commercial'(半官半商) behaviour.

In addition to political influence and profit-seeking interests, its central entrepreneur's pursuit of personal social status and political titles is another imperative in Huajian's profit optimisation logic. Apart from being the founder of Huajian Group, Mr Zhang has also held various societal and political titles in China. His political position and social status have grown in China since 2015 (see *Table 18*).

Table 18: List of political positions of Mr Zhang Huarong

	Political Positions of Mr Zhang Huarong
1	Member of the National Committee of CPPCC (12th)
2	Standing Committee of the National Federation of Industry and Commerce (11th)
3	Vice President of Association of Industry and Commerce of Jiangxi Province (9th, 10th)
4	Vice President of Federation of Industry and Commerce
5	Vice President of China–Africa Business Council (CABC) (2nd)
6	President of the Asia Footwear Association
7	Executive President of Footwear Manufacturers Association of Guangdong Province
8	Vice President of World Dong'guan Merchants Association
9	Vice-Chairman of Centre for China and Globalisation (CCG)
10	Vice-Chairman of the Belt and Road Initiative Think Tank
11	Zhang Huarong was elected to the standing committee of the 12th executive committee of the all-China federation of industry and commerce on Nov 27, 2017.
12	He was appointed a member of the 13th national committee of the Chinese people's political consultative conference (CPPCC) and the commission for social and legal affairs in March 2018.
13	He was elected as a member of the social and legal system committee at the first meeting of the 13th national committee of the CPPCC on March 15, 2018.

Source: Author, compiled based on China Huajian International Light Industry City Brochure (2017, p.74)

Despite Huajian's political significance, its initial investment of around US$5–6 million was entirely self-financed by Huajian's parent company in China. In terms of financial support, Huajian received some funding from the Chinese government (CCM1-1), but it was tiny and mostly symbolic. For a

[114] Source: China Huajian International Light Industry City Brochure (2017).

project where the total investment has been estimated at US$2 billion (*China Daily*, 2019), Huajian only received a subsidy of 20 million CNY from the Guangdong provincial government for the construction and development of Huajian Light Industrial City.

6.2.3.3. *Zhongshun and East Cement*

Mr Lu invested in the US in 2006, but the investment was not successful as his US company was charged anti-dumping duties. His initial visit to Ethiopia was to investigate the Ethiopian market to relocate his steel pipe production lines from the US (CCM2-1-a). Mr Lu's relationship with the Ethiopian government was built through his social networks. Initially, Mr Lu heard of investment opportunities in Ethiopia through a friend (see Chapter Five). He read one report that mentioned that the United Nations would grant US$50 million (CCM 2-1-a) to Ethiopia for the building of water pipes. He perceived this as an excellent opportunity for the steel pipe industry.

In 2006, he made his first visit to Ethiopia with two business partners from his hometown. They managed to meet high level officials (at the ministerial level) in Ethiopia through one of his business partners' personal connections (CCM2-1-b). Mr Lu saw the local production of construction materials as a lucrative business opportunity. This experience separates Mr Lu from the other two investors as he invested in multiple projects across different sectors simultaneously in Ethiopia. After he went back to China, he decided to invest in both the cement and steel industries in Ethiopia. When Mr Lu started preparing cement and steel investments in Ethiopia, the Ministry of Commerce opened a call to bid on building the 'Overseas Trade and Economic Cooperation Zone' that was initiated during the 3rd FOCAC in 2006' (Fei, 2017, p.1). Coincidently, Ethiopia was one of the selected destinations.

Given the relatively poor infrastructure and lack of industrial services available in Ethiopia, this industrial park project was seen as an excellent platform for Mr Lu to foster clustering effects and capture more opportunities to expand and diversify his businesses in Ethiopia (CCM2-1-a). Again, influenced by his own experience in Jiangsu province where the 'Su'nan model' (including industrial park development) is ubiquitous, Mr Lu decided to bid for the EIP project.[115] 'I was taught in my childhood that as long as (you) master the general direction, it would be fine', Mr Lu stated (CCM2-1-a). Mr Lu's fast decision-making was driven by a combination of strong entrepreneurship through risk-taking, the experience of the 'Su'nan model' and the assistance of his social networks. Mr Lu's

[115] He prepared the bid in Nov 2007 and won it in 2008. On June 3rd, 2008, Mr Lu and his business partners set up Jiangsu Yongyuan Group in China and invested in the Eastern Industry Park project as the contractor, developer and operator. The EIP obtained the business license in 2012.

investment in Ethiopia was for profit maximisation and to exploit the shortages in the Ethiopian market.

However, soon Mr Lu encountered problems at the early stage of his investment in Ethiopia. Investment in cement production requires a long-term perspective on financing and the return of investment (Oqubay, 2015). It usually takes three years for a cement (clinker) plant to start production from its initial installation (author's participant observation, see Appendix, PO5). Thus, it takes a long time to gain a return on one's investment. One of the key challenges for setting up a cement factory is to secure a source of financing because the barriers to entry are high in terms of the volume of capital needed.

Although East Cement was the very first investment project that Mr Lu registered in Ethiopia in October 2006, because of financing constraints, construction did not begin until October 2011. When Mr Lu was searching for financing sources for the East Cement project, he decided to firstly invest in a grinding factory with the idea of '*duan ping, kuai*'.[116] Zhongshun was Mr Lu's first project that started operating in Ethiopia: it was established in 2008 and began production in May 2010 (CCM2-4-a). The construction period was only six months compared to two years for East Cement. Zhongshun is a self-financed project involving three individuals: Mr Lu (holds 50% of its total share) and two partners (each one has 25% of the equity, respectively) (ibid). They invested US$3 million for the initial stage.

Initially, Mr Lu was told by his Ethiopian partner that if 30% of the investment came from foreign capital, Zhongshun would be eligible to get a loan from local Ethiopian banks. However, after waiting for one year, nothing happened (CCM2-1-a), and the Ethiopian partner also pulled out of the project. 'We wasted one year for the loan to finance the cement plant', Mr Lu said (ibid). Eventually, the entire project was self-financed. Then, in 2011, Mr Lu (holding 60% of the shares) set up a joint venture (East Cement) with the China–Africa Development Fund (CADFund).[117]

After overcoming initial financial difficulties, both cement projects expanded. As of October 2018, Zhongshun's cumulative investment reached US$11.07 million with the installed production capacity of 250,000 tonnes/year (ibid). East Cement's cumulative investment reached US$70.19 million, which was much higher than its initial planned investment (US$53.78 million) (ibid). In 2013, East Cement expanded its installed production capacity to 700,000 tonnes/year (EIC, 2018).

[116] '*Duan, ping, kuai*' refers to ' A project yielding quick return with a relatively low investment' (Source: http://www.ichacha.net/%E7%9F%AD%E5%B9%B3%E5%BF%AB%E9%A1%B9%E7%9B%AE.html).

[117] Interviewee signed the consent form and agreed to allow the author to use information he provided, including disclosing the firm's financial status, in this thesis.

The EIP project was a way of supporting Mr Lu's other investments. Until October 2015, there were 26 firms in the EIP, and ten were from Zhangjiagang in Jiangsu province (EIP, 2015).[118] Most (7) are affiliated with Mr Lu (see Table 19).

Table 19: Mr Lu's main businesses in Ethiopia

Investment Project	**Sector**	**Registered**	**Obtained Investment Licence**	**Obtained Business Licence**
Eastern Industry Park	Industrial park	2006	2008	2012
Zhongshun Cement Manufacturing PLC	Grinding station	2008	2008	2010
East Cement Share Company	Cement production (clinker)	2006	2010	2011
East Steel PLC	Rolled steel	2006	2011	2013
LQY pipe	Integrated aluminium and pipes	2011	2011	
AISAISHICUN Steel Pipe PLC	Integrated aluminium and pipes	2013	2016	
Sansheng Building Materials PLC	Concrete, pole (for industrial park's internal construction)	2016	2016	

Source: Author, compiled based on internal data provided by EIP in October 2018

6.2.4. Summary

Evidence shows that the type of firms, entrepreneur's background and their *guanxi* networks are important factors that affect these three types of firms' investment trajectories, especially at their early stage of accumulation. Mr Zou's investment involved the relocation of industrial capital from China to Ethiopia. His initial motive to invest in Ethiopia was to sell to the Ethiopian domestic market rather than export. Although Haibo is a truly private firm and its initial investment was driven by profit

[118] Author calculated and compiled based on data that EIP Committee provided on July 30th, 2015.

maximisation, its accumulation (investment and re-investment on the ground) had been increasingly subject to the Ethiopian government's imperatives (an increase of export targets).

Different from Haibo's profit maximisation motive, Huajian's investment is based on profit optimisation and included a mix of imperatives such as profit, political influence and the entrepreneur's pursuit of social and political status. It is difficult to say which aspect is most important, but it is clear that the combination of these motives gives Huajian a distinct profile and makes it particularly visible as an example of Chinese private investment in Ethiopia.

Mr Lu's decision to invest in Ethiopia was for industrial relocation to maximise long-term profits and focus on expansion (CCM 2-3). With the experience that Mr Lu accumulated and his familiarity with the host country investment climate, he started expanding and diversifying his businesses in Ethiopia (CCM2-1-b).

Concerning the sources of financing, these three cases are illustrative of the binding financial constraints that Chinese private firms encountered in Ethiopia at the initial investment stage. All firms had to self-finance their first investment projects in Ethiopia and took responsibility for their economic viability, given that both Ethiopian and Chinese banks did not lend them the funds. Their initial investments were sourced from their successful original accumulation of capital in China. However, sector specificities matter significantly. While Haibo and Huajian are self-financed projects, the cement projects were stuck due to financing difficulties from high barriers to entry and the required amount of capital.

6.3. Process of Accumulation

The previous section illustrated that these three firms followed the different accumulation of interests and logic when they arrived in Ethiopia. All of them are successful cases concerning their ability to set up a business and expand investment as a process of dynamic capital accumulation in Ethiopia. However, 'success' does not mean they did not encounter constraints and challenges or fail in certain respects. In order to better understand their distinct accumulation processes and how their specific characteristics and origins matter, it is useful to know the way they improvised in Ethiopia and tackled different kinds of constraints during their accumulation process. Further, it is important to explore how investments were sustained over time, how success was achieved, what obstacles were encountered and how they were (or not) overcome, and what the key factors for determining success were. Drawing from Lee's (2017) analytical framework of the 'Three Moments of Capital' (namely accumulation, production and managerial ethos),[119] this section will focus on one moment of capital accumulation, which shapes production patterns and is in turn influenced by managerial ethos.

6.3.1. Production Constraints

In this section, field evidence will be used to illustrate divergent production constraints and challenges these three firms encountered, and how these firms responded to production constraints, evolving their capability and corporate ethos during the accumulation process. The main constraints and challenges are categorised into four sets. The first concerns political change. The second is meeting government targets. The third relates to labour and social conflicts, and the fourth resulted from pressures from global or national production networks and market competition.

6.3.1.1. *Haibo*

6.3.1.1.1. Dealing with Political Change

Haibo manufactures garments (such as pullovers, T-shirts and shirts, etc.) in Ethiopia and sells mainly to the domestic market. Its brand is well-known in Ethiopia (CCM3-1-c). Haibo has stable orders and encounters little competition in the Ethiopian market. Its business has been expanding due to the increase in orders domestically. In 2015, there were 300 local workers and 15 Chinese expatriates. During the peak in demand for its products in 2016, Haibo organised two shifts with around 800 local workers. However, Haibo has also endured two states of emergency in Ethiopia,[120] which significantly affected its production. How Haibo responded and adjusted its production organisation during these politically tense periods provides some important lessons on business acumen and adapting in the face of adverse situations.

Haibo responded to the challenges caused by the states of emergency by introducing changes to its labour regime and cutting costs. They reduced the number of shifts from two to one in order to reduce the number of local workers. This was due to safety considerations after the Ethiopian government declared the state of emergency (CCM3-1-a). In addition to safety considerations, Haibo had to tackle the economic uncertainty brought about by the state of emergency. Following the 'profit maximisation' logic, Haibo did not hesitate to lay off workers at the first obstacle to cut down its costs to ensure efficiency and smooth its operations. The change in shift patterns was a key measure for

[119] See Chapter Two for more details.

[120] The state of emergency was declared on October 9, 2016, and lasted for ten months (until August 2017); the second state of emergency was imposed on February 16, 2018, one day after then PM Hailemariam Desalegn resigned (*Guardian*, 2018).

greater efficiency at a time of uncertainty. 'Two shifts are inefficient. Many workers stayed there to sleep instead of working', the factory manager commented (CCM3-2).

Moreover, Haibo switched to primarily hiring female workers. The ratio of female to male workers became 5:1. Only certain work such as packaging, cutting tables, cart unloading and spreading need male labour (as this work requires greater strength). Haibo cautiously hired male workers, making sure they were referred by current employees. By doing so, Haibo's management aimed to reduce the potential for the factory to become a site of political conflict as had happened at other firms (ibid).

Haibo's astute decision-making regarding the domestic market during political situations enabled them to seize the opportunity to make lucrative profits immediately after the second state of emergency. Due to their long-standing relationships with Ethiopian clients, Haibo adjusted designs and volumes of production flexibly based on market demand. After Dr Abiy Ahmed Ali was elected as prime minister in April 2018, Haibo manufactured T-shirts with his portrait, which sold very well in the market (author's observation). Haibo's ability to survive during the period of political change was primarily attributed to its ability to adapt and change its production organisation through reorganising its labour force, while using their understanding of the market's demands to respond to its dynamics.

6.3.1.1.2. Meeting Government Targets

Despite the company's focus and acumen with regards to the domestic market, the Ethiopian government's increasing pressure on foreign firms to meet export targets meant that Haibo also had to start exporting (see Chapter Seven for more detail). Thus, an agreement to increase exports gradually was reached with the EIC and to meet requirements; the firm started a new factory called Ao Fan, which would be solely focused on exporting. Mr Zou proposed to the EIC that Ao Fan would focus 100% on exports and produce 2–3 million pieces on average per year. By the end of February 2018, Ao Fan aimed to export its first order of 15,000 garment pieces to the US (CCM3-1-a).

Due to the export targets, Ao Fan faced significant pressure to improve the quality of its products and ensure punctuality in delivering exports (much more so than with domestic products). Such pressure forced Mr Zou to adopt different production, organisation and employment practices (recruitment and training) at Ao Fan, compared to Haibo. This entailed the deployment of different organisational capabilities focused on improving the quality of the workforce in order to meet stringent global market standards. Differences could be seen also in Haibo's and Ao Fan's management composition. While the majority of Chinese expatriates in Haibo are either Mr Zou's family members or friends, Ao Fan hired more professionals. For instance, the factory director of Ao Fan has decades of experience in managing garment factories in Southeast Asia.

Despite both factories adopting an informal training approach ('learning by doing' or 'on the job training'), Ao Fan provided a more structured task-based training for its workers. For instance, a clear target is set for local workers at Ao Fan: it expects its skilled workers to produce 500 units/day and 200–300 units/day for semi-skilled workers. While Haibo has no particular preference for workers' education and other requirements, Ao Fan set criteria for semi-skilled and skilled workers' education and language skills. Ao Fan developed its training scheme and recruited four translators to assist Chinese managers in training local workers more efficiently and with greater intensity to meet quality and quantity targets.

6.3.1.2. *Huajian*

Like other manufacturers operating in the margin-tight apparel value chain, Huajian also focuses on profit. However, for the owner, political influence and social standing also matter. Given the pressures arising from these demanding expectations, Huajian's accumulation logic leads to cut-throat (both internal and external) production regimes, resulting in Huajian's unique production organisation and its stringent centralised, semi-military managerial regime.

6.3.1.2.1. Pressures from Global Production Networks and Market Competition

Huajian (Ethiopia) operates in the middle to high-end GPNs, with nearly 95% of their exported products sent to the US and European markets. Its production volumes, therefore, are highly dependent on its demanding international buyers, which reflect seasonal fluctuations in global markets and the 'sourcing squeeze' typical of apparel production networks (Anner, 2020). As mentioned in Chapter Five, Huajian relies heavily on intermediate agents (overseas buyers and traders) to get orders. Given the prevailing 'price squeeze' exercised by leading firms, intermediate agents put greater pressure on Huajian to operate on razor-thin margins and keep its unit prices down.

The fast-fashion market requires flexibility in production, which will be calculated on a weekly, monthly and annual basis to estimate the total production amount, meanwhile, adjusting logistics, inventory and other corresponding work accordingly. Bulletin boards prominently display updated daily production figures, broken down into figures for each production line. Each production line has one bulletin board and, every hour, local supervisors will update the production figures (author's observation). This showcases the stringent time-sensitive production regime in operation.

Due to the stringent requirements for export delivery, Huajian needs to manage its inventory to ensure a sustained supply of raw materials, for which it needs to advance working capital, either borrowed or from its reserves. Nonetheless, apart from cattle and hides that can be sourced locally, most of the other raw materials, such as artificial leather, canvas, accessories and chemical products, need to be imported from China and India (CCM1-10). Thus, access to foreign currency is crucial. Due to the long transportation cycle and the difficulty in purchasing materials locally, Huajian needs to make prepare inventory adequately. The production cycle for standard orders is 45 to 55 days, which implies that goods need to be prepared one month in advance. In comparison, for the same workload, Huajian China only needs four days' inventory.

Huajian has also been investing in sectors such as accessories, rubber and packaging in its Light Industry City to enhance its vertical integration in Ethiopia (ibid). Maintaining such a stringent production regime outside its original base in China is a challenge, given different contextual conditions and the lack of manufacturing experience in Ethiopia. Shoes made in Ethiopia are mainly orders with simple, standardised workmanship and command a low unit price at the beginning due to the relatively low productivity and limited skills of Ethiopian workers (CCM1-10).

Instead of solely taking a piece-rate model, it adopts a more flexible method with a combination of piece rates and hourly rates to measure and monitor productivity. Wages paid solely by piece-work rates will not work in Ethiopia for two reasons: firstly, piece rates are not suitable for new employees or new production lines because the average production efficiency is quite low (productivity is around 20–50% below Chinese workers); secondly, it also depends on the cycle of production (peak and off-peak seasons). During the off-peak season, workers who are paid piece rates might receive lower wages than those paid by the hour as there will not be enough orders (CCM1-11). Huajian (Ethiopia) only adopts piece rates on the old production line with steady and large orders. Workers who are familiar with this type of work are incentivised to produce more with piece rate-based pay.

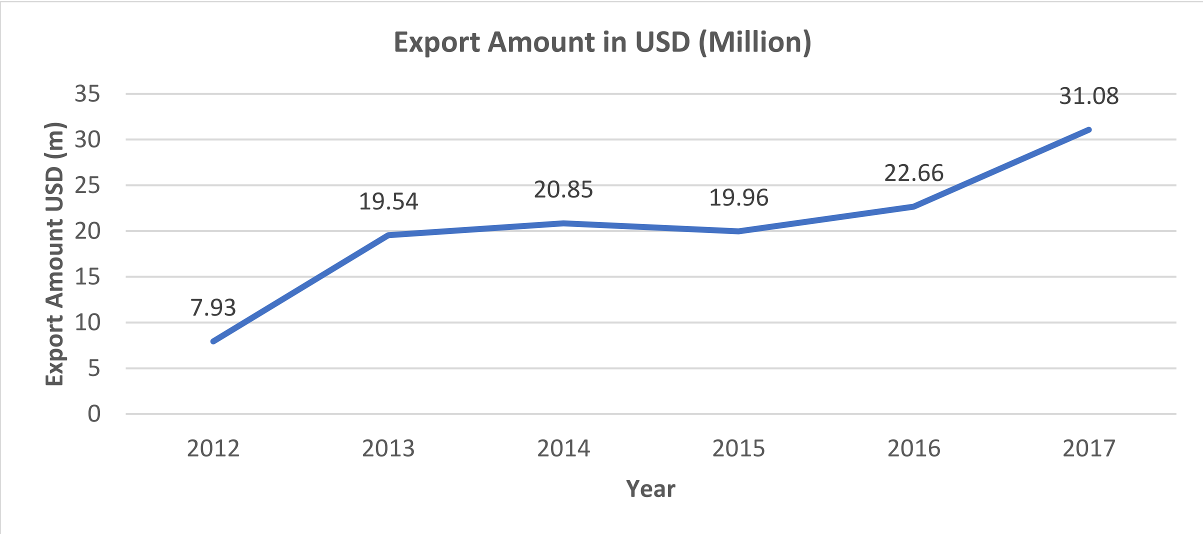
In summary, due to the pressures from GPNs, Huajian adapted and changed its production and organisational capabilities based on Ethiopia's local reality. Huajian operated with a range of orders allowing the firm to make its flexible regime work despite low productivity and using some workers with limited skills. However, challenges remain if Huajian wants to sustain its business in the long run; it has to upgrade its position in GPNs by reducing its reliance on intermediate agents and working strategically with global buyers (see Section 3.2 Corporate Ethos for more details).

6.3.1.2.2. Dealing with Political Change

As a 'leading goose' in the wave of Chinese investments in Ethiopia, one of Huajian's top goals is boosting the political influence of industrial capacity cooperation and strategic complementarity between Ethiopia and China. This imperative has compelled Huajian to be more sensitive and accommodating to the GoE's priorities of job creation, generating export revenue and skill/technology transfer.

This may explain the different way it responded to problems brought about by the state of emergency, compared to Haibo. While the latter opted to reduce work shifts and lay off some local workers, Huajian continued hiring more local workers, providing training and enhancing export performance. Local workers increased from 3,200 in 2013 to 7,000 in 2017 (CCM1-3). Skills transfer also improved during that period. There is a growing trend of hiring local operational and technical managers in Huajian, and the ratio of Chinese to local managers is near 8:51 (ibid). The ratio of Chinese and Ethiopian middle management employees is close to one (117:103).[121] Despite the state of emergency, the company was able to improve export revenue generation. Export revenue reached US$31.08 million in 2017 (See Figure 17).

Figure 17: Export amount in USD (Million) of Huajian (Ethiopia)



Source: Author, calculated and compiled based on data collected in March 2018

As mentioned in Chapter Five, Huajian aimed to continue expanding in Ethiopia despite the volatile political situation. Huajian managed to partially expand in Ethiopia due to financial support from its parent company. The GoE also protected Huajian from significant disturbance due to the political situation as Huajian represented a flagship project of 'Sino-Ethiopia' industrial cooperation. Many other firms did not receive the amount of protection and support that Huajian did, and this explains how Huajian stayed afloat and managed to expand.

6.3.1.2.3. Labour Conflicts

The quality of products and the punctuality of export delivery are critical to labour-intensive OEMs such as Huajian to secure and continue to receive orders from buyers. In reality, Huajian is unable to

[121] Source: Data collected by the author in January 2018.

achieve full production capacity and often delays its exports due to various factors. One critical constraint Huajian encountered during the production was labour conflict, especially in the form of frequent strikes. These resulted in a shortfall in production. Between November 2017 and July 2018, Huajian suffered seven strikes. After the first strike broke out, Mr Zhang and the management team held a meeting to discuss their options. As they all believed that the previous strikes were due to the 15% depreciation of the Birr (announced by the Ethiopian Development Bank in October 2017), the board committee agreed to increase the basic wage for workers (from 800 ETB to 960 ETB, starting from January 2018) (author's participant observation, see Appendix C, PO-9-2).

On December 16, 2017, as soon as Mr Zhang arrived in Addis Ababa in the early morning, he went to Huajian (Dukem) to hold a staff meeting and announced an increase in the basic wage. He spoke in a spirited tone and reminded all the local workers that they had important jobs and should cherish them (ibid). Ironically, in the afternoon, two-thirds of local workers (around 2,000 people) left the factory and went to church to pray for the Oromos who were killed in the Somali regional state (ibid). The frequent strikes caused many orders to be cancelled. In order not to lose trust from buyers, Huajian had to ship raw materials from Ethiopia to China by air and produce these orders in Huajian's Chinese factories. This meant that orders were produced at the full cost of production without any profit.

According to observations made in the field, there were various reasons that caused labour conflicts at Huajian. The first was due to Huajian's internal management. Some strikes were partially attributed to the misconduct of mid-level Chinese expatriates. Huajian's management did not succeed in reducing labour conflict because they did not understand the complex politics involved with strikes (see Section 6.3.2.2.1 for more details). In fact, all strikes in Huajian were wildcat strikes, which made reacting to them difficult. According to the HR manager (CCM1-6), Huajian had previously set up a trade union; however, this only caused greater conflict. Eventually, the management decided to dissolve it and would not organise a union anymore. This partially reflects Huajian's weak management of organising the local labour force.

The second reason was political. As the largest foreign-owned factory by employment in Ethiopia, Huajian faced enormous threats from the political opposition. By attacking a large-scale, politically influential foreign investment project, such as Huajian, the political opposition was able to make a greater impact than if they had attacked smaller foreign SMEs.

The third reason was partly due to increasing ethnic-based conflicts. Between November 2017 and April 2018, workers who had migrated from the Southern Nations, Nationalities, and Peoples' Region (SNNP) to Oromia faced threats from local Oromo residents (CCM1-2). Some Oromo (local workers) blocked these workers, who had migrated, at the Huajian front gate and threatened them, ordering them to stop working at Huajian (ibid).

Although Huajian's export revenue reached US$31.8 million in that year, it suffered heavy losses due to these labour conflicts. This implies that profit is perhaps not the ultimate goal for Huajian, and it was able to keep expanding and sustain losses because of its political motivations. Huajian admitted that it did have internal management problems and was committed to improving its management to mitigate labour disputes. Solving political unrest issues, however, is something beyond Huajian or any individual firm's capacity.

6.3.1.3. *Zhongshun and East Cement*

6.3.1.3.1. Pressures from Domestic Production Networks and Market Competition

Different from the other two cases' accumulation logic, Zhongshun and East Cement's story is about opportunities to consolidate and expand. Zhongshun and East Cement encountered different constraints and pressures that other types of firms (such as Huajian and Haibo) did not have. They are more attached to the 'local content' policies (LCPs) than light manufacturing firms. Their operation is more subject to pressures from domestic production networks and market competition than international ones. The economies of scale, capital and energy-intensive, and oligopolistic nature of the cement industry are vital to understanding the dynamic accumulation trajectories of Zhongshun and East Cement.

The cement industry is a classic oligopolistic industry (Oqubay, 2015). According to a senior manager of Dangote (FCM1-2), the top five cement factories[122] control nearly 70% of Ethiopia's cement market (see Table 20). Oqubay (2018, p.18) also states that two-thirds of total installed capacity was accounted for by four large firms (Derba, Mugher, Dangote and Messebo) in 2017. Domestic cement firms dominate in Ethiopia. This is in contrast to other African countries, where multinational companies play a dominant role. In Ethiopia, 55% of installed capacity is from Ethiopian domestic firms, while foreign firms account for 35%, and joint ventures account for 10% (CSA 2016 cited in Oqubay, 2018, p.18).

[122] Dangote arrived in Ethiopia in 2012 and started production in 2015. Since then, it has become the largest cement plant in Ethiopia (FCM1-2)

Table 20: Performance analysis of cement companies in Ethiopia

No	Origin of Company	Installed Capacity tonne/yr	Capacity (Actual)	Market Share
1	Nigerian	2,500,000	80%	25–30%
2	Ethi-Saudi	2,300,000		40–45%
3	Ethiopian	2,276,000	65%	
4	Ethiopian	2,240,000		
5	Ethiopian	1,300,000		
6	Ethiopian	1,200,000		
7	Ethiopian	900,000		
8	Ethiopian	850,000		
9	Chinese	750,000	70%	
10	Chinese	450,000		

Source: Author, calculated and compiled based on interview and data provided by Sinoma (FCM1-1)

At present, most Chinese cement plants have failed in Ethiopia. Due to the limited scale and production capacity of cement in the Ethiopian market, many early Chinese investors came with 'Gold Rush (Fever)' and have subsequently either left Ethiopia or moved to other industries (CCM 2-4-a). In fact, East Cement is the only Chinese plant that uses better technology (e.g. rotary kilns, RKs) like other large cement plants, while other Chinese cement plants are smaller in scale and only use vertical kilns (VKs) which come with a trade-off. Although they are faster to get up and running and require less space and investment, their production output is not large, and the quality is unsuitable for larger construction projects (MOFD, 2015, p.27). Portland Pozzolana Cement (PPC) and Ordinary Portland Cement (OPC) are manufacturing at East Cement. Both types of cement meet the requirements of the Ethiopian National Standard No. EN-197 (CCM2-4-c).[123]

6.3.1.3.2. Local Content Policies

The Ethiopian government is the primary buyer of cement for construction and housing projects (MOFED, 2015, p.34). According to the Deputy GM of Zhongshun, there are two types of Chinese buyers in Ethiopia. The first type is those who only use Chinese-produced cement, and the other is those who insist on not using Chinese products to avoid suspicions of bribery (CCM2-2-a). While many infrastructure and road projects are constructed by Chinese companies in Ethiopia, construction

[123] PPC is produced as per CEM-II-32.5 grade and contain 67% clinker, 28% pumice and 5% gypsum. OPC is produced as per CEM-I-42.5 grade and contains 95% clinker and 5% gypsum (MOFED, 2018).

materials such as cement originate from many local and other foreign firms. Changes in local content policies have significantly impacted Zhongshun and East Cement. Many Chinese contractors who previously preferred buying cement from local Chinese factories now tacitly put local cement brands as their preferred suppliers in the bidding document to gain favour with local authorities (such as the Ethiopian Road Authority (ERA)) (CCM2-4-c).

In 2017, East Cement supplied two Chinese SOEs. However, both SOEs were blamed by the local authority, the Ministry of Urban Development, Housing and Construction (MUDHo), for not using domestic cement brands (CCM2-4d). In 2018, because of the downturn in the general economy in Ethiopia, those Chinese firms did not win any new projects. As a result, the cement business for East Cement went down. Due to the LCPs imposed by the Ethiopian government, Chinese cement plants (including Zhongshun and East Cement) can hardly compete with local brands. This is perfectly understandable as 'local content' policies by the Ethiopian government are designed to make sure that public investment generates opportunities for their domestic industry. These are normal 'distortions' designed to boost domestic industrialisation.

While other large cement plants have strong sales and marketing departments, Zhongshun and East Cement heavily rely on local agents to obtain orders from non-Chinese buyers. However, Zhongshun and East Cement mainly targeted Chinese buyers and did not promote their products to local buyers. Consequently, when the local content policy changed, few local buyers knew about their brand, even though their products were of the same quality as the other top five manufacturers (CCM2-4-e). Fortunately, since most companies (early investors) in the EIP are linked, the owner uses the EIP as a way of creating business for his firms. Nearly 20% of East Cement's products supplied Zhongshun (EIP Committee, October 2018). Almost half of East Cement's clinker production was to supply construction projects in the EIP. This concentration of customers in the EIP has meant that Zhongshun and East Cement have been able to sustain themselves.

6.3.1.3.3. Vertical Integration

Vertical integration is more significant in the cement industry than in the manufacturing industry, partially due to state intervention. The nature of the cement industry implies the existence of strong upward and downward linkages (Oqubay, 2015). It shows the strong interactions between the government and firms, and between different sub-sectors connected via construction projects all the way back to inputs supplying cement firms. It requires strong state intervention to coordinate all the stakeholders. Different actors are involved in the cement value chain from mining sites to final consumption destinations, including support industries that supply essential inputs such as alternative energy sources, packaging and spare parts, including associated businesses (MOFED, 2015):

> Currently, with a less or more mature cement industry in terms of production and consumption, the GoE encourages upward and downward value chain integration instead of expansion. With respect to economies of scope, larger cement plants were forced to integrate their activities vertically. (Oqubay, 2015, p.117)

The GoE set mechanisms to encourage cement producers to achieve full vertical integration. According to Oqubay (2018, p.17), the GoE provided concessions to investors to build factories with larger capacities and greater economies of scale. Other incentives came in the form of mining resources being made available at affordable costs, improved energy efficiency through imported coal and being given priority power allocation during power cuts.

Almost all cement manufacturers have quarries for mining limestone and related inputs (Oqubay, 2015). However, compared to large cement plants, East Cement achieved limited vertical integration. East Cement has a packaging department, but packaging materials are sourced from a local supplier. While large-scale cement factories purchased their own trucks, Zhongshun and East Cement solely rely on local transportation companies to provide trucks and drivers (FCM1-2; CCM2-4-e). This partially reflects the weak organisational and financial capabilities of Zhongshun and East Cement to achieve full vertical integration.

6.3.1.3.4. Dealing with Political Change and Social Conflicts

In contrast with the light manufacturing sector that can function on flexible production, the nature of the cement industry requires 24hour continuous production (Oqubay, 2018). This necessitates efficient and effective coordination of all the players within the cement value chain. Production capacity utilisation and cost efficiency are vital for the cement industry (Oqubay, 2015). East Cement's installed capacity is 700,000 tonne/year, but its actual production varies (between 520,000 and 600,000 tonnes). The availability and uninterrupted supply of energy and raw materials are two of the key factors that determine its actual production capacity utilisation and cost efficiency (FCM1-1). However, continuous production is often impeded by political change and social conflicts. Foreign firms often find themselves embroiled in conflicts over livelihood opportunities (such as job opportunities) between local authorities and segments of the population.

Compared to Haibo and Huajian, Zhongshun and East Cement had to comply with more requirements imposed by the local authorities. As regional governments have the power to manage mining rents and rights to produce and source raw materials, they can compel firms to buy locally and to create jobs for local youth. This is precisely what happened in Oromia, where the regional government wrote to East Cement and asked it to cede some of their operations to the cooperatives of unemployed youths in the area. The mining of pumice is regulated and controlled by the local authorities with little intervention from the federal government (CCM2-2-a).

According to my informants, conflicts between local suppliers, the community and foreign firms are common in Ethiopia's cement industry. Apart from the pressure from the local administration, East Cement was confronted by disgruntled youth demanding employment opportunities. The local youth federation asked East Cement to employ them for mining extraction and use their supply for additives (pumice). The local youth blocked the road from the mine towards the factory and stopped other suppliers from entering. They demanded that East Cement use their (the local youth's) nominated suppliers (CCM2-4-e). Despite the fact that these actions were illegal, the local authority turned a blind eye, probably because they were more concerned about upsetting disgruntled youth at a time of political tensions, than about harming the interests of a few foreign investors.

It is important to note that this problem is not unique to Chinese firms such as East Cement, other foreign firms such as Dangote also faced similar troubles. One cannot dissociate these tensions and threats with the climate of political mobilisation and contestation prevailing during that time, as the *Reporter* (2018) reported 'Most of the cement factories found in the Oromia regional state … the epicentre of the public riots'.

Since 2016, local protests, turbulence and conflicts negatively affected the daily operations of East Cement. During the first state of emergency, East Cement had to shut down and wait until the local conflict ended, in sharp contrast to Huajian's capacity to weather the storm and expand production. Production was also significantly hampered by the second state of emergency. Therefore, the investor found himself rather powerless facing these external threats and the uncertainty of political mobilisations. The continuous supply of electricity and coal, pet coke and HFO, in addition to raw material inputs[124] is vital for continuous production. Limestone, sandstone and clay are the three main inputs for clinker production. Although East Cement has quarries for limestone, sandstone, clay and gypsum (see Table 21), the continuous supply of raw materials was impeded by political turbulence and constant social conflicts at the regional and local levels.

[124] Raw materials extracted from quarries are strictly subject to firms' own usage for production unless they have an additional licenses to sell.

Table 21: Energy and raw materials sourcing (Zhongshun and East Cement)

Firm	Description of energy and raw materials	Volume/annum*	Sourced locally (%) Specify the source (Whether it has its own quarry or purchases locally)	Imported (%)
Zhongshun	Limestone		Has own mine	
	Clinker	130,000–140,000 tonnes	100% (from East Cement)	
East Cement	Coal			100% imported from South Africa through the Ethiopian Petroleum Supply Enterprise (EPSE)
	HFO		100%	100% imported through EPSE
	Sandstone		100% (from the local supplier)	
	Limestone		Has own mine	
	Pumice		100% (from the local supplier)	
	Clay		Has own mine	
	Gypsum		Has own mine	

Source: Author, compiled based on a survey conducted on March 27, 2018

According to the senior manager of East Cement (CCM2-4-e), the company stopped extracting gypsum due to environmental pollution issues that were raised by the local community (the local community did not clarify what these issues really were). As a result, East Cement had to source gypsum from local suppliers. East Cement and Zhongshun have a limestone mine, which relies on road transportation. Due to the political turbulence since the end of 2017, the road between the factory (East Cement) and the limestone mine was blocked by the local youth association. Therefore, East Cement had to source limestone from other suppliers at a higher price in 2018 (CCM2-4-c).

The state of emergency and social conflicts clearly hampered continuous production and reduced capacity utilisation, which severely affected the accumulation process. It is evident that the fragility of the production process given its requirements (vertical integration) that are often not met is attributable to social conflict, political changes and local content policies.

6.3.2. Managerial Ethos

As discussed in Chapter Two, the managerial ethos is not set in stone; instead, it is quite fluid and dependent on factors that change over time and across contexts. It has to be changed and adapt to particular pressures from 'within the firms and the local social and political pressures' (Lee, 2017, p.94). Lee (2017) refers to Max Weber's notion of 'asceticism' and describes Chinese state capital's management ethos as 'collective asceticism' (or 'eating bitterness'), which is in contrast to global private capital (individualist, career-oriented ethos) in Zambia's construction and mining sectors. She correctly points out that the degree of collective asceticism in Chinese firms varies, depending on sectors and ownership (state or private). However, such a characterisation may not apply to all forms of private capital, as Lee discusses the dominant corporate ethos in Chinese SOEs but not private firms.

Inspired by Lee's comparative analysis, this section will explore and compare the managerial ethos of these three exemplary types of Chinese private capital. Derived from variegated capitalism literature, Fei (2020) developed a variegated work regime (VWR) to explore divergent labour regime that Chinese firms have adopted in Ethiopia. Fei (2020) points out the necessity of understanding Max Weber's notion of 'the spirit of capitalism'(also see Lee, 2017), emphasising the human perspective. This involves not only corporate culture but the interactions between Chinese expatriates and local workers, and how they adapted and changed based on the given control mechanism. This also requires an understanding of Chinese expatriates' 'world views and mutual expectations, rooted in their respective identity classes and local/regional histories, particularly their distinct experiences during the past four decades of Reform and Opening Up with socialism and post-socialism' (Lee, 2017, p. 648).

This section aims to explore the kinds of corporate culture firms adopted, how they (not only entrepreneurs but also Chinese expatriates) interacted with local businesses and society and how decisions were made in the face of challenges. It examines whether the managerial ethos specific to certain sectors or production regimes rather than nationalities or cultures, which is in line with Schaefer and Oya's (2019a, 2019b) argument. It is argued that even within the same sector (and/or same market), the corporate ethos of Chinese private capital differs significantly. Apart from sector specificities, other factors such as the entrepreneur's background and the type of firm are equally important variables to explain such differences.

6.3.2.1. *Haibo Garment PLC*

6.3.2.1.1. Corporate Culture

Unlike the stringent hierarchy in Chinese SOEs, the organisational structure in PEs is more decentralised, especially with family-owned SMEs (Fei, 2020). Haibo adopts a flexible managerial ethos that helps resolve a variety of problems they encountered, especially with managing their local workforce. Such a family-like management model emphasises unity, tolerance, and flexibility. Given the limited number of Chinese expatriates in Ethiopia, family-owned SMEs employ Chinese expatriates in managerial positions that train small groups of local foremen, who in turn train local workers (Fei and Liao, 2020, p.634). Haibo's management regime is highly decentralised. Mr Zou fully empowers Chinese expatriates to operate the factory and encourages efficient communication with local workers when they encounter problems. Such a level of trust is built based on kinship and friendship as most Chinese expatriates are either Mr Zou's family members or friends.

Mr Zou emphasises the importance of adaptation and change of Chinese expatriates' mentality and behaviour when they are working overseas with locals. From Zou's perspective, conflict between Chinese expatriates and local workers is largely due to miscommunication:

> When the problem occurred, the first thing is to re-assess ourselves to see whether we did anything inappropriate. When we communicate with local workers or have problems with them, we should insist on our principle [meaning to be flexible and people-oriented](CCM3-1-a).

Zou constantly persuades Chinese expatriates to adapt to the local reality and find appropriate ways to communicate with local workers, 'because local workers have a low wages and limited education, we cannot expect them to have the same requirements as Chinese workers'. Mr Zou stresses that 'Ethiopian workers' personality and national ethos are good. If you find proper ways to communicate with them with respect, they can understand things very well. In this case, they [Ethiopian] have no difference to us [the Chinese]'. Zou believes that Chinese managers need patience, empathy and care to engage with local workers. 'Sometimes, we need to see from different angles to understand their positionalities' (ibid).

Different from Mr Zou's assertions, Chinese expatriates in Haibo have different perceptions of local workers. They complain that local workers are lazy and have little incentive to work hard. 'For those old workers, they know how to do the job but always reluctant to work hard even we pay more. We prefer new workers who have just mastered the skills because they are eager to work hard', one factory manager said (CCM3-2). These comments are echoed by both Chinese and non-Chinese foreign firms (also see Lee, 2017; Schaefer and Oya, 2019a). Despite complaints, Chinese expatriates do adapt and change and have gradually overcome initial cultural barriers through observations and interaction. It is partially because factory's performance directly links to Chinese expatriates' bonuses, which incentivises them to find ways to engage with local workers and ensure that production goes smoothly. One example of how these Chinese expatriates train local workers follows.

The most challenging aspect of training is the language difficulty and cultural differences. According to the factory manager, when Haibo hired local workers at the beginning of their operations (2015), none of these local workers had the required experience. Most of them had never seen the machines they would be working with before. Chinese expatriates had to teach them every step. Chinese supervisors had to communicate with local workers with a mix of gestures, some basic English and Amharic due to language barriers. 'We have to learn how to communicate with them [local workers]. Eventually, most Chinese staff mastered some basic Amharic', the factory manager said (CCM3-2). Sometimes friction between Chinese expatriates and local workers occurred due to different cultures and languages. If a Chinese expatriate explains certain work to local workers, but after repeating several times, they still do not understand, the Chinese expatriate might become impatient and raise his voice, and local workers will think he does not respect them. That is one example of how a conflict occurs (ibid). Due to the close engagement with local workers, Chinese staff have gradually developed a sensitivity on manners that may cause labour conflict.

Sector specificities matter with, for example, the garment making process, which is considered to be less stressful and more relaxing that leather product manufacturing (Tang, 2019, p.22). Haibo did not encounter the same level of pressure on production organisation and management regimes that Huajian had due to the different export markets where these two firms focus. Even though both Haibo and Ao Fan have started exporting, they are mainly focusing on surrounding African markets and the Middle East for relatively low-end products. This could be one reason why firms such as Haibo lack incentives to train workers systematically. This is quite significant and shows how the type of market they target determines the quality and type of managers they have. The commitment to training a firm has is dependent on what level of skill is required to produce the goods and where the firm is positioned in the international market (Fei and Liao, 2020).

6.3.2.2. *Huajian*

6.3.2.2.1. Corporate Culture

Comparing to Haibo, Huajian has a comparatively stronger managerial ethos of 'eating bitterness' and adopts a highly centralised, semi-military management regime. The managerial ethos of Huajian is in line with its parent company in China. The managerial ethos of Huajian is significantly influenced, designed and shaped by its founder Mr Zhang Huarong. Mr Zhang's early trajectories drove him to believe firmly in 'collective asceticism'. He refers to his experience of growing up as a benchmark to lecture staff on '*chi ku*' (eating bitterness), '*jie yue*' (frugality) and '*fu cong zhi hui*' (obey orders) and exercising these qualities in Huajian's management system. This managerial ethos has been institutionalised in Huajian. Mr Zhang developed his 'Chairman Zhang's Philosophy' to lecture his Chinese and Ethiopian staff on about the merit of frugality and 'eating bitterness'.

One example of the militaristic and highly personalised rules in Huajian was thousands of workers singing 'Union is Strength' 《团结就是力量》and the 'Huajian Song' 《华坚之歌》during their routine morning meeting. The content of these songs explicitly reflects Huajian's corporate culture. 'Union is Strength' stresses the ethos of collectivism (see Table 22). The 'Huajian Song' depicts how Huajian came to Ethiopia and helped local workers out of poverty. In 'Huajian Song', key parts of the corporate ethos such as being hardworking, grateful, frugal and disciplined have been stressed.

Table 22: The content of 'Union is Strength'

'Union is strength Union is strength Union is strength This strength is iron This strength is a steel It's stronger than steel to is harder than iron The facing method west Si Di opens fire Let the whole undemocratic system death! The facing the sun facing freedom'

Source: Author's translation

Banners bearing slogans (in Mandarin, English and Amharic) such as 'Love Your Family, Live Happily, Love Your Life, Be Healthy and Happy' and 'Civilised and Efficient, Harmoniously Sharing' are hung in the workplace, canteens and in front of dormitories (participant observation, see Appendix C, PO-9-2). These slogans are common in these kinds of factories in China. Even now, some factories still keep theses slogans to remind their workers to work hard. They are part of the collective asceticism philosophy.

This manifestation and expression of a managerial ethos is something significant that was not found in firms such as Haibo and other SMEs. This further demonstrates that the entrepreneur's background, sector specificities and the type of firm are important variations that explain the different corporate culture between Huajian and Haibo.

6.3.2.2.2. 'Semi-Military Rhythm of Daily Life'

Mr Zhang has a very hands-on management style, despite this being a relatively large light manufacturing enterprise. He rigorously controls every step of daily operations and even his staff's lifestyle. Although based in China, he frequently travels to Ethiopia to check the production progress and hosts a monthly meeting with all staff in Huajian (Ethiopia) (author's observation).

There are several important routines that directly stem from the owner's preferences and management style. First, everything starts early or on time, with him leading by example and getting up at 05:00 (a.m.). Second, exercise is embedded in working daily life. So, all Chinese employees need to run 4 km in the morning. All staff are required to do morning exercise to keep themselves healthy and active. This is also designed to reduce the incidence of occupational injuries, given that jobs often require workers to sit down at machines for hours. Third, a very strict schedule is imposed on workers at all levels. A collective timetable built into the organisational design of Huajian coordinates the activities of 200 Chinese expatriates and 7,000 local employees, respectively. In Huajian, breakfast was served at 06:30 (a.m), lunch at 12:00 (p.m.) and dinner at 18:00 (6 p.m.). All staff wait in line to receive their food and are served with Huajian tableware. Chinese expatriates and local workers are divided into two areas in the canteen, the left part is for Chinese, and the right part is for locals. The canteen is run by a team of Ethiopian staff with two Chinese chefs in charge of Chinese and local food, respectively. All employees need to return plates and bowls to a fixed place afterwards. After lunch, local workers must wait in line to wash their hands (as they use their hands to eat *injera*) (participant observation, see Appendix, PO-9-1).

As part of the daily routine, constant communication between supervisors, workers and middle management is enforced. For example, after breakfast and morning exercise, meetings will be held in front of each shed. Usually, one Chinese manager is in charge of one or two workshops. Each workshop consists of several groups, and each group has a local supervisor. A local manager, who can speak Mandarin and English, is appointed to the Chinese manager to translate and coordinate teams. Lunch is served at 12:00 (p.m.) for Chinese staff. For local staff, there are two lunch and dinner time slots to avoid too many workers crowding in the canteen. After lunch, the Chinese staff go back to their dormitories to nap for one hour. For local staff, the situation varies. For those who live in the Light Industry City, they can go back to their dormitory for a nap. However, taking a nap is not typical for Ethiopians; instead, they choose to either sit in the shade and rest or buy a cup of coffee (costing 5–6

ETB). Men sometimes play football in the playground. Before entering the workplace, they need to put their personal belongings in lockers in front of the gate of Huajian (ibid).

There are also different forms of control mechanisms to discipline workers and make sure they focus on work. For example, the Internet is restricted during working hours to avoid staff playing computers games or chatting on social media (CCM1-13-a). All employees are fingerprinted to clock in and out. For local workers, before they leave the factory, security guards will search and check if they take any 'additional' items out.

Since many local workers go to church on Sunday, it has become the only day off for both Chinese and locals. At Huajian, Sunday is the only rest day for staff to catch up on sleep, do laundry and talk to family and friends via the Internet. There are basic recreational facilities, which include a basketball court, table tennis, karaoke and a mini cinema. Huajian also provides language training (Amharic and English) every Sunday afternoon. Overall, many aspects of everyday life at Huajian resemble life in the military, with a strong focus on time discipline, routine, exercise, hygiene, frequent collective communication and order.

6.3.2.2.3. Highly Centralised Management Regime

The management regime is highly centralised in Huajian, reflecting the strong hands-on approach of the owner. Although Huajian has reduced its hierarchy from 11 levels (in China) to six levels (in Ethiopia) (CCM-1-6) (See *Table 23*), differences between each level are quite small. For instance, the Manager and Deputy Manager actually have the same salary; the only difference between them is their 'titles'.

Table 23: Hierarchy in Huajian

Hierarchy in Huajian (China)	Hierarchy in Huajian (Ethiopia)
Level 1-作业员 Operator Level 2-质量管理 Quality Control Personnel Level 3-班长 Team Leader/ Deputy Team Leader Level 4-组长 Group Leader Level 5-科长 Section Head/ Deputy Section Head Level 6-主任 Director/ Deputy Department Director Level 7-经理 Manager/ Deputy Manager Level 8-协理 Associate/Deputy Associate Level 9-经理/副经理 General Manager/ Deputy Manager Level 10-总经理/副总经理 General Manager/ Deputy General Manager Level 11-董事长/总裁 Chairman/ President	Level 1-班长 Team Leader/ Deputy Team Leader Level 2-组长 Group Leader Level 3-科长 Section Head/ Deputy Section Head Level 4-主任 Director/ Deputy Department Director Level 5-经理 Manager/ Deputy Manager Level 6-董事长/总裁 Chairman/ President

Source: Author, compiled based on interview notes conducted in March 2018, see Appendix B, CCM1-6; CCM1-4-a; CCM1-4-b

For level seven or above, all decisions must be approved and signed by Mr Zhang Huarong.[125] This results in limited empowerment for middle-senior management, which may lead to inefficiency and delays in decision-making. For instance, when the HR department booked airline tickets for a group of Chinese supervisors to Ethiopia, the department found the cheapest flight information and sent it to Chairman Zhang for approval. However, Chairman Zhang was very busy during that time and did not have time to process it. Eventually, the decision was delayed for two to three weeks, and by the time when they finally booked the flight, the price had increased significantly (CCM 1-a).

Moreover, voicing concerns from the bottom is difficult. For instance, if an operator has a problem in the workplace, they need to report directly to their direct supervisor. Any act that bypasses the

[125] See Appendix B, CCM1-3

immediate leadership is not encouraged. Hierarchical relations are very important in the factory, and they start with production workers in their relationship with line supervisors. This means that supervisors and line managers may have considerable power over those under them since bypassing them is not possible. There are too many leaders at parallel levels, with no clear division of work and responsibility. One issue may need to be reported to different leaders at the same time. Such a high level of bureaucracy results in unnecessary delays in decision-making and implementation (CCM-1-4-a). Empowerment takes time, especially in Huajian where most (Chinese) old cadres have gotten used to following the founder and are accustomed to implementing this production regime. Even if power is decentralised, it is rhetorical unless fundamental changes occur. In order to find the root of this problem, it is necessary to look at the generational clash among Chinese expatriates.

6.3.2.2.4. Clash Amongst Chinese Expatriates

There are many problems existing in terms of communication and mutual understanding between Chinese expatriates and local workers, leading to labour conflicts (CCM1-4-a). This is largely attributable to the Chinese management regime, especially the behaviour of middle managers (made up of Chinese supervisors) (CCM1-6). A unique problem that Huajian has is the divide in Chinese expatriates because of generational clashes. According to tenure and recruitment type (external and internal), there are four types of Chinese expatriates in Huajian: 1. Old cadres (internal); 2. Young Cadres (internal); 3. Professional managers (external); 4. Experienced cadres (external). Conflict exists between these four types of Chinese expatriates (see Table 24).

Table 24: A variety of Chinese expatriates in Huajian (Eth)

Percentage in Total Chinese Expatriates	**Internally Recruited Staff**	
	Old cadres	Young Cadres
80%	• Born in the 1970s and 1980s • Limited education (elementary school and/or secondary school) • Worked in Huajian over 10 years	• Born after the 1990s • College (some are from Huajian's own vocational school) • Worked in Huajian 3–5 years (or recruited directly from the vocational school)
Percentage in Total Chinese Expatriates	**Externally Recruited Staff**	
	Professional Manager	Experienced Cadres
20%	• Work in MNEs in the relevant industry • High education • Speak English • Have rich overseas working experience	• Previously working in large factories • Previously working in small-scale factories

Source: Author's own illustration based on interviews and observation

There seems to be resistance to change among most old Chinese cadres, who have been the backbone of Huajian in the past two decades in China. They were born in the 1970s and 1980s in rural areas and received limited education (highest level of schooling being elementary or secondary school). They started from '*xue tu*' (apprentice) and eventually rose to become middle and/or senior management at Huajian. As a result, most old cadres' mentality and management ethos are still bound with China's old (1990s–2000s) management regime and production mode. This is what characterises the overall dominant management ethos of a company stuck in the 2000s. The old cadres ethos/style is reflected in poor communication and failing to respect cultural divides, resulting in clashes with local workers.

Scolding and even beating is common for these old cadres as this was what they experienced in the past. Now, this is no longer acceptable to workers in China. In Huajian (Ethiopia), many Chinese expatriates were born after the 2000s and received a better education, and they will take legal action if old cadres fight with them (CCM1-6). At Huajian, labour conflicts are also partly related to the harsh management style of the old cadres, and this creates tensions with other expatriates who were not raised with this kind of factory culture. The following example from a senior manager at Huajian illustrates this. Huajian imported all its machinery and equipment from China, Italy and Germany. However, the challenge for the management team was how to use this state-of-the-art machinery effectively to optimise the production process. Huajian (Ethiopia) has more advanced machinery than Huajian's factories in China. The problem is that there are no personnel at the Ethiopian factory who can operate the state-of-the-art machinery. The senior manager suggested Huajian provide systematic training to Chinese expatriates, especially old cadres, on how to use this new machinery. However, most of the old cadres still do not know how to operate the new machines after training, and some even refused training (ibid).

Firm internationalisation requires not only upgrading machinery and technical skills but also softer skills such as leadership, communication and mindset. However, it will be difficult to make drastic changes to reform within Huajian (CCM1-1). Huajian's owner comes from that culture and tends to trust and protect this group of old cadres, thereby hampering effective solutions to solve the issues with turnover and labour conflict. Ultimately, the boss himself belongs to the 'conservatives' who are struggling to change (ibid).

6.3.2.3. *Zhongshun and East Cement*

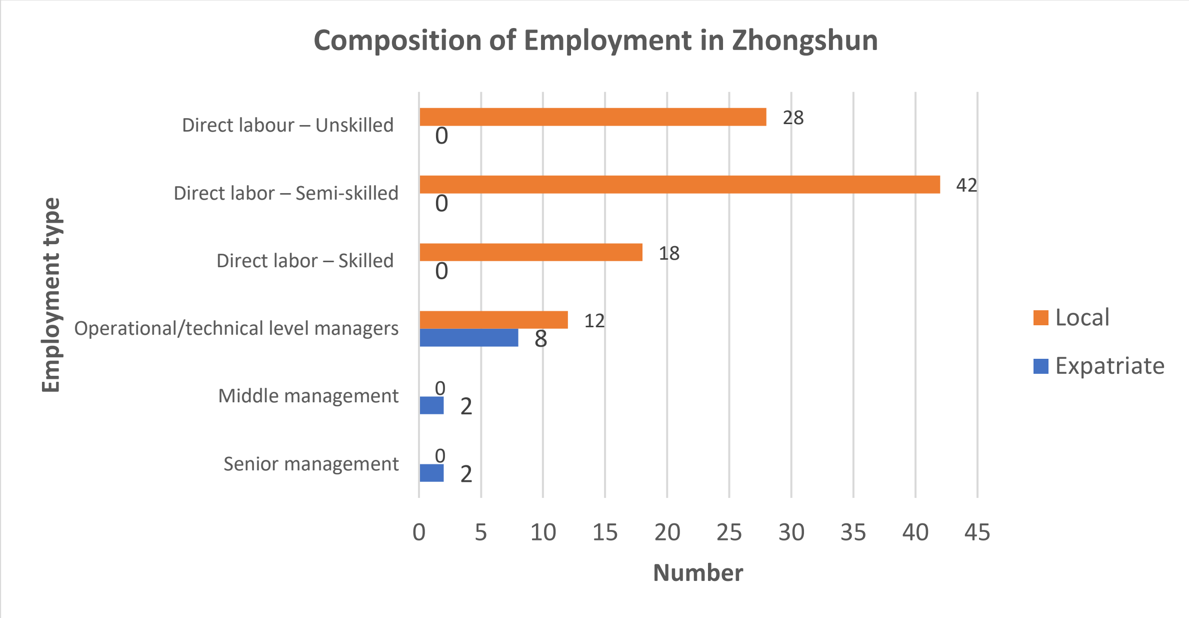
6.3.2.3.1. Corporate Culture

Loyalty and value creation are the most important aspects of the prevailing managerial ethos at Zhongshun and East Cement. Pursuing a profit maximisation logic, Mr Lu's steel pipe factory in China did not hire a large number of employees (105 workers) (CCM2-1-b). Instead, he cared about the focus and single-mindedness of his staff and how much additional value each individual created.

The corporate ethos of Zhongshun and East Cement is in line with Mr Lu's firms in China. Mr Lu focuses on maintaining core workers who can potentially create more value for the company. There is a strong preference to maintain the stability of the workforce and rely on loyal employees. Just like in China in the 1980s, Zhongshun and East Cement introduced the concept of 'senior blue-collar' (senior working class). Instead of educational qualifications, Zhongshun and East Cement value loyalty and the potential of local workers.

At Zhongshun, there are a total of 38 skilled workers and operational/technical staff (see Figure 18). Amongst these, 30 are local employees, and four to five of them have been working in Zhongshun since the very beginning (seven years). They are regarded as the backbone of the labour force at Zhongshun. 'As long as we can keep those backbones, we could ensure 60% of core production' (CCM2-4-a). Zhongshun tries to maintain the core team by increasing their wages and non-wage benefits. 'Their basic wage, the bonus is much higher than others, and each year has a large increase' (ibid).

Figure 18: Composition of employment at Zhongshun



Source: Author, calculated and compiled based on a survey conducted on March 27, 2018 (see CCM2-4-a)

Zhongshun and East Cement both aimed for workforce localisation not merely because of the political influence like Huajian but for the sake of profit maximisation in the long-term. Zhongshun and East Cement managed to enhance localisation rates in the past decade. Both factories have a higher level localisation rate (80%) than other Chinese and non-Chinese foreign plants such as Dangote. Consequently, the total number of Chinese expatriates in 2017 was two-thirds less than what it used to be in 2010 (dropping from 140 to 80 in the past seven years). Apart from a small number of senior managers and core professionals who are Chinese, the majority are local workers.

Language and a lack of basic professional knowledge are two major obstacles for a firm to provide training. To train a skilled worker in the cement industry is very costly and time-consuming. It takes an average of two to three years to master basic skills in the cement industry. To become a skilled worker, such as a welder, takes around four to five years, and their productivity is around 30–50% compared to Chinese workers (CCM2-4-a). The only technical or professional work at Zhongshun Cement is laboratory-related, machinery repair and electricians (around ten people, accounting for less than 10% of local workers).

The fundamental problem in Ethiopia's cement industry is a severe shortage of manpower. According to the former Deputy General Manager of Zhongshun and East Cement (CCM2-4-a):

> In China, both vocational schools and universities offer specialised subjects such as material science. Although Ethiopian universities have majors in electrification and machinery,

> graduates very often have unrealistic expectations. What they studied from their universities does not match firms' requirements for actual production […] These undergraduates have no other advantage, but fluency in English and the salary they asked is unrealistically high.

He added, 'I would rather hire illiterates and train them from scratch than these unrealistic students' (ibid).

To enhance productivity, Zhongshun and East Cement translated training materials in China and appointed training specialists from Sinoma to offer training in Ethiopia. Challenges remain as during the training it was discovered that a lot of technical terms are difficult to translate into Amharic.

However, Zhongshun struggles to retain workers even if it is a core aspect of its management ethos (to keep a stable workforce). Partially this was because they do not offer enough benefits (wages and non-wages) to retain workers despite their aims. The location and clustering of competitors within surrounding areas matter significantly for the benchmarking of wages and the availability of workers' choices. East Cement is the only cement plant in Fiche area,[126] thus there is little competition. However, Zhongshun faces different dynamics. Although firms in the EIP reached a consensus on local worker's basic wages, job-hopping still frequently occurs. For instance, 30% of Zhongsun's employees' job-hopped to a new construction materials firm in the EIP as they paid two to three times more (CCM 2-4-a).

Another problem is related to the political turbulence and social conflicts. East Cement had to completely shut down during the state of emergency period. To reduce further loss, Zhongshun and East Cement had to lay-off some of their local workers.

6.3.3. Summary

In this study, it is found that profit-making was common, although there existed a significant distinction between these three types of firms. These three firms' approaches to local improvisation on the ground are highly diverse and largely subject to the political economy of the host country in general and at a sectoral level. To ensure investment is successful and profitable, all firms have shown a certain level of adaptation and change their production organisation despite the degree of each varying. Production constraints each firm encountered differ not only because of the sector specificities and firm's position in global and domestic production networks but also due to the political economy conditions in Ethiopia. The fractious politics at the central level and across all levels,

[126] Fiche is a town in central Ethiopia. It is the administrative centre of the Semien Shewa Zone of the Oromia Region.

and the increasing ethnic-triggered conflicts, have added another layer of difficulty that impeded firms' normal operation and their expansion in the host country.

Empirical findings from this research show that the managerial ethos of these three Chinese private firms differs significantly from global private capital's 'career-oriented' ethos, partially because these three firms are of different type that differ significantly from the conventional definition of TNCs. None of these three firms has a clear boundary between the corporate and personal domain. In line with Shaefer and Oya's findings (2019a), it is evident that both structural factors and sub-sector specificities (labour-intensive industry and capital-intensive industry; export and domestic market) matter and impact a firm's managerial ethos. Moreover, this research shows that the background of the entrepreneur is another important factor to attribute to the divergent ethos in Chinese private firms. All of these firms are owner-operated and the owner's background affects the development of their managerial ethos.

Haibo's and Zhongshun's managerial ethos is very different due to their divergent sector specificities and the type of firm: while Haibo focuses on flexibility and having a decentralised management regime, Zhongshun and East Cement emphasises loyalty and value creation. Huajian's managerial ethos has a certain similarity to the Chinese state capital of 'collective asceticism'. Its corporate culture focuses more on discipline, hard work, frequent collective communication and order. It resembles a military regime to exercise its corporate ethos and is highly personalised based on Mr Zhang's priorities. Although Huajian adapted its production organisation well based on Ethiopia's situation, its managerial ethos still has significant flaws in terms of generational clashes among Chinese expatriates, which led to labour conflict and weak organisational capabilities.

This analysis provides a possible answer to the question regarding why Huajian encountered more labour conflicts than other firms (both cross-sector and within the same sector and market). One might argue that it is the nature of the industry that determines the challenges with labour-related conflicts. However, other latecomers (such as JPTE and Jiangsu Sunshine) encountered far less labour-related issues. Although all export-oriented light manufacturing firms are subject to GPNs, those latecomers' production organisation and management regime are different from Huajian. This is partially due to firms' positions and power relations in different GPNs. They (latecomers) are working directly with global brand firms and have been strategic suppliers to those brands for decades (see Chapter Five for more detail). Thus, in addition to the sector specificities, the type of firm and entrepreneur's background are two important factors that help to explain firms' different operations and strategies.

In terms of the Chinese expatriates in these three firms, there are many similarities. They all draw on their experience of economic development in the past four decades at the personal, local and national levels. When they complain about workers being lazy and inefficient, they all use their home country as the benchmark. However, these Chinese expatriates' ability to adapt and change their mindset and behaviours based on local realities is not only determined by their personal experience and background but also the firm's managerial ethos.

To conclude, all these firms are successful in terms of investments and re-investments in their respective sectors. When firms operate in Ethiopia, they encounter different constraints in production and managerial ethos. The type of firm (scale, history the origin of investments) and the entrepreneur's background are essential variables that explain firms' divergent accumulation processes.

6.4. Conclusion

This chapter has provided a detailed analysis of the logic and process of accumulation of three relatively successful cases of manufacturing investment by Chinese private capital in Ethiopia. Even though these firms have experienced successes of varying degrees, they have also encountered numerous obstacles and have had to adapt in a way that has affected their accumulation trajectories and initial aims. This analysis showed that the accumulation imperatives of these three types of Chinese private firms differ significantly from Lee's (2017) classification of encompassing accumulation (of Chinese state capital) and shareholder value accumulation (of global private capital). This distinction stems from the type of firm (their origins), their operations and the sectors in which they operate. It is hard to find a single accumulation logic and driver of expansion.

This chapter also showcased that the history and origin of the firm (heterogeneous local government improvisation in China and regionalised industrial development) and the entrepreneur's background (social groups and economic class) are factors that lead to firms' different accumulation trajectories. Such factors are particularly important during the business formation stage (i.e. accessing initial capital, obtaining information, decision-making, financing and installation). Also, sector specificities matter significantly. Understanding the political economy of each sector in Ethiopia is of great importance.

The accumulation trajectories of Chinese private firms are diverse, complex and fluid. The evidence has suggested that Chinese private firms' accumulation trajectories in Ethiopia do not only differ concerning the attributes of an entrepreneur's background (education, work experience and regional or local government policy in their hometowns), *guanxi* network and the type of firm (scale, history and origin of investment). Their evolution is affected by the particular market segment in which they operate, their position in global and domestic production networks and, of course, the political economy of each sector in Ethiopia. These findings are consistent with the arguments in Chapter Five. It is also important to note that Chinese private firms are not static; they bring their experience and accumulation capacities when encountering the GoE (at various levels) and local workers. Moreover, they learn and adapt as they navigate their accumulation trajectories.

Capital accumulation is path-dependent, processual and relational, as stressed in the VC approach. The existing literature has overemphasised how China's domestic political economy determines firms' motives and determinants (Fei, 2020). However, researchers have neglected accumulation trajectories that involve actual operations and interactions with various actors on the ground (e.g. host country government, local labour and community) and their competencies. This chapter filled in some gaps by exploring various production constraints that three types of firms encountered due to their divergent managerial ethos and how they dealt with them.

Solely replicating a Chinese production or work regime model does not necessarily facilitate operations in a foreign territory with a completely different historical background and political economy. Instead, Chinese private firms have adapted and changed their production organisation and managerial ethos based on local realities. However, it is far from adequate. Firms need to adjust their organisational structure and increase their pace of internationalisation.

As the key actors in accumulation, investors and Chinese expatriates (managers and technicians) must continually learn from their experiences and actively and promptly adapt to local realities. When discussing managerial ethos, some quite familiar sentiments were used by informants to describe the 'culture' of Ethiopians. While some Chinese informants spoke positively about the work ethic of Ethiopians, others were borderline racist – seeing them as 'lazy'. Chapter 5 has argued that important factors that have shaped Chinese firms' investment motives, logic and strategies include the following: the type of firm (scale, origin and history), entrepreneur's perspectives (education, family background and work experience) and the *guanxi* networks that firms or owners have, sector specificity (i.e. light manufacturing or the construction materials sectors) and the political economy conditions of both home country and host country (at the national and sub-national level). Those factors give these three firms particular sets of opportunities and constraints regarding management workforce localisation, leading to diverse employment outcomes that affect their attitude about the local workers.

Despite certain constraints, such as political changes in the host country that no individual firm can solve, there is plenty of room for Chinese firms to mitigate certain operational risks. For instance, to reduce workplace labour disputes, firms need to foster workplace localisation. Evidence in this chapter has shown that certain levels of technology and skills transfers have been achieved, mainly for semi-skilled and low-skilled workers. However, achieving further knowledge and skills transfers will require an integrated workplace. Internally, firms need to improve their human resource management practices. For instance, this could be by setting up a more straightforward career development plan for Chinese expatriates and local employees or by building a more flexible reward scheme to encourage employees to learn and work.

Moreover, workplace localisation relies on continuously evolving management practices and operational strategies at individual firms and requires constant proactive government guidance and institutional support. In addition to techniques and skills training, soft-skills training, such as culture, law, and CSR, is needed for Chinese expatriates and local workers. To do this more effectively also requires the government and corresponding institutions (both home country and host country) to provide a timelier and more comprehensive guide so that firms are clear about what the government expects them to deliver and what they can expect from the government at its different administrative levels.

From a long-term perspective, unions (or at least a worker committee as a temporary solution) should be established in factories to deal with labour relations systematically. However, it is impossible to achieve this without an effective cooperation mechanism, ideally with local labour unions, Ethiopian government agents at various levels, Chinese firms and relevant international organisations (such as the United Nations Industrial Development Organisation (UNIDO) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)). Thus, a tripartite or multi-partite cooperation mechanism should be established to train Chinese expatriates and local employees (see Chapter 8 for more details).

7. The Dynamics of State–Business Relations Between the Ethiopian State and Chinese Private Firms

7.1. Introduction

This chapter will take the Eastern Industrial Park (EIP) as a case study to explore the dynamics of state–business relations (SBRs)[127] between the host country government agencies (the Ethiopian Investment

[127] See Chapter Two Section 2.2.4 for the full elaboration of SBRs.

Commission (EIC) in particular) and Chinese private businesses, with a particular focus on the existing institutional bargaining mechanisms[128] available to Chinese businesses, and the role of tacit networks[129] in Chinese private firms. It will discuss how these institutional bargaining mechanisms emerged, what specific forms they have taken and how they evolved in Ethiopia. It will also explore what kinds of conflicts and collaboration exist between the host country government, Chinese business associations[130] and private firms. Further, it will answer the questions, including what sort of problem-solving mechanisms are there, to what extent are these kinds of institutional set-up effective, and are they unequally controlled by certain players. Finally, it will discuss what caused this current structure and the political economy implications.

The analysis of the process of firms' lobbying, adaptation and bargaining with the host country government (at multiple levels), and causes of these actions, offers a new dimension that complements the previous two chapters (motives and determinants of different kinds of Chinese private firms investing in Ethiopia, their distinct interests and logic and the processes of accumulation), and is essential to understand the nature and dynamics of Chinese private FDI in Ethiopia.

This chapter argues that the institutions led by Chinese government agencies only serve limited purposes and are led by the interests of certain kinds of firms. Private firms tend to locally improvise and create their own bargaining mechanisms, even when the Chinese state has built official channels for bargaining. This is where the distinction between state and private capital comes into play, as suggested by Lee (2017), which sees shifts in the effectiveness and usefulness of particular official channels. Specifically, the empirical evidence relayed in this chapter shows that the relations between Chinese private businesses and host country governments are not always amicable; rather, they are highly complex, context-specific, diverse and fluid. How Chinese firms in the EIP dealt with the Ethiopian government (GoE) and their services, labour conflicts and export targets offer vivid examples to showcase such dynamic, complex state–business relations.

This chapter is structured as follows. After this introduction, Section Two will give an overview of the types and examples of Chinese business bargaining mechanisms in Ethiopia. Section Three will introduce the evolution of the Chinese business institutional bargaining mechanisms in the EIP. In addition, key institutions responsible for FDI will be analysed with regards to these institutional bargaining mechanisms. Section Four will take the EIP as a microcosm through which to explore the dynamic and shifting relations between the Ethiopian government (in its various representations) and

[128] See Section7.2 for the full elaboration.

[129] ibid

[130] There are numerous Chinese business associations in Ethiopia, see Section 7.2.1 for more details.

Chinese private firms, with a particular focus on the institutional bargaining mechanisms of Chinese businesses and the role of the tacit networks of private firms. How did the EIP and Chinese private firms deal with the Ethiopian government (in terms of land, services and environment), labour conflict and export targets? These have been identified as three main areas of friction that this section intends to explore. This section will also extract key lessons from these examples. Finally, Section Five concludes.

7.2. The Bargaining Mechanisms of Chinese Businesses in Ethiopia

This section brings empirical evidence to show that there are various Chinese business bargaining mechanisms in Ethiopia, which can be divided into two main types: the first is a formal, legitimate institutional bargaining mechanism. Firms establish relatively formalised mechanisms, such as associations (there are different kinds of business associations such as the Chamber of Commerce (CCCE) in Ethiopia). The names of these associations differ, depending on the different meetings, reporting, mandates and remits. The second mechanism is an informal one (what I refer to as 'tacit networks'). Tacit networks can be any type of *guanxi* networks (including official, business and social networks, as discussed in Chapter Five). However, they are manifested in a highly implicit and subtle way to establish, develop and maintain *guanx*i ('relationships' and 'connections')[131] with political elites and bureaucrats. This type of bargaining mechanism sometimes operates in groups, and at other moments is applied on an individual basis.

Both of the above are bargaining mechanisms. They are the main interlocutors between Chinese businesses and the state. Within those business bargaining mechanisms, firms have different levels of engagement. Some are just for information sharing. Others are managed by Chinese institutions, while still more are truly independent.

7.2.1. Chinese Business Associations in Ethiopia

Pritchett et al. (2013) emphasise the importance of a strong business association to influence policy changes. However, the authors do not make explicit what type of business associations is more important for specific categories of firms (Deller, 2018). This section will look at various Chinese business associations in Ethiopia and explore to what extent these business associations work and for whom.

[131] See Chapter Two for the full elaboration.

7.2.1.1. *Central Government-led Business Association*

The China Chamber of Commerce in Ethiopia (CCCE) is the largest formal legitimate Chinese business association in Ethiopia. It was established in 2008, under the MOFCOM's supervision (CCCE, 2019).[132] The CCCE initially did not have a bargaining mechanism specifically related to manufacturing issues. It was not until December 15, 2017, that the CCCE was legitimately recognised by the EIC (CBA1). [133]

The organisational politics of the CCCE and the EIC differ significantly. The main focus of the EIC is attracting investors (to manufacturing sectors in particular). The CCCE was initiated in 2007 by several state-owned contractors, and most members were SOEs (CBA1). Its establishment of the CCCE was meant as a way to manage Chinese firms in Ethiopia and their activities with a particular focus on the construction sector. Therefore, its initial remit was more limited and focused as its main objective was to coordinate bids between Chinese SOEs to avoid vicious competition. Early members of the CCCE were not investors, strictly speaking, but construction contractors, i.e. providers of construction services. This kind of issue-driven association was not set up for bargaining with the GoE (such as the EIC). Therefore, the EIC had no particular interest in the CCCE at the beginning as, during this period, the CCCE was catering for the needs of these types of companies (construction contractors).

With the increase of Chinese investment in Ethiopia, more private firms came to Ethiopia. Because the CCCE was already set up, some of its mission could be relevant to other sectors (such as the manufacturing sector). Then it became useful as a source of information and to deal with the general demands of Chinese businesses, but was still not sector specific. A branch called the 'Investment in the Chamber of Commerce'（投资商会）was established in 2010 under the CCCE (ibid). Any Chinese firm with legal status and a decent reputation (in the eyes of the Chinese government) is eligible to become a member.[134] The CCCE is helpful in lobbying common constraints (such as safety issues and tax policy) that firms encounter. A collective force at the institutional level enhances the power of firms to influence and bargain with host country government agencies.

Currently, the CCCE's main priorities have been shifting from communication and policy coordination to information sharing and assisting Chinese firms with issues such as the translation of labour laws. For instance, the CCCE drafts Investment Guides on a regular basis (every three years) to provide updated investment information to the public. Apart from the MOFCOM (Ethiopia) official website,

[132] As the CCCE website states, it is a non-state organisation, but in practice, they are the closet Chinese business association linked to the Chinese government in Ethiopia.

[133] All interviews have been coded. See Appendix B, Interview Code for more information.

[134] As of August 2018, the CCCE had more than 150 members, ranging from the construction, communications, tourism, textile and pharmaceutical sectors, amongst others (CCCE, 2019). See Appendix AA2 for the member list of the CCCE.

the CCCE also set up its official account on social media (QQ and Wechat) to provide useful information for firms (CBA1). The translation of local tax law (such as the Ethiopian corporate income tax 2016 and regulations in 2017) and labour law, for instance, is useful, and this can hardly be achieved by individual firms or informal small-scale associations due to the high workload and cost. The CCCE is, therefore, more like a service provider to Chinese firms, and less of a bargaining mechanism. In this way, it is clear to see the handover services of the Chinese Embassy, which is a typical practice for many embassies.

However, the influence of private firms in the CCCE remains limited despite the increase of their presence at the decision-making level. A number of private firms[135] claimed that the key benefit of joining the CCCE is to receive up to date information. However, most SMEs are not members of it because they found that problems facing individual firms (SMEs in particular) have little chance of being resolved through this channel due to the divergent interests of the main players (SOEs and large private firms) (CCM20).

7.2.1.2. *Regional and Local Government-led Business Associations*

The formation of some Chinese business associations also have region-specific characteristics and strong connections with Chinese provincial and municipal governments (see Chapter Four for more details). This type of association is efficient at resolving problems for firms from particular regions. In addition to origins, some prime movers, who acquired experiences on their own in Ethiopia then leveraged this experience to act as focal points for subsequent investor delegations, which also included government officials. As mentioned in Chapter Four, Zhejiang businessmen (浙商) are well-known for 'Going Out' in groups and have strong overseas Chinese networks. Zhejiang province ranks first in terms of Chinese FDI in Ethiopia when measured by the number of projects (see Chapter Five). However, most Zhejiang firms are small or medium in scale, mainly in the manufacturing industry, and their voice was quite limited in the CCCE due to divergent interests and asymmetrical power relations in an association that is dominated by SOEs.

Since 2016, when Ethiopia experienced its first state of emergency, the increasing uncertainty of safety and political troubles in Ethiopia (especially in Oromia region, where Chinese manufacturing FDI is concentrated)[136] has become private firms' top concern. However, private firms' investments had already been severely impeded by the host country's political uncertainties, and to solve this kind of problem is beyond individual firms' capabilities. In response to investors' uncertainties, a new

[135] Refer to Appendix B, Interview code CCM10-1-b, CCM11-1, CCM18-1-b, CCM20.

[136] Oromia is the top recipient region of Chinese manufacturing FDI (see Chapter Five).

association – the Promotion of the Peaceful National Reunification (CCPPNR) – was established on August 26, 2018. Mr Qian was appointed by the Chinese government as the Chief Representative of the Joint Office for the CCPPNR (Ethiopia).[137] Mr Qian's appointment was not accidental. He is a successful Zhejiang businessman who has invested in Ethiopia since 2007 (see Chapter Five). With the experience that Mr Qian accumulated and close connections that he established with Ethiopian government agencies; he was elected as the Chairman of the Hangzhou Business Association to promote FDI in Ethiopia (CCM17-1-a). Whenever government delegations and potential investors from Zhejiang province come to Ethiopia, they will visit Mr Qian first.

In China, the CCPPNR (Ethiopia) is supported by the Zhejiang provincial government and corresponding institute (CCPIT, Zhejiang). Mr Qian leveraged his connections with the GoE and influence among the overseas Chinese community to link the Zhejiang provincial government and the CCPNR strategically. In Ethiopia, the association falls under the Chinese Embassy's supervision (the Consular Section). However, unlike the CCCE, which needs to report to the MOFCOM (Ethiopia), the CCPPNR (Ethiopia) can report directly to Beijing, which gives the association more power. The establishment of the CCPPNR (Ethiopia) is an exemplary case of the Chinese central government, regional government and successful entrepreneurs connecting to establish effective business institutional bargaining mechanisms in a host country. It holds certain influence with Beijing while being more regionally oriented as most members of this association are from Zhejiang province. This type of association is especially effective to lobby and solve problems for firms from a particular region.

7.2.1.3. *Successful 'Leading Geese'*

The type of firm and entrepreneur's background also matter and reveal another layer of differentiation between Chinese firms that has an impact on institutional arrangements. As discussed in Chapters Five and Six, Huajian offers a unique case of Chinese private investment in Ethiopia. Being a successful 'leading geese', Huajian's investment in Ethiopia has received great support from both the Chinese and the Ethiopian governments. Because political influence is one of the top agendas for Huajian to invest in Ethiopia, this accumulation logic has leveraged it to be a powerful player that has direct access to the GoE at senior levels (ministers and above). Meanwhile, because of Huajian's potential influence on China's industrial capacity cooperation with Ethiopia, it was elected as a Board of Director unit firm in the CCCE once it moved to Ethiopia. Huajian is the type of firm that has significant power with regards to government relations amongst Chinese firms.

[137] China Council for the Promotion of International Trade (CCPIT) Zhejiang sub-council (CCPIT (Zhejiang)): Ethiopia Trade and Investment Fair in Addis Ababa on August 26th, 2018. Online available at: http://www.ccpitzj.gov.cn/article/10566.html [accessed on August 19th, 2019]. See Appendix AA3 for more detail of the CCPNR (Ethiopia).

In addition to the type of firm, each entrepreneur's background and *guanxi* networks to the government offer another layer of differentiation among Chinese firms. The Chairman of Huajian, Mr Zhang Huarong has been awarded political titles since his initial investment in Ethiopia in 2011 (see Chapter Six for more details). In China, he was appointed Vice-Chairman of the China–Africa Business Council.[138] Due to Huajian's background and Mr Zhang's political influence, Huajian has become a hot spot to receive delegations and Chinese government officials. These characteristics enhance the density and intensity of Huajian's connections to host country governments. Unlike most SMEs that rely on business associations (such as CCPPNR) to support them collectively, Huajian can approach the Ethiopian government (at the minister level or above) directly. Because political influence is part of Huajian's accumulation pattern in Ethiopia, its investment reflects SBRs and aspirations while most other firms avoid such a political spotlight.

7.2.2. The Role of Tacit Networks Among Chinese Private Firms

As discussed in Chapter Two, stronger business associations may lobby for better industrial policies (Pritchett et al., 2013). In reality, for certain issues, firms would prefer to bargain with the host country government via their tacit networks. The relations between Chinese private firms and the GoE are highly context-specific, personalised and unpredictable. Further, contested deals take place. Apart from joining various Chinese business associations, private firms are also seeking, maintaining and expanding a variety of networks simultaneously to consolidate their *guanxi* ('relationships' and 'connections') network with the GoE. Tacit networks are one manifestation of networks for firms to connect and deal with host country governments.

As discussed in Chapter Two, Ang (2020, p.182) states that China's political system very much operates according to a profit-sharing model. Politicians' careers and their financial rewards are tied to the level of economic prosperity that they can create. This means that local leaders very much look to help investors with incentives to set up and do business in their areas with, for instance, cheap land and regulatory exemptions. This is, of course, opposite of trying to extort businesses. Ang argues that SBRs in China are 'transactional' and not 'extractive' as Acemoglu and Robinson (2006, p.32) state. This practice borders on nepotism and corruption, which was quite common in China but had become increasingly restrained since President Xi's anti-corruption drive since late 2012 (China Power,2020).

[138] The CABC is a National Chamber of Commerce jointly established by the China International Centre for Economic and Technical Exchange (CICETE), and China Society for Promotion of the Guangcai Program (CSPGP) and United Nations Development Programme to promote China–Africa economic and trade cooperation. It was officially established on October 23rd, 2006. See: http://www.cabc.org.cn/dan.php?cid=27&category_id=28.

A variety of Chinese capital's 'Going Out' also implies the export of their ways of dealing with government agencies. In Ethiopia, some Chinese investors follow the modus operandi that was common in China. Some Chinese firms expected that such kinds of 'transactional' SBRs could be replicated in Ethiopia to facilitate their businesses in the host country. They described this phenomenon as a new form of 'win-win cooperation'. During the course of this research, sometimes it was found that the offspring of some politically connected Ethiopians were working at Chinese firms. They usually have appropriate educational qualifications and are appointed as government relations specialists or external communications personnel in the firms. With their backgrounds, it is easier and more efficient to deal with the host country government agencies as corresponding red tape could be reduced.[139] Among Chinese private firms, some entrepreneurs used their *guanxi* in China to facilitate some (Ethiopian) powerful players' children to study in China. This kind of 'assistance' enhances the level of trust between firms and their partner bodies.

However, some firms, especially family-owned SMEs who neither play dominant roles in business associations nor have ties to political elites, are unable to secure patronage. Despite not able to effectively bargain through a formal channel, they would use their tacit networks to approach the government. They either seek to cooperate in groups to strengthen their collective bargaining power or find an intermediate agent to facilitate dealing with key political elites. Social media (such as Wechat and QQ) has constituted a new platform to consolidate the tacit networks for Chinese investment in Ethiopia. People can easily approach each other through a common friend's recommendation. It is less formal than face-to-face meetings. For instance, any individual firm can add each other's Wechat (or QQ) if they find any common interest and problem that they want to discuss. This is particularly useful for firms in the industrial parks to deal with local politics, changes in government policies and operational constraints (see section 7.4.2 for more details).

7.2.3. Summary

This section has provided empirical evidence to showcase the diversity of business associations, why certain firms are more influential in certain associations and how those firms who do not have an adequate channel can find other ways to make themselves heard. It is argued that Chinese business bargaining mechanisms are much more complex and context specific. There are various forms of Chinese business bargaining mechanisms that exist in Ethiopia. Some are manifested in the form of institutional bargaining mechanisms such as business associations, while others are highly tailored, based on the individual firm's or group of firms' *guanxi* (through tacit networks in particular) with the

[139] This kind of tacit network is not unique to Chinese firms, however, due to the limited access to other non-Chinese foreign firms, the author did not investigate this topic further.

government. They are highly intertwined, which means different actors combine different bargaining mechanisms. Moreover, when private firms improvise in Ethiopia, they do not always want to lobby for policy changes. For certain issues, they would prefer to negotiate with the host country government on an individual basis.

7.3. Chinese Business Institutional Bargaining Mechanisms in the EIP

The EIP is a microcosm for different Chinese private firms in Ethiopia. Communication and dialogue with relevant government agencies are conducted through three main bargaining mechanisms: the CCCE, the Eastern Industry Park Management Committee (EIPMC) and the Eastern Industry Zone Investors Association (EIZIA) (see *Table 25*).

Table 25 Chinese Business Institutional bargaining mechanism in the EIP, and main activities between the EIP, firms and governments

Association	Type	GoE		Chinese Government	Chinese Firms	Year that the EIP Joined the Association and Its Position
		Federal Government Agencies	Local Government Agencies			
CCCE	Formal, legitimate (under the supervision of MOFCOM) (registered under the EIC in 2017)	N/A	N/A	Weekly Meeting (co-chaired by the MOFCOM)	N/A	2012 2015 (became VP)
EIPMC	Semi-formal (EIP's internal management committee did not officially register)	Quarterly meeting with high officials Monthly report to the EIC and the PMO Monthly report to the EIC and the PMO EIP (OSS)	N/A	Quarterly report to MOFCOM (Ethiopia)	Monthly meeting with all Chinese firms	2008 President Unit firm
EIZIA	Formal, legitimate (registered under the EIC in 2017)	EIP (OSS)	N/A	N/A	Monthly meeting with all Chinese firms	2017 President Unit firm

Source: Author's own illustration[140]

The first mechanism is a formal one, as explained in the previous section. The EIP has become one of the Vice President unit firms in the CCCE since 2015 (CBA1). The EIPMC arose as a semi-formal

[140] See Appendix AA4 for more details of the EIPMC and EIZIA.

committee established by the EIP. In 2018, the EIP and firms within the EIP registered a formalised association (the EIZIA) at the EIC in a process that is explained in the sections below.

7.3.1. Eastern Industry Park Management Committee (EIPMC)

The EIPMC was formed by the EIP in 2008 as a self-organised, internal management committee for information sharing, resolving EIP-related issues and lobbying problems that firms encountered with the GoE (such as labour conflict and the shortage of forex). The EIPMC is a semi-formal association as it is neither legitimated nor institutionalised in Ethiopia. This is because when it was formed, there was no formal mechanism in place to channel these demands and conversations. Thus, the EIP had no option but to set it up even if there was no official framework for it. However, there are formal elements internal to the EIP and relations between firms and the GoE.

A regular meeting is held on the 15th of each month, chaired by the Chairman of the EIP, to update recent issues and concerns, listen to feedback from firms regarding management issues in the industrial park and provide guidance on issues firms have raised. In principle, all tenants and investors[141] within the EIP are required to attend the meeting.[142] A monthly report is then produced. In addition, the EIPMC also updates the firm-level operational status to the corresponding government agencies on a regular basis and sent to the MOFCOM, the PMO (Ethiopia), the EIC and other government agencies.

The EIPMC is helpful in daily problem-solving within the park. However, the asymmetrical power relations between the EIP and the GoE impedes the ability of the EIPMC to bargain effectively. In China, the management committee of Special Economic Zones (SEZs) is set up by the Chinese government. For example, the management committee of Suzhou Industrial Park is run by the Vice Mayor of Suzhou municipal city (CCM2-2-b). In Ethiopia, the EIP is set up by a private firm. This happened before the Industrial Parks Development Corporation (IPDC)[143] was established and before the strong drive to build industrial parks in the country. It was a pioneer in many ways, so that meant the EIP had to develop its own organisational bargaining mechanisms.

[141] Data updated on February 26, 2019 from the EIPMC.

[142] As of the time of fieldwork, there were 86 firms in the EIP. Other non-Chinese firms used to attend monthly meetings, however, due to language and communication difficulties, they were reluctant to attend later. Key information usually will be delivered to them individually after the meeting (author’s observation).

[143] The IPDC was established in 2014 to manage the development of IPs and serve as an industrial land bank to lease, transfer and sell land to developers.

7.3.2. The Eastern Industry Zone Investors Association

The EIP established a new association – the Eastern Industrial Zone Investors Association – at the EIC in September 2017. This was created in part in response to the EIC's demand. The objectives of setting up the EIZIA are to work collectively to ensure that the EIP and firms within the industry park meet the Ethiopian 'standards for safety, environmental compliance, employee rights and business needs' (EIZIA Protocal, 2018, p.4). This result followed a long-term conversation between the EIP and the EIC. The EIP realised the necessity to improve its current bargaining framework so that it can have a better channel to have conversations with the host country government. The EIP managers actively engaged in this learning process as it matched their objectives to manage the park better. Firms were in favour of such a mechanism as they have a more formal and effective channel to express a collective voice.

The EIZIA officially represents the interests of the investors to the GoE and engage and guide in policy decisions. The EIZIA is a legitimate association in Ethiopia that has clear protocols and institutional frameworks. The institutional setting in the EIP has been evolving from semi-formal to formal. The association is governed by the

> Articles of Association, the Investment Proclamation No. 769/2012, as amended, the Council of Ministers Regulation No. 270/2012, for Investment Incentives and Investment Areas Reserved for Domestic Investors, as amended, the Commercial Registration and Licensing Proclamation, Proclamation No. 980/2016 for Foreign Investors Chamber of Commerce and Associations Establishment and Registration Regulation. (EIZIA Protocal, 2018, p.3)

Since then, the division of responsibilities between the EIZIA and the EIPMC is clear: the EIZIA is in charge of the everyday management of the park and relations between firms, and serves as the main vehicle to interact with the GoE, while the EIPMC focuses more on the industrial park's construction, development and investment promotion (CCM 2-2-b).

7.3.3. Ethiopia Government Agencies

At the early stage of industrial park construction and operation, the EIP received personalised support from the GoE at the PMO level. For instance, a temporary committee – the Eastern Industry Zone Committee of Guidance (EIZCG) – was formed by the main Ethiopian government agencies to hold quarterly meetings to navigate the EIP's and firms' problems and solve them (ibid).[144] In addition, biannual meetings were held between the PM and the EIPMC to discuss problems that the EIP encountered, and the PMO provided assistance accordingly.[145] Gradually, decision-making has

[144] This was terminated after the development of the EIP reached a mature stage.

[145] This privilege was also given in an informal manner, based on a verbal agreement between the PM and the EIP.

evolved from the PMO in the early days, when things were more personalised, to the growing institutionalisation of agencies, especially the EIC but also agencies such as MoTI, IPDC and the Senior Adviser of the PM's team. They are all connected somehow, with complicated hierarchies and divisions of labour, and all this has been changing gradually since 2010.

During the GTP II (2016–2020) period, the GoE adopted a cluster-based approach and provided much-needed support to developers, tenants, and management within the industrial parks. The GoE provides highly 'tailored' support services to IPs, depending on a small number of powerful officials (PMO, EIC and IPDC in particular). The roles of other line ministries have been marginalized, and the EIC now plays a leading and coordinating role, responsible for attracting, promoting, and managing FDI (Hauge and Chang, 2019).

Each industrial park in Ethiopia has an EIC One-Stop Service (EIC OSS) station. These were initiated with the GTP II to coordinate developers, tenants, and government agencies at various levels with the aim of removing binding constraints. Each OSS has a clear institutional framework, and its operation is highly flexible and context-specific.

7.4. Dealing with the Local Government, Labour Conflict and Export Targets

Fei and Liao (2020, p.637) correctly point out that although the EIP received considerable attention from both the Chinese and Ethiopian governments, this attention did not facilitate institutional and policy support early on in the EIP's development. Instead, Chinese private capital took the initiative to build local connections, secure funding and deal with the GoE. This section will provide empirical evidence, exploring how the EIP and Chinese firms dealt with firstly the local government and their services (in terms of land conflict, service provision and environmental governance); secondly labour conflict; and thirdly export targets set by the GoE.

The causes of the conflicts identified below are highly complex and multifaceted. Some of the problems are historical, and some are structural—due to the specific political system that Ethiopia has. They are interrelated, involving multiple actors (Chinese private firms, host country government agencies at various levels, local communities, and workers) and reflecting multi-layered frictions and contestation. These conflicts were at the heart of the 2017–2018 troubles.

This section will illustrate problems with each set of conflicts and the root causes based on empirical evidence. This section will also explore whether these frictions have been solved and how or, if not, why. Finally, the implications will be discussed to better understand how these different steps and institutional mechanisms, with the EIC as a major driver, led to solutions to problems identified in this part. This reveals dynamic state–business relations and offers valuable lessons to Ethiopian policymakers. Findings from this section come from qualitative interviews, management-level surveys, and my six-month participant observation in the EIP (see Chapter Three for more detail).

7.4.1. The Local Government

7.4.1.1. *Problem 1: Land Conflict*

The land conflict is a particularly sensitive issue in Ethiopian politics, partially reflecting loopholes in Ethiopia's political system ('ethnic federalism') and constitution. Conflict over land is also a serious social problem in Ethiopia that affects the EIP and all firms within the park. Ethiopia's particular ethnic federalism has important implications for land administration. How land was initially allocated to the EIP is an important matter. In Ethiopia, although the investment proposal was approved by the federal government, firms need to deal with regional and local governments regarding land acquisition (Adem, 2019; Fiseha and Gebresilassie, 2019). In 2007, high officials from the federal government suggested to Mr Lu to acquire land from regions such as Mekelle, Southern State and Amhara rather than Oromia on account of the tense relations between the federal government and the Oromia regional state. One high official even told Mr Lu it would be impossible for him to get obtain land from in Oromia due to the tense relations between the federal government and the Oromia regional state (CCM2-1-a), but, despite these 'warnings' from the federal government officials, Mr Lu chose Oromia in the end due to the on account of its abundant resources, cheap labour, arable land, and favourable geographical location (CCM2-1-a).[146]

Drawing from Chapter Two, in China, local states are the leading agents or direct regulators of capital accumulation (Ang, 2018). Local improvisation (in China) largely depends on the relations between businesses and local government agencies. Drawing from China's successful experiences of SEZs (especially Jiangsu province, where Mr Lu is from), Mr Lu was confident in dealing directly with the regional and local government (CCM2-1-a). 'During that time, they [the Oromia state authorities] were happy as the land was issued by the regional government', Mr Lu commented (CCM2-1-a); 'however, lots of problems occurred afterwards'.

In 2008, Mr Lu signed the land agreement with the Oromia land authority (and Dukem city administration) (CCM2-1a; PO1).[147] The local authority agreed an extremely low price (1 ETB/ m^2/year, valid for the 99 years of the lease). However, within just two years, the price of land within the EIP had soared. By 2010, the land in the EIP had already increased to 74 ETB/m^2/year (almost 74 times the

[146] The EIP's location is 30 kilometres to Addis Ababa and Bole International Airport. Moreover, it is closely connected to the national highway and railway from Addis Ababa to Djibouti and is 850 kilometres to the Port of Djibouti.

[147] See Appendix B, Interview Code for more detail.

price that the EIP paid to the local authority). The development fee that the EIP charged tenants was around 850.5–1064 ETB/m^2. When the local authority compared how much they were receiving with the price that the EIP was charging its tenants, they were shocked and realized they had underestimated the economic effect of the EIP (CCM2-1-a). The local authority admitted that granting the first phase of land to the EIP at a price much lower than market value was a lesson, but this admission caused much friction between the local authority and the local community, particularly as many residents had been forced to move out when land was appropriated for the EIP.

Thus, for the second phase, the local authority asked the EIP to pay 77.84 ETB/m^2/year (CCM2-3-c). The EIP paid the full amount (130 million ETB) to the local authority on 31 May 2017 (ibid). However, as of February 2020, this land had still not been transferred to the developer, and the EIP could not tell investors when the second phase of the development would become available. This inevitably resulted in delays for the second phase of development for the EIP.

Meanwhile, between October 2017 and February 2018, there had been protests around the EIP by members of the local community over the land compensation fee and resettlement. 'They [local residents] thought those lands owned to themselves while the local authority claimed this land belongs to the state', one EIP middle-level manager said. Some residents were retired soldiers and had guns and threatened to shoot anyone intending to come close to their communities (CCM2-3-c).

Nevertheless, little was known by the EIP management regarding how local residents had been compensated by the local authorities for the loss of their land or how they had been resettled. According to the EIP senior manager, it was the local authority's responsibility to deal with land enclosure and compensation issues for local residents (CCM2-1a).

7.4.1.2. *Problem 2: Service Provision*

Given the set-up of the EIP, it became highly dependent on the local government. Increasingly, the EIP went to the local authorities with problems, and the local authority did not provide the expected services to resolve them.

7.4.1.2.1. Lack of Legitimacy

The EIP has encountered enormous legal constraints. Since the EIP was the first industry park in Ethiopia, there was no corresponding legal support for it at the early stages of planning, construction, and implementation. In 2007, there was no law to support land services (such as leasing and sub-leasing) for the EIP. Consequently, the EIP could not sub-lease land to investors. Firms within the industrial park could not apply to sub-lease land, and this resulted in the EIP losing potential investors (CCM2-3-a) (Fei and Liao 2020). The EIPMC reported this problem to then Prime Minister Meles

Zenawi. After a prolonged negotiation (lasting two years), the PM eventually helped firms obtain land through executive orders. Since then (2013), more firms, including Huajian, Dongfang, and Haibo Garment, have moved in (CCM2-1-a).

Although the problems of land acquisition and sub-leasing have been solved, the processing of land services (e.g. granting contracts and permits), which has to be done by the local authority rather than the federal government, creates many additional problems. The EIP was kicked back and forth between local authorities—the Oromia regional land agency and Dukem city administration, which refused to provide services because of the EIP's registered name ('industrial zone'). This happened most frequently between November 2017 and February 2018 (before the second state of emergency).

The EIP senior manager admitted that it had been a mistake to register with the title 'industrial zone' rather than 'industrial park' (CCM2-3-b). According to the manager, the EIP consulted a local lawyer at the initial phase, who advised them that the name 'industrial zone' would not be a problem. This name only became a problem in 2017 (and escalate in 2018; CCM2-3-b), when the EIP asked to be managed by the federal government and enjoy treatment according to the Industrial Park Proclamation (IPP).

7.4.1.2.2. Fractious Relations Between the EIP and Local Authorities

In addition to the lack of legitimacy, time lags and discrepancies in the services delivered resulted in mistrust between the EIP and local authorities, reflecting the fractious relations between them. Mr A, Deputy Director of the EIPMC, is from Oromia. He told the EIC investigator in a very depressing tone: 'We are "out of the system" because of "some people [local bureaucrats]". For example, an investor wants to solve a small issue; it takes at least 1–2 months for any action from Dukem government agencies'. Mr A gave a long sigh and continued: 'Investors came to Ethiopia, and they knew about the bureaucracy. But it's too much […] local authorities came to the EIP not to support or help us to solve problems but for the sake of donation'. Mr A became upset as he spoke (author's participant observation; see Appendix C, PO1).

Another example of problems with service provision is the request to donate housing units for displaced Oromo people from Ethiopia's Somali state in December 2017. Almost all firms in the EIP received request letters from the Dukem city administration (author's participant observation; see Request for Support in Appendix AA5). But when the EIPMC calculated the total number of units the firms were required to donate, it was equal to the figure that the entire region was required to donate (more than 1,000 units), which meant that firms had to bargain with the local authority to get them to agree to a reasonable number of units to donate.

7.4.1.2.3. Application to the Industrial Park Proclamation

In April 2015, Ethiopia issued Proclamation no. 886/2 015 A Proclamation on Industrial Parks. As the very first industrial park in Ethiopia, the EIP provided an important reference and support to the enactment of the IPP. However, the EIP itself was not included in the IPP, partly because the establishment of the EIP (2008) predated that of the IPDC (2014) and the IPP (2015). Moreover, the EIC claimed that it had limited capability to govern the EIP as it was a Chinese private industry park that was not owned by the GoE (IPDC). However, the fundamental reason is that the EIP's land was initially granted by the Oromia regional state.

As a result, the EIP could not enjoy the same treatment (such as tax holidays and duty-free privileges) that other state-owned IPs have. The operations of the EIP had to be subjected to the Oromia regional state's regulations. (In Ethiopia, each region has specific regulations.) Every year, the local authority charges building (construction) taxes from (all) investors in Oromia, while state-owned IPs do not need to pay this fee, as stated in the IPP. As of August 2018, the EIC OSS was still not fully functional in the EIP as it only had the EIC and customs offices, while in the Hawassa Industrial Park (HIP) and other state-owned IPs, there were management committees, banks, police and customs offices, and other facilities, which provided a whole ecosystem of services.

7.4.1.3. *Problem 3: Environmental Governance*

Environmental governance is another critical issue that created enormous social conflict between the EIP, the local community, and local authorities. Some firms in the EIP use coal boilers that do not have proper pollution mitigation facilities. Occasionally, I saw black smoke coming from factory chimneys. Since my dormitory was near one heavily polluting factory, I had to shut my dormitory windows to prevent yellow dust flying in. The pungent smell that accompanied the pollution was, however, unavoidable (author's observation).

In early 2018, responding to the complaints made by the local community, the local environmental bureau started investigating environmental issues in the EIP. Although the EIP was equipped with a sewage treatment facility that handled 3,000 tonnes per day, the investigation found that this capacity was far from sufficient. The local environmental bureau therefore required the EIP to improve its waste treatment and also to insist that heavily polluting firms resolved their environmental problems. The local administration threatened that if the EIPMC could not reduce the park's environmental pollution, it would stop all services to the EIP.

7.4.1.4. *Seeking Resolutions*

All three problems are highly complex and interlinked. The EIP used various channels to lobby host country government agencies about the problems. However, lobbying through the CCCE over industrial park-related issues is ineffective two reasons. First, the CCCE has limits to its remit, as discussed in the previous section. Thus, it might not be interested in dealing with local-level disputes or the issues of a particular company or group. Second, it is not clear whom the EIP might trust to lobby on its behalf. As a result, the EIP mainly relies on its internal mechanisms (EIPMC (before 2018) and EIZIA (after 2018)) to approach the GoE.

Due to the asymmetrical power relations between the EIP and the host government, lobbying for policy changes and institutional support for land-related issues is extremely difficult. Although the EIP asked the federal government for assistance through the EIPMC, its problems remained unsolved for a long time. The EIPMC has tried to arrange a meeting between the federal government and the regional (Oromia) and local (Dukem) governments to discuss these issues, but, so far, the two sides have yet to meet (author's participant observation; see Appendix C, PO1).

Through the EIZIA, the EIP established an institutionalized bargaining mechanism with the EIC. The first activity that the EIZIA organized was to pay a group visit to the HIP. A delegation of 63 people, including representatives of firms, Dukem city administration (e.g. the Mayor of Dukem), the police office, the labour office, and the EIC OSS, visited the HIP in June 2018. The main objective of the visit was to learn about best practice in industrial park governance, advanced management skills, and environmental treatment from the HIP.[148] The EIC head office facilitated this trip and afterwards called a meeting to collect feedback and see what kinds of service and support the EIC could provide.[149]

Accordingly, the EIZIA asked the EIC to intervene and coordinate three main actions. First, the EIP hoped the EIC could play a facilitating role and bridge key stakeholders (especially the local authorities) to further discuss the land transfer issue. The second request was full service provision and the full application of the IPP within the EIP, which wanted to be treated more like other state-run IPs (such as the HIP) and have the same rights provided by the IPP. The third issue related to sewage treatment and environmental governance in the park. The EIP manager accepted that the zero-discharge technology that the HIP had adopted was a valuable example for the EIP to learn

[148] Around 40 firm representatives and 10 local authority officers paid a visit in April 2018.

[149] A meeting between the EIP and the EIC was observed by the author in July 2018. Three senior managers attended on behalf of the EIZIA, and an investigator represented the EIC (PO1).

from; however, this had resulted from a demand by high quality-buyers (PVH), which the IPDC and the GoE then enforced in the HIP to attract investors. The EIP nevertheless promised to expand the sewage treatment tank from 3,000 to 13,000 tonnes/day.[150] Given the difficulty of governing so many firms in different industries, however, the EIP hoped that the local government agencies would provide standards on environmental governance (author's participant observation; see Appendix C, PO1).

Although the problems mentioned above have been raised several times by the EIP (mainly through the EIMPC), the intervention of the EIZIA was the first time that the EIP had used a formalized, institutionalized bargaining mechanism to conduct a dialogue with the Ethiopian governments. On the one hand, it shows that this new institutionalized mechanism within the EIC enables effective communication and fosters active learning and adaptation. Evidence shows that some issues that the EIZIA raised were based on an investigation and ongoing learning, while other issues they could have learned about outside Ethiopia. Moreover, a variety of actors participated in this learning process. It was striking to see that the two conflicting parties (the EIP and local authorities) participated in this process together. Based on the author's observations, perhaps it was partially thanks to the personnel changes in local authorities after Dr Arbiy became PM (in early 2018). The new mayor of Dukem and officials had just taken office, and the EIP saw this as a good opportunity to rebuild relations with the local authorities. With the promise of donations (1,000 units of housing) in exchange for good service, the Dukem local agencies were incentivized to support the EIP.

On the other hand, the EIC has the incentive and the means to guide the EIP to be more like other IPs. Since the Eastern Industrial Park registered the association at the EIC in 2017, through the EIZIA, the EIC has gained a certain level of legitimacy to govern the EIP.

Owing to the fractious relations between the EIP and the GoE (at the central and local levels), between central and local government agencies, and even within the federal government agencies, the EIC had to carefully intervene in some conflictual areas that involved different institutions at various levels. Two main issues that the EIC was seeking to resolve are environment and land issues. In order to have a comprehensive understanding of the situation on the ground, the EIC conducted a thorough investigation (EG1-1-b) with various actors, including the EIP, the EIC OSS, local government agencies, and representatives of the local community. It was found that distorted fiscal incentives are one of the main factors that make the local administration reluctant to provide

[150] See Appendix C, PO5.

services.[151] One problem is tax revenue distribution. For example, it was found that the location written on the investment and business licence was different from the location of actual operations. Although investment and business licences are both issued by the EIC, some firms have different registered locations (for instance, 'Addis Ababa' according to the investment licence but 'Oromia region' on the business licence). As one senior manager of the EIP stated during a meeting:

'Firms do not mind revising addresses on their licences to Oromia state as we understand that the actual employment, manufacturing activities happened in Oromia rather than Addis Ababa. However, this couldn't be amended by firms themselves. Instead, it requires the Oromia regional government to coordinate with the federal government agencies for the approval of amendments'. (author's participant observation; see Appendix C, PO-3)

As the time of writing, this issue remains unsolved.

Such legitimacy problems, which may indirectly affect investors in ways they do not anticipate, bring to light the lack of coordination and coherence among licensing procedures at the time these firms started investing and suggest that the EIP has become a 'battlefield' in local conflicts of interest and multiple competing demands, in a context of weak state legitimacy. They also showcase the weak organizational capabilities of firms and their unfamiliarity with context, which underscores the importance for firms of understanding the local political context and nuances of territorial administration.

The local community is not an amorphous entity but a collective with contrasting interests and, very often, their voices are only partially heard if not completely neglected. According to Huajian, the largest manufacturer in the EIP by employment,[152] the majority of its workers are migrants from other regions (CCM1-6). This suggests that there might be tension among different groups in the local community, especially those not benefiting from employment at the EIP. According to a meeting between the EIP and the Dukem city administration (author's participant observation; see Appendix C, PO-8), young unemployed men in the area are more vocal in speaking out against the EIP. They organized protests in front of the city administration building and outside the EIP. Since my dormitory was near the fence of the EIP, between November and December 2018, I often heard gunshots and noise outside the park in the evening. On one occasion, trucks were set alight on the road outside the EIP (author's observation).

[151] Author's participant observation (Appendix B, EG1-1 b) and qualitative interviews (Appendix C, PO3).

[152] As of December 2017, there were around 3,500 local workers in Dukem factory (CCM1-6).

Perhaps there were some groups with louder voices or driven by a political agenda and using the environmental effects as ammunition. However, since I did not interview local communities in this case and all data are based on mainly qualitative interviews of Chinese management, and participant observation of meetings between Chinese firms and Ethiopian government agencies (both federal and local). Further investigation is required to prove this assumption.

This friction reflects the mismatched expectations between Chinese firms, local governments, and the surrounding community. According to the investigation conducted by the EIC, the local community saw the EIP as a foreign entity that did not take the environment seriously. The EIP, for its part, took it for granted that local people would not show any resentment for its behaviour because it contributed significantly to the community by creating jobs, donating goods, and constructing infrastructure. But, according to the investigator of the EIC:

'In fact, the local community is not pushing too much on municipal services [such as water and electricity] that the EIP could provide or already provided. They are angry about what has happened to the local environment'. (EG 1-1-b)

No matter how many roads the EIP asphalted, it did not address this problem directly. Furthermore, the EIP did not appreciate the differentiation of 'locals' and their divergent interests and perceptions. A lack of communication and asymmetrical information between the local community and the EIP triggered conflicts by mismatching expectations.

The local community also had issues with the local administration, which, according to the EIC investigator, lacked commitment to the local community (EG 1-1-b). How it spent tax revenue was the main bone of contention. Arguably, the EIP had become a battleground for groups in the local community to combat a local administration perceived as being too lenient with 'outsiders'. In other words, the EIP could not insulate itself from the complicated dynamics of centre–periphery tensions in Ethiopia's political structure, which were exacerbated by the protests that began in 2016 (Clapham 2018; Hardy and Hauge 2019).[153]

After the investigation, the EIC started coordinating with the EIP and local authorities over these issues. The environmental issues became the entry point for the EIC to intervene, as these were regarded as the main cause of resentment among the local community. The EIC advised the local administration to provide full services to operators in the EIP. In return, the EIC helped to coordinate

[153] In order to understand Ethiopia's politics, it is essential to understand the uneasy relationship between the central and periphery in government, which goes beyond unitary, ethnic-based factors (see Adeto 2014; Clapham 2018).

with the EIP to improve their environmental treatment so that resentments from the local community could be mitigated.

In this case, the EIC played an intermediate role between the EIP and local authorities. It required the EIP to find a solution to the current waste treatment problem. Moreover, the EIP was to provide a detailed environmental impact assessment for its future expansion (Appendix B, CCM2-2-b; author's participant observation, Appendix C, PO3). The EIC accordingly required each firm to draft environmental protocols to reduce industrial pollution and meet at least the minimum standard (EG1-1). All tenants in the EIP were to have shared responsibility for controlling pollution levels and protecting the environment. The EIZIA was to monitor whether each firm's operation matched Ethiopian standards by checking each firm's evidence (certificate). This proposed solution was agreed by both the EIP and the local authorities during the meeting.

Regarding the terms 'industrial park' and 'industrial zone', the EIC suggested that the EIP change its name to 'industrial park' and, from a legal perspective, both the EIC and the local government agencies suggested establishing a new proclamation or regulation for the EIP's case. This issue needed to be raised with the Oromia regional state authorities, who agreed to process it after a meeting. In order for it to function in the same way as the HIC, the EIC suggested that the EIP provide a space where all services would be grouped together (e.g., customs, bank, labour unit, and immigration) (EG1-1-b). The EIC agreed to provide full services according to the IPP, but not until the EIP had met its environmental responsibilities.

As the key institution governing FDI, the EIC has shown its vision and commitment to providing streamlined services for firms within the park and has tried to bring together the corresponding government agencies and the EIP management to discuss solutions to the three main problems. However, the EIC is still not sufficiently powerful in relation to local politics and local demands due to the peculiarity of Ethiopia's ethnic federalist system. Because of the prevailing legal and land administration system in Ethiopia, the second phase of the development is still subject to the Oromia regional state.

7.4.1.5. *Lessons Learned*

The three sets of conflicts discussed above highlight five weaknesses in the political and institutional system in Ethiopia. First, as the EIP was the first Chinese Overseas Economic and Trade Cooperation Zone (OETCZ) in Ethiopia, there was no existing institution, policy, or law to support its development. At the initial stage of the EIP's construction and development, the EIP 'was treated as an ordinary industrial zone in Ethiopia' (Brautigam and Tang 2011: 38). Although the EIP was an officially recognized entity, the federal government did not provide the necessary institutional support and policy for the EIP during its earliest stage of development. At the time the EIP was set up, there were no political tensions so it was not easy to anticipate the post-2016 troubles, but this lack of federal support inevitably led to friction later on.

The second lesson is that the EIP management severely underestimated the complexity of local politics. The EIP is an industrial park owned by a private foreign entity and, as such, initially chose to deal with the local/regional government, while maintaining only an informal line of communication with the GoE. The reason for this might be that they thought it would be easier to 'manage' a weak local government—to 'buy' them and get benefits in return. The EIP may have thought that local politics was simple and that, given the Park's supposed positive impact on the 'community', the local administration would be on their side. However, simply replicating the Chinese model does not work in a foreign territory with a completely different historical background and political economy conditions. While relations between businesses and the Chinese local government are 'transactional' (Ang 2020), the evidence presented in this paper shows that relations between the Ethiopian local government agencies and the EIP are more likely to be 'extractive'. This reflects a miscalculation of the advantages and disadvantages of dealing with local government.

The third lesson relates to the highly contradictory of ethnic federalism and Ethiopia's Constitution regarding entitlement to and use of land. As one of the major ethno-national groups in Ethiopia, Oromia has established its own regional state (the Oromia regional state) with its own constitution and mandates, which 'allowing the group to control the regional and local political institutions' (Fiseha and Gebresilassie, 2019, p.85). The Ethiopia's Constitution 'separates the legislative and administrative aspects of the use of land' (ibid, p.59), which implies that the federal government is responsible to set 'the norms related utilisation and conservation of the land', while the Oromia regional state is implementing these norms and laws (ibid).

Whether the local government compensated local residents for their loss of land during the first phase of the development remains unknown. However, given the price the EIP paid (1 ETB/m^2/year), it is unlikely that any compensation was sufficient. Taking land without properly compensating local residents caused more resentment against foreign investors and the local government.

The fourth lesson concerns the interests of local authorities. 'Asymmetrical centre–periphery relations entrenched in the state-building processes of the imperial and military regimes continued under the present regime, rendering' the Oromia state subject to repression and exploitation (Adeto 2014: ii). Local authorities were naturally unwilling to transfer the EIP to the federal government's management as this would directly affect their economic benefits such as taxes, fees, donations (such as computers or other facilities for local schools; housing units), and sponsorship (e.g. of the local marathon). This offers a lesson to the policy-maker: aligned incentives should be created for the local government at the very beginning of the development plan to encourage active engagement in such economic activities.

The fifth weakness that has been highlighted is the lack of professionalism at middle-management level, which generated or exacerbated other problems. Interviews and surveys show that managers of the EIP and the firms therein were inadequately prepared, made assumptions about how things work based on limited overseas experience, lacked information about the requirements of global buyers, did not know the 'standards' but learned them from the Hawassa Industrial Park, as discussed in Chapter Five, some firms (early investors in particular) were relocating to flee more onerous regulations in China. This implies that some would have known what the higher standards were but did not want to (or did not have the incentive to) enforce them in Ethiopia and were then surprised when local communities protested. Managers also assumed that local authorities would not pose obstacles as they would welcome foreign investors with open arms. This reflects a failure of the EIP and certain investors to understand and anticipate the local impact of their actions, to build alliances to facilitate their operations, and to find ways of engaging local communities and obtaining a 'buy-in' for their operations in the area—in short, a lack of understanding of context and of the 'organizational capabilities' that are critical for success in manufacturing investments overseas.

7.4.2. Labour Conflicts

7.4.2.1. *Employment Preference vs Reality*

The EIP often encounters labour shortages due to the increase of new firms and expansion of old factories. According to my survey (2018), all firms (14/14) claim that although it is not difficult to hire local labour, it is extremely difficult to hire people with the required skills or qualifications despite firms all providing training opportunities (mainly via a learning by doing approach).[154] Comparatively larger scale, labour-intensive light manufacturing firms (such as Huajian, Dongfang and Linde) and construction materials firms (such as Sansheng, Zhongshun Cement and East Steel) had more trouble finding 'required' labour. Very often, there is a mismatch between employers' preferences and the available labour supply. According to the ITC survey,[155] 80% of firms (12 out of 15) reported that a lack

[154] This analysis is based on the findings from 14 management-level surveys the author conducted between December 2017 and April 2018 in the EIP and participant observation of the EIP monthly meetings.

[155] Author conducted ITC survey for the PIGA project in 2018 (see Chapter Three for more details).

of availability of technically trained staff was one of the top constraints that impeded firms' normal operations.

Based on a group of interviews in the EIP, it is found that language difficulty and communication are the main problems for Chinese employees and local staff (also see Schaefer and Oya, 2019a). Most Chinese expatriates and supervisors cannot speak English, and it took time for them to adapt to the local situation and find a good way of communicating with local workers. The EIP and firms used to use local intermediaries and hire people at the park gates, but since 2017, the local labour bureau became the main source partially because of increasing safety concerns (since the state of emergency in 2016) and labour conflicts within the park. Firms prefer to hire workers through formal channels. As a result, the local labour bureau acted as the main funnel for labour recruitment for the EIP. However, with the labour bureau as a 'broker' presumably, the selection of workers may also depend on the EIP's and individual firm's connections.

According to the ITC survey, all firms (15 out of 15) in the EIP complained that the local labour bureau often supplied workers who did not match their requirements. This problem was also frequently brought out by many firms during the EIP monthly meeting (author's observation). In responding to it, the EIPMC formed a collective force for Chinese firms within the park to deal with local labour issues. An investigation conducted by the EIPMC at the end of 2017 found that in the past several months, most local workers who participated in strikes were male. Thus, firms reached a consensus during the EIP monthly meeting and decided not to hire male workers (author's participant observation, see Appendix C, PO5-4). However, when firms submitted their request to the local (Dukhem) labour bureau, the office claimed that they were under pressure because of the high unemployment (of mainly young men) in the surrounding areas. Failing to solve this unemployment issue might potentially cause more social instability. Therefore, firms were asked by the local labour bureau to recruit an equal number of males and females (CCM6-1-a; CCM 3-2). In the end, the EIP and firms have to subject to local political and social pressures.

7.4.2.2. *Workplace Tension and Labour Disputes*

Terminating workers, strikes and negative resistance (such as absenteeism, turnover and theft) are the three main types of labour conflicts in the EIP. A lack of worker organisation in the EIP has further exacerbated the labour conflicts.

7.4.2.2.1. Terminating Workers

According to the survey, all firms (14 out of 14) reported that labour laws in Ethiopia were too protective of workers. An example of this can be seen from a case that took place at a textile factory.

According to the factory manager, the factory decided to terminate several workers after they received three warning letters. These workers refused to sign off on their reprimands; instead, they brought this issue to court. Eventually, the firm had to pay a fine for terminating them (CCM 3-2).

Increasingly, firms started recording those incidents and asked local supervisors or workers as witnesses to save the evidence. For example, one firm obtained video evidence and fired workers due to their misconduct. Despite this, the local labour bureau forced the firm to rehire them (CCM2-3-b). However, whether workers were fired according to the labour law remains unclear as this finding is based on management-level interviews. Managers' complaints might partially be attributed to a poor understanding of the local labour law and the fact that law enforcement may be stricter in Ethiopia than in China. This requires further investigation.

7.4.2.2.2. Strikes and Disputes

The EIP manager complained that even though the EIP paid a higher wage than the Hawassa Industrial Park, it (the EIP) still encountered frequent labour conflicts (author's participant observation, see Appendix C, PO3). However, paying a higher wage than the HIP is a poor excuse because it operates at a different location with lower average wages. The Industrial Development, Construction and Employment in Africa (IDCEA) findings show that the wages paid to workers depend on various factors, such as workers' productivity and their negotiation abilities as well as worker's individual factors (Schaefer and Oya, 2019a, p.46). Additionally, '[L]ocal effects and especially whether companies are located in an industrial park is also an important factor that determines the wages' (ibid, p.51). The IDCEA findings show lower wages on average in IPs (ibid). Although the EIP wages are higher than the HIP, they are still lower than in other areas outside of IPs.

However, based on qualitative interviews and observations (between October 2017 and March 2018), it is found that strikes and disputes in the EIP were not solely due to low wages. Comparatively larger firms, including Huajian, Diyuan and East Steel encountered frequent protests and labour conflicts at different levels even though they paid higher wages than most SMEs in the EIP. Nevertheless, there is a correlation between companies paying higher wages and labour conflicts. This is related to the higher visibility of flagship firms like Huajian (see Chapter Six for more detail) and the role of local politics in labour conflicts. This suggests that genuine labour grievances, such as low wages, are only one of the factors that cause labour conflict.

According to the investigation (conducted by the EIPMC and the EIC), it is believed that three main reasons for the strikes were firstly the misconduct by a small number of Chinese supervisors, secondly the lack of effective communication between firms and workers and thirdly political reasons (author's participant observation, see Appendix C, PO5-4). Between October and November 2017, frequent strikes occurred in the EIP, mainly at medium- to large-scale factories. According to the EIC OSS manager, some strikes found were political as anti-government pictures and messages were found in workers' phones (ibid). Firms admitted that the first two reasons were largely attributed to internal management problems. Thus, they would improve their management to mitigate these kinds of disputes. However, solving political unrest is something beyond an individual firm's capacity.[156] Hardy and Hauge (2019, p.24) correctly point out that the Ethiopian government should consider the socio-economic and political dimension of its development plans, based on the ethnic-based protests and political changes that have occurred.

7.4.2.2.3. Worker Representation and Collective Bargaining Power

Schaefer and Oya (2019a, p.58) accurately state that both the sector that a firm operates in and the environment in the country determines the state of labour market institutions and labour relations. Unions are strongly resisted by the investors in the EIP, and the GoE has not enforced their establishment (Fei and Liao, 2020). Without unions, workers are unable to collectively bargain and negotiate issues that concern them when dealing with their Chinese managers. Although there is a lack of unions, strike action is still widespread and universal amongst firms (Schaefer and Oya, 2019a). This research found that frequent strikes in the past several months (2017/18) were all wildcat strikes. It is difficult for firms to react due to their unpredictability. This is related to the lack of an established trade union, which most foreign investors (such as the EIP) have resisted in Ethiopia. Thus, it showcases the management's fault in its labour management as they have a preference to solve labour conflict by engaging workers directly, with wildcat strikes resulting due to this preference.

According to the ITC survey, 80% of Chinese firms (12 out of 15) chose either not to respond or were very conservative in their responses regarding whether 'All workers are free to exercise their right to form and/or join trade unions or to refrain from doing so and to bargain collectively'. The remaining firms (three out of 15) that focus on exporting to Western markets have established 'unions' according to their clients' requirements. Those firms reported that they have not considered setting up a union for various reasons. As one example, unions are perceived as another source of labour conflict in the EIP. Previously, one firm established a 'union'[157] in the EIP. That firm was always sued by workers and consequently fined by the court system (CCM8-1-a). This unsuccessful story was widespread in the EIP.

[156] The author collected feedback when she conducted ITC-PIGA surveys between February and April 2018.

[157] One interviewee called it 'union'. In fact, it is a worker committee.

Eventually, Chinese firms reached a consensus that they should not allow unions. Some claim that it was not the right time to set up a union in Ethiopia. The average level of education the Ethiopian workforce has is low, and many workers in factories cannot even write their names. Interviewees worried that workers could be easily used as a tool by certain groups (such as anti-government activists) to make trouble. If the union was set up randomly without proper governance, it would not be able to mitigate conflicts between workers and enterprises; rather, it could create more trouble if accosted by the wrong group or party (also see Schaefer and Oya, 2019a, p.59).

After verification, it is found that these so-called 'unions' that the three firms established are not strictly speaking unions but worker committees. I found that Chinese private firms, in general, have limited knowledge about unions. Their understanding of unions is largely based on what they know from unions in China. However, Anner (2015, p.292) argues that China is an extreme case of state labour control regime. She notes that 'labour is controlled by a system of legal and extra-legal mechanisms designed to prevent or curtail independent worker organisation and collective action'(ibid). To them, the main objective of the union is to mitigate conflict by comforting certain worker representatives. In China, many Chinese firms are used to dealing with unions that are mainly on the side of management and rarely generate conflict. If workers sue and courts decide in favour of them, there is a good chance that the company management did not strictly comply with the law.

However, increasingly, interviewees realised the necessity and benefits of setting up a worker representation for two reasons. Firstly, for export firms, setting up worker representation is a requirement from buyers (especially those whose clients are brand firms and retailers from the Global North). In order to obtain an order, manufacturers have to set up a worker representation in the factory. Most firms (13 out of 15) claimed that they would prefer to have a neutral third party mitigate labour conflicts and protect the rights of both enterprises and workers. Many interviewees stated that they welcome a third party such as the International Labour Organisation (ILO) or the ITC to create a platform for worker representatives from each firm, the EIZIA and local labour bureau to set up a union together. Firms expected the ILO or the ITC to provide professional, systematic training and build monitoring and evaluation systems to ensure that the union can treat all stakeholders in a just and fair way.

Secondly, as part of the EIZIA Protocol, the EIP needs to set up its worker representation together with the local labour bureau.[158] Learning from the HIP, the EIP also set up worker committees with each firm (investor, developer and tenant) selecting two worker representatives. It is important to note

[158] As the time of conducting fieldwork, the EIZIA had just been established.

that there are two types of worker representation: the first is to set up a branch of an existing established trade union. This is an official, recognised union. Workers will form a basic union at the factory level, as part of a sector federation. The second type is for a firm's management to set up a worker committee that operates alongside the management team. A common approach is to ask HR to set it up. Sometimes, even the HR manager could become the worker representative.

However, the Proclamation only generally states that workers have the right to representation, but it does not make explicit who should represent them. Thus, it does not have to be a union. The first type of worker representation needs workers or groups of workers in the firms to set up a basic union by themselves, then connect to a trade union. They (workers) have the right to do so according to the law. However, it is difficult for them to take the initiative as it is discouraged by corporate management. Many firms set up the second one, which is more likely to be controlled by senior management. The EIC and local authorities encouraged investors to set up the second type of worker representation (based on interviews and the author's participant observation, see Appendix, PO3). This is very similar to trade unions in China. However, China has both official unions and worker committees, but official unions do not exist in Ethiopia.

7.4.2.3. *Problem-solving Mechanism for Labour Management*

There are multiple bargaining mechanisms at work simultaneously for the labour conflict situation. For certain issues that are suspected to be political (such as frequent strikes between October 2017 and February 2018 at the EIP's firms), the EIP raised these issues through the CCCE. The CCCE approached the GoE agencies to discuss these problems. Labour management at the EIP relies more on the EIP's internal institutional bargaining mechanisms. The EIPMC works as a broker to help firms deal with labour issues such as recruitment and labour disputes. Increasingly, the EIPMC plays a more important role as a coordinator of labour management. Due to frequent strikes and conflicts between firms and local labour since October 2017, all employment-related issues need to go to Mr A (the Deputy Director of the EIPMC) as he is the focal person who communicates and coordinates with the local (Dukhem) labour bureau. For instance, if a firm wants to hire 100 workers, they can send a request to Mr A and he will deal with the labour bureau. In addition, all problems regarding employment issues shall go through Mr A first. In this way, firms can avoid direct confrontation with the labour bureau, and processes can be standardised.

If workers are unqualified or display misconduct, before terminating them, firms should firstly inform Mr A, and he will collect the required information and report it to the labour bureau. Functioning as a third party, the EIPMC helped with communication and coordination. This somehow reflects an underlying problem of communication between Chinese middle managers and Ethiopian workers, which may exacerbate conflict. Having a local broker appears to be an effective ad hoc solution to 'translate' solutions for the local context. It worked in terms of reducing the frequency of conflict (author's participant observation during the EIP's monthly meeting, see Appendix C, PO5-3).

As noted earlier, some workers were moving between factories in search of better wages. This is related to labour turnover. The EIP has established its own system to deal with turnover; for instance, in order to curb labour turnover among local employees in the park, it introduced a card system in September 2018. According to EIP manager, employees' physical features and ID information is input into the card. Once an employee is terminated by the firm due to serious misconduct, he or she cannot enter the park anymore (ibid).[159] In addition, the EIZIA works as a formal, institutionalised bargaining mechanism that lobbies key government agencies. By setting up a worker committee, the EIP can deal with labour issues in a more systematic, formalised way.

Firms usually take multiple channels to voice their problems so that the impact of lobbying can be intensified. Apart from lobbying at the institutional level (mentioned above), individual firms can also lobby directly the GoE, depending on their influence and *guanxi* networks. For instance, large-scale firms such as Huajian and Sansheng Pharmaceuticals can approach the Ethiopian government directly. SMEs that have encountered similar labour-related problems undertake collective action to lobby to the local labour bureau. In the EIP, a Wechat group was set up among Chinese managers and expatriates from different factories to communicate labour-related issues. Through effective and frequent communication, firms (especially SMEs) are able to formulate a collective message to deliver towards issues such as how to terminate troublesome local workers. In this way, they can improve their leverage in negotiations, which has become a tactic used to resist complying with certain local labour regulations (based on interviews and the author's observation).

7.4.3. Export Target

7.4.3.1. *Change in Policy and Increase of Export Target*

Since 2010, the Ethiopian government launched a carrot-and-stick industrial policy designed to attract, promote and manage manufacturing-led FDI to Ethiopia, with the triple objectives of accelerating industrialisation, generating foreign exchange and creating jobs. As discussed in Chapter Two, Hague (2019, p.2083) points out that Ethiopia 'has implemented the carrot, but no stick' in promoting and governing manufacturing-led FDI in its industrialisation. However, this thesis finds evidence that there

[159] Participant observation of the EIPMC monthly meeting on March 15th, 2018. See Appendix C for more detail.

are some ‘sticks’ which have been implemented, but the way these are introduced is highly ‘targeted’ to certain sectors (textile/garment sectors) and firms (Chinese firms in the EIP in particular).

The EIC issued a new policy to the garment/textile and leather industries in August 2017 and required new investors in the light manufacturing industry to 100% export. Before that, although the Textile Industry Development Institute (TIDI) required firms to export, there were few sanctions on firms that did not do so, as the TIDI ‘was only a supportive and not a regulatory agency and had no enforcement authority’ (Whitfield, Staritz and Morris, 2020, p.12). There are various reasons why the GoE became more active in trying to enforce this condition. FDI has been regarded as one of the important engines strategically integrated into Ethiopia’s industrial strategy. Persistent balance of payment (BoP) problems faced Ethiopia, hence the imperative to generate more sources of forex in the medium term (Whitfield, Staritz and Morris, 2020).

It seems that the GoE has a particular target (less capable foreign-owned SMEs that focus solely on selling low-end products in the domestic market). Given the foreign exchange imperatives, the GoE has become less keen on foreign investors, especially SMEs, that essentially aim to sell to the domestic market. Although this can generate foreign exchange savings through import substitution, the GoE now sees the role of FDI as a generator of foreign exchange as well as bringing organisational capabilities for greater competition in global markets. In other words, the government implicitly prefers not to attract firms that produce what local firms could potentially generate.

The increasingly rigorous export target that the GoE set has become a big challenge for some of the early investors in the EIP. According to a group of firms the author interviewed, before 2017, there was no strict enforcement of firms’ export targets. Most light manufacturing firms in the EIP were solely focusing on the domestic market, driven by the motivations explained in Chapter Five (lucrative profit, increasing demand and less competition in Ethiopia’s domestic market). Since the launch of the new policy in 2017, firms need to increase their export contribution (in relation to total production) in order to qualify for duty-free imports (the duty-free tariff for 15% of spare parts), extensions for tax holidays, selling to the domestic market, accessing foreign exchange and renewing a business licence or applying for a new investment licence.

A key determinant of viability for manufacturers in Ethiopia is access to foreign currency because factories cannot operate without their basic intermediate and capital imports. Ethiopia still has weak supply chains, and manufacturing investors depend on global markets for a significant range of raw materials and inputs. For garment and textile firms, the privilege of selling in the protected (or turning to be protected) domestic market was made conditional on the fulfilment of export targets. For existing investors who only focus on Ethiopia’s domestic market, firms could only obtain a US$150,000 foreign currency limit if they do not export, which is not sufficient to import the materials needed for production. Therefore, in order to import raw materials, all firms will find ways to export (CCM6-1-a). Under the pressure of accessing foreign currency, firms had to export at least to surrounding countries, such as Djibouti, South Africa and Saudi Arabia, to earn the minimum amount of foreign exchange to import raw materials for their production. In these cases, the percentage of export is fairly small. With the increasing pressure from the Ethiopian government (the EIC in particular), firms such as Dongfang and Haibo were also forced to export (CCM3-2). The factory GM claimed that Haibo lost money to export at the beginning, but they had no option if they wanted to access forex (ibid).

7.4.3.2. *Negotiation of A Deal*

Some firms claimed that they would not consider exporting if they had the option, as exports are not competitive in terms of price. In fact, firms made more profits by selling domestically, and therefore they lost in relative terms, i.e. lower but positive profits in exports (CCM9) (see Chapter Five for more details). A common claim was that there is little incentive (such as preferential policy or bilateral trade policy) to export to other African markets. Moreover, the logistical costs of regional trade are very high. Although the Ethiopia–Djibouti Railway has been operating since January 2018, it is only helpful in reducing the total transportation time and providing an alternative option for transportation. According to those firms, logistics costs reduce the incentives for firms to export mainly to surrounding African countries due to the high logistic costs and taxation (CCM2-3).

In fact, the preference for the domestic market is partly determined by the difficulties in selling to regional markets, and their lack of global competitiveness to export to European or US markets (CCM2-3-b). For most firms in the EIP, the profitability of the domestic market is much higher than foreign and especially regional markets, unless firms manage to secure large, stable orders from major clients in the US and/or European markets, something that is not easy to achieve given barriers to entry and excess competition in those global production networks. Some firms did not have the organisational capabilities to export. In this case, it was not a matter of government incentives, but they did not know how to export and therefore struggled even in the presence of incentives. It was much easier for them to produce for the local market.

Nevertheless, it has become clear that the export requirement is negotiable, the percentage of export varies among existing firms (15–40% for the first year of export). The bargaining power of firms varies, depending on the individual firm's *guanxi* (tacit networks in particular) with political elites: as to certain firms, an inability to export could result in certain firms shutting down. The variation in enforcement is a key source of rent and can lead to all sorts of different bargains and deals. The combination of multiple bargaining mechanisms firms have at their disposal increases their chances of success. Individual firms approached the GoE to negotiate a deal over the enforcement conditions. Some firms were utilising their connections with the GoE to bargain for more 'carrots' (extension of the tax holiday, for instance) if they agreed with the export target the GoE asked so that they could compensate for potential losses. Some firms managed to persuade the GoE to increase their export percentage gradually for the existing factories while establishing new factories that focus solely on exports.

Sometimes, the enforcement of new requirements also led to the collapse of foreign investors. For instance, one firm that manufactured military uniforms for Ethiopia initially had no pressure to export, presumably due to connections with powerful wings in the GoE. However, because of the changes in policy and the personnel in key decision-making roles in the GoE, it was required to export beginning in late 2018. The difficulties with this requirement, combined with internal management problems, eventually led to its closure in early 2019 (CCM2-3).

By pushing firms in certain sectors to export, the pressure is indirectly added to environmental governance. Comparing Ethiopia's domestic market, exports generally have more rigid requirements for not only the quality of products and the timeliness of delivery but also come with stricter standards on the environment and human rights. These requirements are usually set and imposed from different types of buyers. At the same time as the EIP attempted to improve its environmental governance, this additional pressure to export indirectly added pressure on the less capable, more highly polluting firms. The increasingly rigid requirements on export targets and environmental governance helped the GoE to expel less competitive firms, and shaped new capable firms that the GoE wanted. Attracting the 'right' manufacturing-led FDI is not only beneficial in terms of job creation and hard currency generation but also is a key instrument for the GoE and sectors to learn advanced technology and know-how to boost Ethiopia's industrialisation.

In the past two years, a few SMEs in the EIP left due to the rigorous requirement imposed by the GoE. Among eight light manufacturing firms the author surveyed, six focus on exporting or agreed to increase by a certain percentage year after year. The remaining two shut down. Among those six export firms, four firms also established five new factories in the EIP that focus solely on exporting (author's fieldwork data). Given that more firms are increasing exports and meeting targets, the GoE's strategy of reciprocal control mechanisms was successful as, otherwise, firms would not have made efforts to export more.

Synchronously, these are replaced by more capable, tech-intensive and/or labour-intensive firms that are moving into the EIP (such as Sansheng Pharmaceuticals PLC and Shanghai Lonto Textile (a local

SOE from Shanghai, China)). Until August 31, 2019, the total number of firms in the EIP had increased from 86 to 103, with a higher proportion of firms able to compete in global markets than previously.

7.4.4. Ways forward

7.4.4.1. *A process of formalization and institutionalization*

Although Chinese private firms react and adapt to political and economic changes in the host country at the firm level, they are fragile and passive in bargaining with the host country government due to asymmetrical power relations. As private investors, when the EIP negotiated with the Ethiopian government and lobbied on policy issues, they were always in an inferior position, which made it difficult to solve major problems in the development of the industrial park, such as obtaining land and services provided by the local government agencies.

However, the EIP has been leveraging itself and seeking multiple channels to strengthen its collective bargaining power with the GoE. It is evolving from a self-organized, semi-formal bargaining mechanism (EIPMC) that did not register officially in Ethiopia to a formal, institutionalized one (EIZIA) that is legitimized by the EIC. The development of EIP's institutional bargaining power showcases the process of formalization and institutionalization of SBRs and how these impact outcomes both for firms and for the GoE. Evidence in this paper shows that the EIP is willing to react and adapt to local realities, partly because of local political and social pressures. Meanwhile, as the developer, manager, and operator, the EIP also has its own incentive to ensure that its business is sustainable in the long run.

7.4.4.2. *An Evolving Role for the EIC*

This paper shows the evolving role of the EIC, how it has step by step overcome its limited capacity and the constraints on its remit and mandate. The EIC represents the IPDC on all services for the EIP case. Due to the controversy over the land in Oromia and the (Chinese) ownership of the EIP, the EIC was not properly regulating the EIP in certain circumstances but, despite its limited capacity, the EIC has taken various measures to discipline the EIP and incentivize it to look and operate more like other state-run industrial parks, while arguing for the EIP to have the same treatment as other IPs (in terms of tax incentives, for instance).

The business institutional bargaining mechanism that the EIP set up with the EIC—EIZIA—was key to addressing issues such as environmental pollution but was less effective in relation to the land issue, which was harder to resolve. Although the EIC has a limited capacity to intervene in the transfer of land for the second phase of the development, it is committed to playing an intermediate role to bring all stakeholders together. Meanwhile, the EIC has coordinated local government agencies to provide a full set of services to the EIP. In return, the EIC has agreed to push EIP firms to meet environmental targets, which has been identified as the main complaint from the local community.

Regarding labour management, the EIC guides the EIP strategically in the direction that the GoE wants. With respect to worker representation, the EIC has a clear vision by encouraging the EIZIA to set up a worker committee to minimise labour conflicts. However, it is too early to claim this type of worker representation really can fundamentally solve labour conflicts in the EIP.

With respect to the export target, it is clear to see that the EIC plays a powerful role in regulating and pushing certain firms to enhance their performance. The actual performance, however, depends on individual firms' deals with government agencies. In this sense, tacit networks play an essential role.

7.4.4.3. *Complex and Multifaceted Causes of Conflicts*

As the country's first industrial park, the EIP suffered from many inherent contradictions, frictions, and multiple levels of accountability.

Causes of conflicts identified in this thesis are highly complex and multifaceted. Some of the problems are internal, and some of these problems are fundamentally attributed to the specific political system that Ethiopia has, which are structural. Admittedly, the internal factors to EIP that generated or exacerbated some of these problems, such as a lack of middle-level professional managers, lack of understanding of context, inadequate preparation, assumptions about how things work based on limited overseas experience and the lack of requirements from global buyers. All of these factors led to the concept of 'organisational capabilities' that are critical for success in manufacturing investments overseas.

The EIP was partly facing these conflicts as a battlefield for the political contestation in Ethiopia at the national, regional and local levels. In other words, the EIP could not insulate itself for the complicated dynamics of conflict these centre-periphery tensions in Ethiopia's politics, exacerbated by the protests that began in 2016 (Clapham, 2018; Hardy and Hauge, 2019). The land conflict is a particularly sensitive issue in Ethiopian politics. It has partially reflected the loopholes in Ethiopia's political system ('ethnic federalism') and constitution. In order to understand Ethiopia's politics, it is essential to understand the uneasy relationship between the central and periphery in government. It is beyond unitary ethnic-based factors (see Clapham, 2018; Adeto, 2014).

Moreover, at the early stage of industrialisation, a lack of legitimacy, institutional and policy support for industry park-related issues created another layer of complication (Fei and Liao, 2020). As the first industrial park in Ethiopia, the EIP has suffered from many of these contradictions, frictions and multiple levels of accountability, whereas new IPs are more clearly under the control of the federal government and therefore face simpler accountability systems. Given the need to engage local authorities and institutions for the day-to-day management of the park, EIP managers often find themselves in the middle between different layers of government, and they are unable to truly leverage themselves from the EIC, as they may have wished. Sometimes the EIP is used by the local government for political purposes and struggle over representation and influence. This, as reflected in the lack of authority, the EIC seemed to suffer from in some instances affecting EIP operations, especially on land, labour and environmental governance.

7.5. Conclusion

Despite the Ethiopian government's commitment to attracting FDI for its emerging manufacturing sector and its shared interests with Chinese private businesses in building profitable Chinese companies, relations between Chinese private businesses and the Ethiopian government are not always amicable. 'Win-win' narratives tend to oversimplify the reality of Chinese investments in Ethiopia's manufacturing sector, despite shared interests.

This chapter first outlined the existing institutional bargaining mechanisms between the Ethiopian government and Chinese firms and the role of tacit networks. It made explicit to what extent these mechanisms work and for what kinds of firms. Then this chapter took the Chinese-financed Eastern Industry Park in Ethiopia as a case study to explore the dynamics of SBRs between host country government agencies (the Ethiopian Investment Commission in particular) and Chinese private businesses.

According to Khan's typologies, Ethiopia's political settlements are 'relatively politically weak and lacking in productive capabilities' (Khan, 2010, p.75), though arguably this is changing (Oqubay, 2015). Goodfellow (2017, p.215) has pointed out that 'the governing regime in Ethiopia is clientelist, and it is clear that they all rely to a significant extent on systems of patronage and the inconsistent application of laws and rules. How institutions are used to maintain a political settlement varies significantly between them'.

In line with Goodfellow's argument, this study found that different deals are agreed upon between Chinese private businesses and a range of Ethiopia's political actors at various levels. The three sets of conflicts elaborated above manifested different configurations of formal and informal institutions and relative power. Consistent with KPRS's argument (see Chapter 2), evidence in this chapter revealed that the actual outcomes of deals depend only minimally on formal rules. Instead, informal institutions (*guanxi* networks in particular) are central sources for key political actors and activities (i.e. donations, sponsorships and lobbying). As this discussion illustrates, relations between Chinese private businesses and host country governments do not fit simple 'win-win' narratives; they are complex, context-specific, diverse and fluid.

'Rapid economic growth always brings with it unintended consequences' (Fiseha and Gebresilassie, 2019, p.87). This statement applies to how decisions have been made on land use for significant investments (ibid) in Ethiopia. Indeed, this claim is not limited to land alone. The relationship between Ethiopian political instability and Chinese capital is more recursive than it seems. Expressly, the evolving relations between Chinese firms and the Ethiopian state can be understood through Polanyi's lens of 'Double Movement' and the social embeddedness of capital, whereby the expansion of Chinese private investment in Ethiopia has always generated self-protective initiatives by those who are subordinate to.

This study offers a deeper understanding of the dynamics of state–business relations between Chinese private firms and host country government agencies, which is of substantial empirical, analytical and policy importance. Chinese private investments have been considered the catalyst of the recent drive towards industrialisation in many African countries (Cheru and Oqubay, 2019). While much of the literature on China–Africa business ties has focused on SOEs, infrastructure building and investments in resource-rich states such as Nigeria, Angola and Zambia (Fei, 2020), one of the most remarkable aspects of increasing Chinese engagement in Africa is the increasing presence of Chinese private investment. Understanding African agency is crucial in this respect. This research provided a nuanced and balanced view of the dynamics of Chinese private investment in Ethiopia, which serves as an example case for sub-Saharan Africa. Moreover, this study challenged the tendency to homogenise any discussion of 'China in Africa' by considering the contingency of state–business relations. The results of this study questioned the 'methodological nationalism' that often characterises much of the literature on Chinese investments in Africa, as argued by Lee (2017).

8. Conclusion

8.1. Introduction

This thesis contributes new empirical evidence on the nature of Chinese private investment in Ethiopia, its diversity and its evolution since the first business engagements took off in the early 2010s. It is argued that the accumulation logic, interests as well as trajectories of Chinese private firms, and their relations with the host country government, are more diverse, fluid and complex than usually assumed, especially in relation to three aspects. Firstly, the range of sectors and sub-sectors in which Chinese private firms engage, the types of firms that are involved and their investment trajectories and ways of dealing with the government (the host country government in particular) have become increasingly diverse. In countries like Ethiopia, Chinese private investors have served as a catalyst to ongoing industrialisation efforts thanks to a combination of inter-governmental cooperation and the various drivers pushing Chinese light manufacturers to choose Ethiopia as a new base for operations, whether oriented to the export or to the domestic market.

Secondly, Chinese private OFDI to Ethiopia is an emerging phenomenon and learning by doing is critical in the early stages. This means that investments are contingent on the particular conditions faced in each sector and the regulatory and policy of different periods, and therefore vulnerable to changes in the political economy conditions of the country and target sectors. Risk and uncertainty remain important aspects of this fluidity, and they vary across sectors, types of firms and the markets in which they choose or are compelled to operate.

Thirdly, the arrival and expansion of Chinese private FDI in Ethiopia have generated conditions for new capital–state–labour relations at a time of rapid economic and political change in Ethiopia. Despite the Ethiopian government's commitment to attract FDI to its emerging manufacturing sector, the reality is that relations between Chinese private businesses and the host country government and societies are not always amicable. 'Win-win' narratives tend to oversimplify the effective reality of Chinese investments in Ethiopia's manufacturing sector, despite shared interests. The process of interactions and bargaining constantly generates new conflicts, contestations and cooperation, which ultimately determine winners and losers among Chinese firms, as well as different stakeholders within Ethiopia. The fluidity of the economic and political situation in Ethiopia, combined with the fluidity of the overseas expansion of Chinese private industrial capital in sectors that are subject to significant global pressures make predictions about the future of Chinese investments in Ethiopia uncertain, especially given recent developments.

8.2. Synthesis of Research Findings

The literature review presented in Chapter Two confirms that the realities and dynamics of Chinese private investment in Africa are under-researched despite their increasing presence and important impact. This review suggests that the relations and interactions of different varieties of Chinese capital (defined not simply by the state-private dichotomy) and individual African countries require more in-depth and context-specific analyses than usually found in much of the existing literature. Chapter Two also discussed the danger of the 'methodological nationalism' that often permeates the China–Africa literature, as it contributes to concealing the significant heterogeneity and diversity of private firms and ignoring both similarities and differences between Chinese private capital, Chinese SOEs and companies of different origin. Whether the national origin of a firm matters or not is seldom tackled by the literature, including any careful comparative analysis both between and within categories of capital. Equally problematic is the implicit assumption that African states constitute a monolithic passive actor that regularly accepts the requirements imposed by ‘China’. As some of the most rigorous studies of China–Africa relations have already demonstrated (Mohan and Tan-Mullins, 2019; Mohan, 2016, 2013; Power, Mohan and Tan-Mullins, 2012; Lee, 2017; Corkin, 2013), African agency must be taken seriously and unpacked within specific contexts. This thesis aims to contribute to this emerging literature by analysing the manifestations and contradictions of African agency, specifically with regards to state–capital relations.

Additionally, Chapter Two showed that there is no single theory or conceptual framework that can sufficiently explain the dynamics of Chinese private firms investing in Ethiopia and its multiple concrete determinations. While some analytical categories are useful in terms of revealing possible typologies of drivers, it is essential to look at China’s political economy at both central and local levels to understand the varieties of Chinese private capital before embarking on the analysis of what these firms do overseas. The varieties of capitalism (VoC) and variegated capitalism (VC) literature from political economy and economic geography are helpful to understand the place of Chinese capital in global capitalism and the dominant characteristics of China’s economic, social and political system (Lee, 2017; Zhang and Peck, 2016; Peck and Zhang, 2013; Fei, 2020). China’s strengthened ‘political capitalism’ (Milanovic, 2019), existing varieties of Chinese private capital and the new urban capitalist elites are some of the salient outcomes of China’s past four decades of reform and accelerated economic development, and all of these outcomes help account for China’s ‘Going Out’.

However, both the VoC and VC literature fail to recognise the eventful nature of capitalism and the primacy of politics in shaping the capacity, interests and impact of Chinese capital in Africa (Lee, 2017, p.10). How firms improvise in the host country and interact with the host country government and societies is of equal importance and needs to be studied in-depth. This must take place in addition to the institutional arrangements that may make Chinese capitalism ‘unique’ in some ways, as implied by the VoC approach.

Drawing on the combination of analytical categories and insights from political economy, economic sociology and economic geography perspectives, this thesis developed a conceptual framework to explore Chinese private firms’ identities, motives and determinants, accumulation strategies and trajectories, and their relations with the state (both home country and host country), stressing the multiple and contingent effects of Chinese private industrial capital travelling to Africa. Finally, Chapter Two concluded that a thorough understanding of the nature of Chinese investment in Africa requires sub-national and sub-sectoral contextualisation. Therefore, a comparative analysis is adopted in this thesis to explore sub-national (Guangdong, Jiangsu and Zhejiang provinces) and sub-sectoral (light manufacturing industry and construction materials industry) contextual factors.

Analytically, this research examined three layers, starting from the micro-firm level, to assess firms' behaviours and strategies. This layer is linked to the meso-sector level analysis of sector specificities and variation according to a domestic or export market orientation (the light manufacturing and the construction materials sectors) and global/domestic production networks; and the macro-level of government policies, institutional context and politics to provide an additional lens through which to understand state–business relations.

8.2.1. Motives and Determinants of Chinese Private Firms

The existing literature regarding factors that first motivated and drove firms to invest in Africa tends to present 'shopping lists' of motives without due consideration of the different types of Chinese firms and their shifting interests in investing in Africa. In addition, it fails to point to the most crucial factor(s) that drove firms to invest in a particular location and sector. This thesis fills this gap through detailed comparisons across firms and reveals significant diversity even in the same industry (or market/value chain). While stressing the multiplicity of contingent drivers and effects of these investment decisions, the thesis tries to identify the most important determinants, and understand why this would be the case.

Chapter Five identified varieties of Chinese private capital in Ethiopia and demonstrated how China's sub-national and sub-sectoral contextual conditions have contributed to important variations that drove firms' 'Going Out', and how the Ethiopian government shaped overseas investment by launching proactive investment policies to influence economic outcomes. The chapter also documented the heterogeneous nature and characteristics of Chinese private firms in Ethiopia, thereby refuting perceptions of Chinese capital as monolithic. Both official statistics and survey evidence collected in the course of this research show that the Chinese private sector plays a dominant role in Chinese FDI in Ethiopia and mainly concentrates in the manufacturing sectors (both by the number of projects and by value). This finding offers solid evidence that challenges common perceptions, such as the supposedly dominant role of SOEs in Chinese investment in Ethiopia, thus adding evidence to a growing body of research (Lee, 2017; Oya, 2019; Schaefer and Oya, 2019a, 2019b; Fei, 2020; Calabrese and Tang, 2020) that dismantles the 'methodological nationalism' often reflected in the literature on Chinese investment in Africa.

Chapter Five further argued that motives and determinants of these firms differ significantly, not only across sectors but even within the same sector (or market). Apart from sector specificities (in a particular sector, such as light manufacturing and construction materials sectors, and export and/or domestic market), Chapter Five showed that the type of firm (in terms of scale, history and origin of investment) and entrepreneur's background (family and educational background, business experience and *guanxi* networks) are also important variables to explain such variations. It revealed the importance of the macro context, as both China's and Ethiopia's political economy conditions (at both national and sub-national levels) have, to a certain extent, contributed to respectively 'push' and 'pull' Chinese private firms to invest in Ethiopia. It was found that Chinese private capital is not different from global private capital in terms of the core motives to enter new markets. Evidence shows that profit-making and market-seeking are common interests for Chinese private firms to invest in Ethiopia (also see Lee, 2017; Sun, 2017). However, these Chinese private firms have distinct characteristics in comparison to global private firms.

Chapter Five found other common features of private firms in Ethiopia: most firms still heavily rely on entrepreneur's *guanxi* networks and home country advantages (similar regional development path and experience in the manufacturing industry). The findings support the argument that Chinese private firms' internationalisation is still at a relatively early stage (Song 2011), and that Chinese local and regional government policies and institutional contexts continue to influence Chinese private firms' international development pathways, identifying the importance of the sub-national factors. Although Chinese private firms share characteristics and motivations, findings in this study show that types of firms (in terms of investment scale, origin and history); sector specificities (in particular sectors such as light manufacturing and construction materials; and markets such as domestic or export market); entrepreneur's background (family, education and work experience) and *guanxi* networks that the firm or owner has built are the main sources of variation and differences across firms.

8.2.2. Accumulation Trajectories

Chapter Six provided a detailed analysis of the logic and process of accumulation of three relatively successful cases of manufacturing investment by Chinese private capital in Ethiopia. Even though these firms have experienced success to various degrees, they have all encountered a variety of obstacles and have had to adapt in a way that has affected their accumulation trajectories and initial aims. The evidence suggests that Chinese private firms' accumulation trajectories in Ethiopia differ for many reasons. These include not only the attributes of entrepreneur's background, *guanxi* networks and type of firm (in terms of investment scale, origin and history), but also due to the particular market segment in which they operate, their positions in global and domestic production networks, and, of course, the political economy of each sector in Ethiopia. To ensure that their investment is successful and profitable, all firms have shown a certain level of adaptation and change in their production organisation to varying degrees. In addition to accumulation and production, one must understand the distinct nature of the varieties of private capital and the managerial ethos inside firms.

Specifically, the empirical findings from this thesis showed that the managerial ethos of these three Chinese private firms differs significantly from global private capital's 'career-oriented' approach, partially because these private firms are of different types from the conventional definition of TNCs, as discussed in the previous section. This thesis also demonstrated that the managerial ethos is specific to certain sectors (or production regimes) rather than nationalities or cultures, in line with Schaefer and Oya's (2019a) argument. For example, whether a firm is integrated into a global apparel production network that exports to the US or is just a 'trans-local' firm trying to exploit the opportunities of the Ethiopian market shapes the management style and 'ethos' that dominates operations and accumulation imperatives. Chapter Six also found that the background of the entrepreneur is another important factor to attribute to the divergent ethos in Chinese private firms. All of these firms are owner-operated and/or family businesses, and the owner's background (family, education and work experience) affects the development of their managerial ethos.

8.2.3. The Relations Between Chinese Private Businesses and the Ethiopian Government

After having described the key similarities and differences across Chinese private firms in Ethiopia's manufacturing sector and having examined the accumulation trajectories and experiences of success of a few exemplary cases, Chapter Seven explored the dynamics of state–business relations between host country government agencies and Chinese private businesses. Given the primacy of politics in understanding the social embeddedness of Chinese capital in Ethiopia, a closer look at the institutions and bargaining mechanisms shaping the relations between the Ethiopian (and Chinese) state and these Chinese companies helped locate their experiences in the macro political context of the country. The chapter looked at various Chinese business associations in Ethiopia and explored to what extent these business associations work and for whom. It provided empirical evidence to illustrate the diversity of business associations and why certain firms are more influential in certain associations, and how those firms that do not have an adequate channel can find other ways to lobby and articulate their interests.

Chapter Seven further argued that the relations between Chinese private businesses and host country governments are not always amicable; instead, they are highly complex, context-specific, contingent and fluid. It was revealed that Chinese government-led institutional support is generally limited and only helps selected kinds of firms (SOEs and large-scale private firms). Private Chinese firms usually need to rely on improvisation, by, for example, creating their own bargaining mechanisms even when the Chinese state has created official channels for this process. As Lee (2017) suggests, the distinction between state and private capital comes into play and is reflected in the relative effectiveness of particular official channels for bargaining in contrast with alternative bargaining mechanisms.

The analysis then illustrates the nature and evolution of state–business relations through the case study of Chinese firms in the EIP. This park and its tenant firms had to deal with (a) the Ethiopian government at each administrative level (federal, regional and local) and their services, (b) with labour conflict and local tensions; and (c) with export targets and other disciplinary mechanisms from the leading federal agencies. These examples reflected three different layers of bargaining mechanisms and the primacy of politics in shaping multiple and contingent political and economic outcomes. The EIP case provides a vivid example that shows how these different steps and institutional mechanisms, with the Ethiopian Investment Commission as a leading agency, led to solutions to problems identified in Chapter Seven, thereby shedding light on the dynamism and contingency of state–business relations.

As suggested by Lee (2017), the evolving relations between Chinese firms and the Ethiopian state can be understood through Polanyi's lens of 'Double Movement'[160] and the social embeddedness of capital, whereby the expansion of Chinese private investment in Ethiopia has always generated self-protective initiatives by those who are subordinate to it. However, Polanyi argues at a more general and abstract level of analysis. Economic development has now become more diverse and complex, especially concerning three main aspects. The first is that multiple actors are involved in the process. Chinese investors, the Ethiopian government (at all levels) and local labour and communities are all important actors. As we see with Chinese investors, where there is significant heterogeneity and diversity, there is also variation within each group of actors. Secondly, the management of FDI in Ethiopia involves multiple stages of bargaining, and the process is highly interactive, contradictory, and contested. As time goes on, power dynamics between the 'centre' and the 'periphery' of existing political settlements may change and with that the effectiveness of existing bargaining mechanisms. The empirical evidence in Chapter Seven showed how the fractious politics of government agencies (at both central and local levels) and bureaucracies influenced political outcomes and economic development. Thirdly, another layer of complexity has been added by the increasingly fractious politics throughout the country and the accompanying rise in ethnic-triggered conflicts. The combined effects of these different challenges have impeded firms' normal operation and their expansion in the host country. Ethiopia's particular political system of ethnic federalism affects the dynamics of SBRs between Chinese firms and the host country government, making some problems structural and

[160] See Chapter Two for the full elaboration.

difficult to tackle for companies as well as individual government agencies. This is why the 'big' political picture is critical to understand some of the apparent contradictions and inconsistencies in the relations between Chinese firms and state institutions.

More broadly, some problems such as resistance from local labour and communities (e.g. protests, strikes and conflicts) that the EIP encountered with increasing frequency, reflect both Polanyi's notion of 'Double Movement' (as 'defensive struggle') and Marx's lens of class struggle (as 'offensive struggle') (Oya, 2019; Schaefer and Oya, 2019a; Selywn, 2014, p.1020).

To conclude, Chinese private investment in Ethiopia is an ongoing, learning process for all actors. The nature of it is highly relational, processual and embedded at different levels and scales, as argued in the 'variegated capitalism' literature in economic geography (Zhang and Peck, 2016; Peck and Zhang, 2013; Fei, 2020), and emerging relations with different representatives of the Ethiopian state clearly shaped accumulation and production experiences of Chinese firms in Ethiopia.

8.3. The Significance and Implications of the Research Findings

This research is significant in three aspects:

Firstly, extending from Lee's comparative study of Chinese state capital and global private capital, this thesis adds another layer of comparison. It does so by looking at different types of Chinese private capital in manufacturing industries to assess variations of their accumulation logic and interests, trajectories and relations with the government at multiple levels. Despite some common traits reflecting the expected search for profits and new markets among private firms, the strategies, experiences and outcomes in trying to reach these broad goals are highly contingent and context specific. This thesis identified different types of private firms, such as small to medium-sized family-owned firms that focus on the domestic market, traditional OEMs that focus solely on the export market and owner-operated firms in the construction materials sectors that are present in Ethiopia. It then described their main characteristics, explored what drove varieties of Chinese private companies to invest in Ethiopia and focus on a particular market and how firms improvised in the host country and interacted with the Ethiopian government and society at large. The thesis has also explored to what extent the host country's domestic political economy shaped the strategy and performance of the private sector, and how. Equally important was the analysis of the dynamic relations of Chinese private businesses and host country government agencies (at various levels).

The findings of this research not only add to the existing literature on Chinese investment in Africa but also bring in new field-based evidence to challenge the common perceptions on China in Africa, thus contributing to the refutation of 'methodological nationalism'.

The second area this thesis contributes to is the provision of a multi-layered analysis of Chinese private investment in Ethiopia. Instead of taking social and cultural factors (such as work ethic, entrepreneurship and guanxi networks) as immutable and individual factors that explain the 'uniqueness' of Chinese private firms, I linked firm-level behaviour to sector specificities and global and domestic production networks as well as to national and sub-national government policies, institutional contexts and politics to present an integrated analysis. Social and cultural factors do matter, but in the context of economic, sectoral, material and political imperatives. The 'methodological nationalism' and cultural reductionism led by the attribution of firm behaviour to certain cultural national traits are problematic and lead to unwarranted generalizations about Chinese capital overseas.

The third significant contribution this research offers is to provide disaggregated and more accurate data to help establish a more empirically grounded and up to date picture of the reality of Chinese private OFDI in Ethiopia. Combining qualitative (especially comparative ethnographies) and some quantitative analysis, the thesis explored and explained the complexity, dynamics and interactions of Chinese private OFDI in Ethiopia by triangulating multiple sources of data (both primary and secondary) through a variety of methods, including extensive participant observation. An important lesson of this research is the need for extensive and patient fieldwork, including participant observation, to obtain first-hand information on the real-life running of Chinese private enterprises in Ethiopia. Given the difficulties in accessing accurate information on the realities of Chinese business overseas, the methodological lessons of this research may be relevant to other researchers asking similar research questions. Conducting such research over a relatively long period of time also provided unique insights into evolving dynamics and changes affecting the production and accumulation of these firms. This approach thus helped overcome common problems of access and sensitivity among entrepreneurs seldom used to the presence of outside researchers.

8.4. Limitation of the Study

Despite the significance of the study, it has some limitations. First, since the main interviewees were Chinese (entrepreneurs and other expatriates) and Ethiopian government officials, interviews were conducted in Mandarin and English. I did not systematically learn Amharic (the official language of Ethiopia). Due to the language barriers,[161] but also for safety reasons, I did not conduct interviews with local workers and communities outside factories or industrial parks. Direct observations of local labour were only possible at a few selected Chinese factories and industrial parks. Nevertheless, my

[161] Not many local workers in the EIP speak fluent English. In most factories I visited, many speak only Oromos (a regional dialect) rather than Amharic.

observations take into account how my participation and perception might have influenced the results. In addition, I participated in a separate research project (see Chapter Three and Chapter Seven for more details). In addition, I participated in a separate research project[162] that focused precisely on the experiences of Ethiopian workers and thus could rely on this source for a more solid understanding of labour relations and labour conflict (Schaefer and Oya, 2019a).

Second, the quantitative component from the survey was limited, and the sample of firms was small, hence the greater reliance of this paper on qualitative data. A final limitation is that, unlike Lee (2017), I did not compare Chinese firms to other foreign firms in the same sector, which could have added greater depth to the analysis.

8.5. Policy Recommendations

8.5.1. Chinese Regional and Local Governments Shall Assist Chinese Private Firms in Their Overseas Investments

As discussed in Chapter 2, China's centralised control and local improvisation model reflects the limited capability of the central government to monitor private firms' 'Going Out' and their overseas performance. Although China's 'Going Out' strategy was created and has been promoted by the central government, its actual manifestation on the ground is far beyond Beijing's control (Lee, 2017). It is essential to note that, in principle, the Chinese government does not hold any jurisdictional authority over the host countries or their citizens (ibid). In reality, China can still force compliance among SOEs (central SOEs in particular) through policy instruments (ibid). However, this may not be the case for private firms, especially those with no parent company in China (such as 'trans-local' firms[163]).

Despite their bold risk-taking in their 'Going Out' ventures, the findings suggest that Chinese private firms remain fragile and passive in bargaining with the host country government due to asymmetrical power relations. This situation is especially the case for firms that have less overseas experience or for which Ethiopia was their first overseas venture. Despite common perceptions that Chinese firms and the Chinese government operate in unison, in reality, the Chinese central government has limited capacity (and interest) to cater to individual firms' requirements overseas as these are highly

[162] As the research assistant, I was fully involved in the research project on 'Chinese Firms and Employment Dynamics in Sub-Saharan Africa: A Comparative Analysis', funded by the Department for International Development (DFID) and Economic Social Research Council (ESRC) (2015/19).

[163] The term 'trans-local' refers to firms established by Chinese investors without business or parent firms in China (see Lam, 2014, footnote 16, p.26).

fragmented and diverse and not generally articulated in a coordinated fashion. Even in China, the central government has limited monitoring and coercive ability over individual firms (Lee, 2017). De facto local governments have higher autonomy over the economic development in their regions.

Nevertheless, the lack of direct oversight at the central level does not necessarily mean that firms' 'Going Out' is not influenced by local governments. However, as discussed in Chapter 5, Chinese local and provincial governments have higher autonomy and the direct experience of managing local economic development in their regions and might be in a better position to step in and play a significant role in supporting firms from the same region. Therefore, it is suggested that local and regional governments actively engage in coordinated state–business dialogues and set up region-specific business institutional mechanisms (such as business associations) in the host country (as Chapter 7 has shown).

8.5.2. Creating Incentives for Local and Regional Governments

One suggestion to the Ethiopian government is to create aligned incentives for Ethiopia's local and regional governments, encouraging them to actively engage in economic activities and FDI management. China's successful experience offers a valuable lesson for Ethiopia: the Chinese central government provides political incentives to local leaders to promote regional economic development while maintaining social peace (Ang, 2020). The state–business relations between businesses and local governments are 'transactional' rather than 'extractive' (ibid). Thus, local leaders are eager to help investors who want to operate in their regions.

The Ethiopian government should, of course, consider the limits and opportunities of its political system and economic situation, thereby creating suitable incentives for local and regional governments to engage in economic development while maintaining social peace. This approach requires effective communication and coordination between the central and local governments and the identification of perceived shared interests. While this can be seen as a sensible course of action to better manage investments directed towards the development of the manufacturing sector, the political context of factionalism and fragmentation may operate against such coordination unless a system of mutually compatible interests is designed between the central (federal) and the regional or local level.

8.5.3. Establishing a Multilateral Dialogue Mechanism

Another policy implication for the Ethiopian government is to create a multilateral dialogue mechanism. Chinese firms, the federal government and other actors (such as local government agencies and bureaucracies, community organisations and labour associations) are equally important agents that should be included and encouraged to play active roles. First, the host country government should consider the local community and workers (and their institutions of representation, e.g. trade unions) at the early stages of development planning to manage expectations and ensure that investment projects can run effectively on a long-term basis. Labour conflicts due to misunderstandings and poor communication, and protests in the local community due to inadequate resettlement (often with little compensation), are potentially preventable or can be mitigated. Legitimate grievances due to dispossession or poor working conditions have often been at the heart of broader local mobilisations and disrupted operations to the extent that they resulted in calls for more concerted action from multiple sides.

Better planning and the clarification of expectations may be more likely to improve the technology transfer that federal authorities expect from overseas manufacturing FDI, which has so far been limited (Brautigam and Tang, 2019; Tang, 2019). There is a real danger of turning Chinese-built or owned industrial parks, Chinese factories and construction sites into 'enclaves' that only partially fulfil the promise of job creation and infrastructure building. While these are positive outcomes, a more sustainable approach would strengthen local linkages and generate clusters of economic activity beyond the parks.

Achieving knowledge and skills transfers and speeding up the spill-over effects for the broader Ethiopian economy and society, thus achieving the much celebrated 'win-win' results, remains challenging. Foreign investors should think beyond corporate social responsibility and direct job creation and strategically integrate local SMEs in their production networks to boost the local economy through direct and indirect linkages. After all, they would benefit from a denser and more efficient cluster of industrial and service firms that could make them less dependent on imports in the context of foreign exchange shortages. Their vulnerability is also a function of limited local supply chains. However, as the experience of the past ten years shows, this will not develop automatically. It requires the participation of and communication among Ethiopian government agencies, Chinese investors, labour organisations and concerned communities, who must also adopt a long-term outlook.

8.5.4. Establish a Tripartite or Multi-partite Cooperation Mechanism to Train Chinese Managers and Expatriates

The final suggestion builds upon the previous two chapters. It argues that the Chinese and Ethiopian governments, firms and international organisations should set up a tripartite or multi-partite cooperation mechanism to train not only local workers but also Chinese managers and expatriates.

Learning is a two-way process, and it is not simply Ethiopian workers who need to learn the 'industrial culture'. Human resources development and management is of utmost importance. Chapters 6 and 7 revealed that the lack of professional managers working under the senior management of private firms remains a significant obstacle to better industrial relations and more effective interactions with federal and local institutions in Ethiopia. Moreover, some staff (especially middle-level management) in Chinese private firms lack clarity regarding their roles.

In general, Chinese middle management teams, professionals and technicians deal directly with local workers. They are the key group who represent enterprises, ensuring efficiency and the quality of production and helping local workers and firms achieve technology and skills transfers (W. Chen, 2018). Relatedly, mutual respect and understanding in the workplace are prerequisites for forming a sustainable business climate. It is crucial to train Chinese expatriates not only in techniques and skills but also to teach them about the local culture, language, CSR, laws and regulations, and even national and local politics so that political events are better understood and mitigating actions devised ex-ante.

Chinese firms, the home and host country governments and third-party international organisations (such as the UNIDO and GIZ) could work together to set up sector-specific training schemes at the institutional level.

8.6. Questions for Future Research

This research focused on Chinese private investment in Ethiopia within a given period (2008–2018). However, the nature of Chinese investment in Ethiopia is highly dynamic. Since the completion of fieldwork (September 2018), significant changes have occurred in Ethiopia and the world. Chinese private investment in Ethiopia has been affected by several factors, including the following: the policies of the newly structured Prosperity Party under Dr Abiy Ahmed, which has been in power since 2019; an ongoing and escalating civil war between TPLF and the federal government, which threatens to create serious political instability for a long period; increasingly tense Sino–US relations; and the worldwide outbreak of Covid-19 since the beginning of 2020. This requires us to continuously conduct rigorous, empirically grounded research to capture the ongoing dynamics. The potential lack of resilience of the emerging sectors and new investors could derail the successful industrialization process to which many Chinese firms have greatly contributed in Ethiopia. Addressing economic and investment resilience remains a critical challenge.

Since this research focuses on the sub-national, sub-sectoral comparison of Chinese firms, there is little comparison between Chinese and non-Chinese foreign firms in the same sector (or same market). However, for future research, it would be useful to explore similarities and differences between these two groups to understand how processes of accumulation and business development in a new setting unfold, given a wide range of different contextual factors.

9. Appendices

Appendix A

AA1

Footnote 99. "The Great Leap Forward (GLF)" (1958-60) refers to '[a] clash industrialisation programme throughout the economy. Based on the 'walking on two legs' policy for agriculture and industry, it involved their simultaneous development, promoting small- and medium- as well as large-scale industry. It coincided with a movement to set up 'People's Communes' to organise agricultural production and administer rural China. The communes were formed from existing co-operatives to make up larger-scale units. Divisions with the USSR, and Soviet advisors leave and 'tear up contracts' for the heavy industry projects in which they were engaged'(Cannon and Jenkins, 1990, p.24).

Footnote 100. "Famine Disaster" (1959-61) refers to '[e]conomic chaos caused by GLF compounded by flood and drought lead to 13 and 26 million famine deaths' (Cannon and Jenkins, 1990, p.24).

AA2. Member list of the CCCE

Table 26 Member List of CCCE

No	Company	Ownership	Position
1	CCCC	SOE	President company
2	CGCOC	Mixed Ownership	Executive vice president Company
3	ZTE	PE	Vice president company
4	Wanbao	?	Vice president company
5	Power China (Sinohydro)	SOE	Vice president company
6	China Railway 3rd Bureau	SOE	Vice president company
7	CCECC	SOE	Vice president company
8	GCL-Poly	PE	Vice president company
9	Eastern Industry Park	PE	Vice president company
10	Huawei	PE	
11	Gezhouba	SOE	
12	China Railway 2nd Bureau	SOE	
13	Shanghai Electricity	SOE	

14	Poly Technology	PE	
15	Hunan Huanda	SOE	
16	CMCEC	SOE	
17	Shangdong Highspeed	SOE	
18	China Railway 2nd College	SOE	
19	Jiangxi Water Conservancy	SOE	
20	China Construction Corporation	SOE	
21	CAMCE International	SOE	
22	Lifan	PE	Vice President of Investment Branch
23	Andong Steel	PE	Vice President of Investment Branch
24	EVE Paper Corporation	PE	Vice President of Investment Branch
25	Capital Cement	PE	Vice President of Investment Branch
26	Huajian Shoe	PE	Vice President of Investment Branch

(Source: CCCE, 2018)

AA3. CCPPNR

As of June 2019, there were 48 members, many of them are SMEs from Zhejiang province. Due to Mr Qian's introduction and influence, the former President of Ethiopia, Mr Mulatu Teshome, agreed to serve as the Honorary President of the association, which has further enhanced the association's influence in Ethiopia.

AA4. EIZIA and EIPMC

All tenants, investors and residents of the EIP are members of the EIZIA. The Management Committee of the EIZIA consists of the General Manager, Treasurer; President; Secretariat; and an Auditor (EIZIA Protocol, 2017).

AA5. Request of support

Request of support

"*As a result of an invasion of the Oromia region by a special police unit and militia forces belonging to the Somali side, almost half a million Oromo people have been displaced from Ethiopia's Somali region and are camped in different site of eastern Oromia. The Oromia regional state has decided to resettle those displaced from Somali region in different part of Oromia*."

"*Accordingly, one thousand households are assigned to Dukem city administration to resettle in the city*" …. "*Your company has contributed nothing yet. For this reason, from this total resettlement, the city administration is requesting your organisation to support us by building 100 houses for the displaced from their homes. Please, we are looking forward to your response within a day".*

(Dukem City Administration, Dec 2017)[164]

[164] Internal document collected from the EIP on 26 December 2017.

Appendix B - Interview Code

Code	Organisation	Name of Interviewee	Position	Location	Interview Date
CG		Chinese Government1,2,3 (…)			
CG1	Zhangjiagang	Mr T	Government official from Zhangjiagang City	China	April 23, 2018
CG2	MOFCOM	Mr H	Secretary	Ethiopia	July 11, 2018
CG3	China Africa Development Fund	Mr M	Manager	Ethiopia	July 11, 2018
CCM		Chinese Company Management1,2,3 (1,2,3)			
CCM1	Huajian Shoe				
	CCM1-1	Mr H	Vice President of Huajian	China	May 10, 2018
	CCM1-2	Ms X	Assistant of Vice-chairman	China	May 8, 2018
	CCM1-3	Ms W	HR manager	China	May11, 2018
	CCM1-3-a			Ethiopia	Aug 4, 2018
	CCM1-4-a	Ms Y	General Manager of (H-J) Garment Factory	Ethiopia	March 21, 2018
	CCM1-4-b			China	May 10, 2018
	CCM1-5	Mr W	Purchasing Department of Huajian, Ethiopia	Ethiopia	March 23, 2018
	CCM1-6	Mr Y	The then HR Manager	Ethiopia	March22, 2018
	CCM1-7-a	Mr Z(H)	CEO and President of Huajian	Ethiopia	August 4, 2017
	CCM1-7-b			Ethiopia	August7, 2017
	CCM1-7-c			Ethiopia	August9, 2017
	CCM1-8	Mr Z	The then Factory Manager of Garment manufacturing company	Ethiopia	August8, 2017
	CCM1-9	Mr Q	Manager in Finance Department, China	China	May 9, 2018
	CCM1-10	Ms Z	Vice-Chairman of Huajian	Ethiopia	June7, 2018
	CCM1-11	Ms W	Special Assistant of Mr Zhang Huarong	Ethiopia	July 20, 2018
	CCM1-12				Sep 28, 2018
	CCM1-12-a	Mr C	The customs affairs department		
	CCM1-12-b	Mr Z	Production Manager of Huajian		
	CCM1-12-c	Mr L	PR Manager		
	CCM1-13-a	Mr T	IT and logistic department	Ethiopia	Oct25, 2017
	CCM1-13-b				Nov14th, 2017
	CCM1-14	Mr Z	HR Department	Ethiopia	Nov30th, 2017
CCM2	Eastern Industry Park (EIP)				
	CCM2-1-a	Mr Lu Qiyuan	GM and Chairman of EIP	Ethiopia	April 3, 2018
	CCM2-1-b			China	April 23, 3018

	CCM2-2-a	Mr Gao Yangyang	Assistant of GM and Chairman of EIP	Ethiopia	July 16, 2018
	CCM2-2-b				Sep17, 2018
	CCM2-3-a	Mr Jiao Yongshun	Deputy Director of EIP	Ethiopia	Oct3, 2017
	CCM2-3-b				March6, 2018
	CCM2-3-c				Sep20, 2018
	CCM2-4-a Zhongshun and East Cement	Mr W	Deputy GM of Zhongshun and East Cement	Ethiopia	March 27, 2018
	CCM2-4-b				Oct 27, 2017
	CCM2-4-c				Oct 26, 2017
	CCM2-4-d	Mr Gao Yangyang	GM of Zhongshun and East Cement	Ethiopia	Feb 5, 2019
	CCM2-4-e				Feb26, 2019
	CCM2-4-F	Mr X	Factory Manager of Zhongshun and East Cement	Ethiopia	May 8, 2019,
CCM3	Haibo Garment PLC				
	CCM3-1-a	Mr Zou Haibo	GM/Chairman	Ethiopia	Feb 10, 2018
	CCM3-1-b			Ethiopia	Jan 28, 2019
	CCM3-1-c			Ethiopia	May 17, 2019
	CCM3-2-a	Mr D	Factory Director	Ethiopia	March 16, 2018
	CCM3-2-b	Mr H	Logistics Manager		
CCM4	Linde				
	CCM4-1-a	Mr L	Deputy GM of Linde	Ethiopia	Sep 17, 2018
	CCM4-1-b				Oct18, 2017
	CCM4-1-c				Dec 15, 2017
	CCM4-2	Mr L	GM/Chairman	Ethiopia	Nov23, 2017
CCM5	Dongfang Spinning, Dyeing and Printing				
	CCM5-1-a	Mr Z	GM	Ethiopia	Oct20, 2017
	CCM5-1-b				Nov 23 ,2017
	CCM5-1-c				Sep20, 2018
	CCM5-2-a	Mr L	Deputy GM	Ethiopia	Oct18, 2017
	CCM5-2-b				Nov24, 2017
CCM6	Yuechen				
	CCM6-1-a	Mr W	Deputy GM	Ethiopia	Oct18, 2017
	CCM6-1-b				Nov23, 2017
	CCM6-1-c				Sep 17, 2018
CCM7	Kaipu				
	CCM7-1	Mr S	GM	Ethiopia	Jan 18 ,2018
	CCM7-2	Mr G	Factory Manager		Oct25, 2017
	CCM7-2-a				
CCM8	East Steel				
	CCM8-1-a	Mr M	Factory Director	Ethiopia	April 3, 2018
	CCM8-1-b				Oct17, 2017
	CCM8-1-c				Feb 9 2018
CCM9	Zhaoxin Wang Wood				
	CCM9-1	Mr L	Marketing Director	Ethiopia	Oct 17, 2017
	CCM9-1-a				Feb 9 2018

CCM10	Sansheng				
	CCM10-1-a	Mr W	Assistant of General Manager	Ethiopia	Oct15, 2017
	CCM10-1-b	Mr W	Assistant of General Manager	Ethiopia	Oct17, 2017
	CCM10-2	Mr C	General Manager	Ethiopia	Oct20, 2017
	CCM10-3	Mr H	Factory Manager (Construction material plant)	Ethiopia	Feb 9, 2018
CCM11	Diyuan Ceramic				
	CCM11-1	Ms N	Marketing Director	Ethiopia	Oct20, 2017
	CCM11-2	Mr Z	Factory Manager	Ethiopia	Oct18, 2017
	CCM11-3	Mr W	GM	Ethiopia	Dec 22, 2017
	CCM11-3-a	Mr W	GM	Ethiopia	Feb 9, 2018
CCM12	HQ AND ZA MANUFACTURING PLC	Mr M	General Manager	Ethiopia	April 2018
CCM13	JPTE				
	CCM13-1-a	Mr L	General Manager	Ethiopia	Feb 11 and 12 2018
	CCM13-1-b	Ms Q	Finance director (Wuxi, China)	China	April 24, 2018
CCM14	Jiangsu Sunshine				
	CCM14-a	Mr C	General Manager	Ethiopia	March 28, 2018
	CCM14-b	Mr C	General Manager	Ethiopia	July 17, 2018
	CCM14-c	Mr C	General Manager	Ethiopia	July 26, 2018
	CCM14-d	Mr C	General Manager	Ethiopia	Feb23, 2019
CCM15	Zhenzhen Steel				
	CCM15-1	Mr J	General Manager	Ethiopia	Oct 19, 2017
CCM16	Hensen Wood				
	CCM16-1	Mr Z	General Manager	Ethiopia	Dec22, 2017
CCM17	Polilotus				
	CCM17-1-a	Mr Qian Xiao	General Manager	Ethiopia	Oct 13, 2017
	CCM17-1-b	Mr Qian Xiao	General Manager	Ethiopia	Feb 8, 2019
CCM18	Lifan Industry (Group) Co., Ltd				
	CCM18-1-a	Mr M	Deputy General Manager	Ethiopia	March 19, 2018
	CCM18-1-b	Mr M	Deputy General Manager	Ethiopia	Feb22, 2019
CCM19	Lianhe Metal				
	CCM19-1	Mr F	GM	Ethiopia	Oct18, 2017
FCM		Non-Chinese Foreign Company Management			
FCM1	Dangote (and Sinoma)				
	FCM1-1	Mr C	Plant Manager of Sinoma	Ethiopia	April 16, 2018
	FCM1-2-a	Mr D	MD of Dangote (Ethiopia)	Ethiopia	April 17, 2018
	FCM1-2-b	Mr B	Plant Director of Dangote	Ethiopia	April 17, 2018
	FCM1-3	Mr C	GM of Sinoma (Ethiopia)	Ethiopia	March 20, 2018
IO		International organisation			
CBA		Chinese business association			
	CCCE				
	CBA-1	Mr W	General Secretary		July, 16 2018
EG		Ethiopian Government			

EG1	Ethiopian Investment Commission				
	EG1-1-a	Ato Fekadu	Researcher	Ethiopia	Sep26, 2018
	EG1-1-b				Aug1, 2018
	EG1-2	Ato Ahemed	Branch Manager of EIC One-stop Service Station at EIP		Sep17, 2018
	EG1-3	Ato Temesgen	Deputy Commissioner		Sep26, 2018
	EG1-4	Ato Teka	Deputy Commissioner		Aug1, 2018
	EG1-5	Hilana	Information and Data Department		Feb8, 2018
EG2	Dukhem City Administration				
A		Academia			
	A1	Professor T	Tsinghua University	Ethiopia	April 6, 2018
	A2	M Keyi	John Hopkins		July 22,2018
O		Others			
	O1	Mr K	Ethiopian businessman	Ethiopia	March 22, 2018

Appendix C - Participant Observation Code

Participant Observation Code	Participant(s)	Organisation(s)	Date
PO1	Mr J, Ms B, Mr A; Ato F	PO-EG1-CCM2	June29, 2018
PO2	Ato Abebe; Mr M, Ms T, Mr D and Mr B	PO-EG1-CG3	June 22, 2018
PO3	Firm representatives from the EIP; The MOFCOM representative; The Dukhem government representatives; EIC (OSS) representative	PO- -EG1,2-CG2-CCM2	March 27, 2018
PO4	Mr J; Delegate of PI	PO-CCM2-CCM-PI	Jan, 12,2018
PO5	Mr Lu Qiyuan; Ifengweekly	PO-CCM2-M1	July 9, 2018
PO5-1	EIP Monthly meeting: Mr Lu Qiyuan and firms' representatives from the EIP	PO-CCM2	Aug15, 2017
PO5-3			Oct15, 2017
PO5-4			Dec15, 2017
PO5-5			Jan15, 2018
PO5-6			June15, 2018
PO5-7			July 15, 2018
PO-6	Mr Lu Qiyuan, The Dukem Police	PO-CCM2-EG2	Oct30, 2017
PO-7	Mr Lu Qiyuan; Ato Fitsum	PO-CCM2-EG1	Jan8, 2018
PO-8	Mr Lu Qiyuan, Mr J and Ato A; The Mayor of Dukhem city	PO-CCM2-EG2	Nov 28, 2018
PO-9-1	Mr Zhang Huarong	PO-CCM1-1	Aug7-9, 2017
PO-9-2			Oct25, 2017
PO-9-3			Nov20, 2017
PO-9-4			Dec9, 2017
PO-9-5			Feb10-11, 2018
PO-10	Ato Teka; Mr Z; Mr H	PO-EG1 -CG2-CCM 20	July18, 2018
PO-11	Mr W; Ato Solom	PO-EG3- CCM2-4	Oct27, 2017
PO-12	Ato Mulugeta; Mr Q	PO-EG1 (OSSS)-CM-PI	Oct29, 2017
PO-13	Ms D	PO-CCM2-1	Nov29, 2017

Appendix D - Research Matrix

Research Question	**What is the nature and dynamics of Chinese private OFDI in Ethiopia's manufacturing sector?**		
Sub-questions	**Operational Questions**	**Tools**	**Informants**
Why are Chinese private firms investing in Ethiopia?	• What motives drove different types of Chinese private firms to invest in Ethiopia's manufacturing industry and focus on export and/or domestic markets? • What is the most important determinant that attracted private firms to invest in Ethiopia?	• Desk Review • Semi-structured interviews • Participant observation • Survey • On-site observation	• Government agencies: (e.g. EIC; MOFCOM, Chinese municipal (Zhangjiagang) government agency, China); • Chinese business associations (e.g. CCCE, CABC, EIZA, EIPMC, CCPPNR); • Private industry park developers (EIP and Huajian) and individual entrepreneurs/investors
How have Chinese private firms consolidated their investments in Ethiopia, and how have their accumulation trajectories varied and why?	• What is the logic and core interests of accumulation that drove different types of Chinese private firms to invest in Ethiopia? • What kinds of production constraints did firms encounter during their accumulation process, and how did they overcome them? • Did firms replicate the same production model and managerial ethos that they had in China, or did they adopt a new one based on local realities, and why?	• Desk review • In-depth case study • Semi-structured interviews • Life Stories • Participant observation • On-site observation	• Chinese business associations • Individual entrepreneurs/investors, Chinese expatriates, local managers • Government agencies: (EIC; local (Dukhem) government agencies; MOFCOM; Chinese municipal (Zhangjiagang) government agency); • Non-Chinese foreign firms

What are the dynamic relations between Chinese private businesses and the Ethiopian government?	• How did institutional bargaining mechanisms emerge among Chinese businesses, what specific forms have they taken and how have they subsequently evolved in Ethiopia? • What kinds of conflicts and collaboration exist between the Ethiopian government, Chinese business associations and private firms? • What sort of problem-solving mechanisms are there, to what extent is this kind of institutional set-up effective in solving collective action problems and are they controlled by certain players? • What caused the current structure, and what are the political economy implications?	• In-depth case study • Semi-structured interviews • Surveys • Participant observation • On-site observation	• Government agencies: (EIC; local (Dukhem) government agencies); • (MOFCOM); • Chinese business associations (CCCE, CABC, EIZA, EIPMC, CCPPNR) • Private industry park developers (EIP) and individual entrepreneurs/investors; Chinese expatriates; local managers

Appendix E - Company Profile, History and Background

EE1. List of Surveyed Light Manufacturing Firms in the EIP

No	Investor	Year Started	Employees (Total/Local)	Sector	Origin of firm	Organisation Structure	Investment Amount (US$ 10,000)	Actual Investment Amount (US$ 10,000)
1	Individual	2015	338/330	Garment	Zhejiang Province	1	800	800
2	Individual	2016.5	256/250	Textile	Jiangsu Province	4	200	100
3	Enterprise	2012	6747/6543	Footwear	Guangdong Province	2	2000	1530
4	Enterprise	2013.9	614/552	Textile	Jiangsu Province	3	9000	2582.57
5	Enterprise	2013.6	78/65	Textile	Zhejiang Province	2	500	420
6	Enterprise	2016	500/490	Leather bags and suitcases	Zhejiang province	3	100	50
7	Enterprise	2014	228/209	Garment (uniform)	Zhejiang province	2	100	100
8	Individual	2014	717/700	Garment	Zhejiang province	1	500	500

(Source: author calculated and compiled based on a survey conducted by the author herself, 2018)

EE2. List of Surveyed Construction Material Firms in the EIP

No	Investor	Year Started	Employees (Total/Local)	Sector	Origin of firm	Organisation Structure (No of shareholders)	Investment Amount (US$ 10,000)	Actual Investment Amount (US$ 10,000)
1	Enterprise	2016.4	33/26	Steel pipes	Jiangsu Province	2	900	600
2	Enterprise	2016.3	776/700	Ceramic products	Zhejiang Province	3	21800	6300
3	Individual	2010	120/110	Cement	Jiangsu Province	3	1450	1107.13
4	Enterprise	2011	211/196	Steel rebars	Jiangsu Province	2	6648	3400
5	Enterprise	2017.11	109/71	Cement products (pole, concrete)	Chongqing	2	500	55
6	Individual	2015.10	124/119	Shaving boards	He'nan Province	1	130	80

(Source: author calculated and compiled based on a survey conducted by the author herself, 2018)

Appendix F - Survey and Interview Guide

Item	**Content**	**Available Source(s)**
1. Company Profile		
Ownership and Control	• Sole proprietor • Partnership • Limited company or shared company (PLC)	• Survey
Location		• Survey
Year of the establishment (in China and/or in Ethiopia)	The year that firm obtained the Investment License and Business License in Ethiopia respectively	• Survey
Sector	Main business(es)	• Survey
Investment amount	• Registered investment • Actual investment • Re-investment (and when)	• EIC data • Survey
Main source of capital and financing (and its percentage)	• Self-financed • Chinese commercial bank • Chinese policy bank • Ethiopian commercial bank • Ethiopian policy bank • other channels (to be specific)	• Survey
Main reason(s)to invest in Ethiopia		• Survey • Interview
2. History and Origin of the Firm		
The basic development trajectory of the firm in China	• Origin of the firm • Main business • Main markets/clients • Main competitors	• Firm's official website and/or profile. • Interview
3. Entrepreneur's Perspective		
Entrepreneur's background	• Educational background • Family background • Working experience • Achieved original accumulation	• Interview; • Life stories
4. Process of Accumulation		
Accumulation	• Obtaining investment opportunities; • Decision-making • Installation • Financing • Expansion and re-investment	• Interview; • Life stories
5. Adaption and Change of Production		
Factory rule		• Firm profile; • Observation
Main products and their final markets (and market that firm intends to explore in the future)		• Survey; • Interview
Market competition	Main competitor (s);	• Survey;

	How did the firm respond to competition?	• Interview
Types of Production (i.g. Flexibility of production; Continuous Production)	How flexible is the production system? Whether orders are based on the client's demand and a specific standard?	• Interview
How is productivity measured?	Productivity rate (by piece, by the hour or a mixed methods); Automation level	• Survey; • Interview
Working shifts	How many shifts/ days?	• Interview
Raw material sourcing		• Survey; • Interview
Main operational constraints and how did the firm overcome these problems?		• Survey; • Interview; • Observation • Participant observation
6. Adaption and Change of Managerial Ethos		
Firm's management ethos	If there is no fixed management ethos, why? Because invest overseas or it is already changing on the way before?	• Company profile; • Interview; • Observation • Participant observation
7. Relations with the State, Government Policies and Institutional Context		
Local/provincial government policies (China) in supporting Chinese firms' 'going out.'	The social history of local/regional development; Changes in government policies and institutional arrangements	Desk review; Interview
Main policy constraints that firm encountered		• Survey; • Interview
Whether the firm has sufficiently involved in Public-Private Dialogue in Ethiopia?		• Survey; • Interview; • Participant observation
Main government agencies (both Ethiopia and China) that firm contacts regularly	Problem-solving mechanism (formal or informal)	• Survey; • Interview
How did firms join the business association and what kinds of activities did firm take part in?	What types of business association are present in Ethiopia? Who dominates association and why? The politics of setting up the association.	• Survey; • Interview; • Participant observation

Appendix G - Consent Form Template

GG1. Information Sheet

Information Sheet for *The Dynamics of Chinese Private Outward Foreign Direct Investment in Ethiopia: A Comparison of Light Manufacturing Industry and Construction Industry*

Introduction

The purpose of this form is to provide you with information, so you can decide whether to participate in this study. Any questions you may have will be answered by the researcher. Once you are familiar with the information on the form and have asked any questions you may have, you can decide whether or not to participate. If you agree, please sign this form (in the last page).

Research title	*The Dynamics of Chinese Private Outward Foreign Direct Investment in Ethiopia: A Comparison of Light Manufacturing Industry and Construction Industry*
Name and contact details of the researcher	Name: Weiwei Chen E-mail: 583646@soas.ac.uk Mobile: +44(0)745 0213 630 (UK) / +251 9303 621 491 (Ethiopia)
Type of research project	PhD Research
Who is funding this research project?	Self-funding
Purpose of the Research Project	
Why have I been chosen?	
What will happen to me if I take part?	Fieldwork will start from *** to ***. The main methods for data collection include interviews, life story, management-level survey, and participant observation (for the researcher). All data will be collected by Weiwei Chen herself. To assist this research, you will be invited to participate in a personal interview, life story and management-level survey. You can decide whether permit WEIWEI CHEN to conduct participant observation in your company during her PhD fieldwork in Ethiopia.

Will I be recorded and how will the recordings be used?	Research will take notes only instead of using any video or audio recording. Notes will be transcribed for analysis only.
Will I be kept anonymous in this research project?	
Risks and benefits of participation	This research will not directly benefit you personally. The researcher will be happy to discuss the details of the study with you in detail at its completion. We know of no risks to you for participating in this study. But if you have any questions about this research, please ask the experimenter now. You may also contact Weiwei Chen or Dr Carlos Oya at any time. If you have any questions regarding your rights as a participant in a research study, you may contact the Doctoral School at +44 (0)20 7074 5117.
What will happen to the results of this research?	The findings will be used to form part of my PhD thesis. If you wish to receive a copy of the final thesis once completed I will happy to provide you with an electronic copy.

Statement of Privacy and Confidentiality

This data is collected solely for use in academic research. All information will be treated in complete confidence and will not be passed on to third parties. In any publication based on the findings of this study, the data presented will contain no identifying information that could associate it with you unless you agree to have your real name associated with your responses. No data received will ever be used for commercial purposes.

Data Protection Privacy Notice

The data controller for this project will be SOAS University of London. The SOAS Data Protection Officer provides oversight of SOAS activities involving the processing of personal data and can be contacted at dataprotection@soas.ac.uk.

Your personal data will be processed for the purposes outlined in this Information Sheet. The legal basis that would be used to process your personal data under data protection legislation is the performance of a task in the public interest or in our official authority as a controller. However, for ethical reasons, we need your consent to take part in this research project. You can provide your consent for the use of your personal data in this project by completing the consent form that has been provided for you or via audio recording of the information sheet and consent form content.

Your Rights

You have the right to request access under the General Data Protection Regulation to the information which SOAS holds about you. Further information about your rights under the Regulation and how SOAS handles personal data is available on the Data Protection pages of the SOAS website (http://www.soas.ac.uk/infocomp/dpa/index.html), and by contacting the Information Compliance Manager at the following address: Information Compliance Manager, SOAS, Thornhaugh Street, Russell Square, London WC1H 0XG, United Kingdom (e-mail to: dataprotection@soas.ac.uk).

If you are concerned about how your personal data is being processed, please contact SOAS in the first instance at dataprotection@soas.ac.uk. If you remain unsatisfied, you may wish to contact the Information Commissioner's Office (ICO). Contact details, and details of data subject rights, are available on the ICO website at: https://ico.org.uk/for-organisations/data-protection-reform/overviewof-the-gdpr/individuals-rights/

Copyright Statement

By completing this form, you permit WEIWEI CHEN to edit, copy, disseminate, publish your contribution to this research project in the manner and for the purposes described above. You waive any copyright and other intellectual property rights in your contribution to the project, and grant SOAS, the project coordinator and other researchers a non-exclusive, free, irrevocable, worldwide license to use your contribution for the purposes of this project and similar future research projects.

GG2. Consent Form

Consent Form for *The Dynamics of Chinese Private Outward Foreign Direct Investment in Ethiopia: A Comparison of Light Manufacturing Industry and Construction Industry*

Please complete this form after you have read the Information Sheet and/or listened to an equivalent explanation about the research.

Project Title: *The Dynamics of Chinese Private Outward Foreign Direct Investment in Ethiopia: A Comparison of Light Manufacturing Industry and Construction Industry*

Researcher Name: Weiwei Chen

Please tick the appropriate boxes	Yes	No
I have read and understood the project information sheet dated 30/09/2017, or it has been read to me.		
I have been able to ask questions about the project.		
I agree to take part in the project and understand that taking part involves personal interviews, life story and management-level survey. I consent that		

WEIWEI CHEN can conduct participant observation in my company during her PhD fieldwork in Ethiopia.		
I understand that I can refuse to answer questions.		
I understand that my taking part is voluntary; I can withdraw from the study at any time by notifying the researcher involved and I do not have to give any reasons for why I no longer want to take part.		
I understand that that personal information collected about me that can identify me (such as name) will only be used for academic research.		
I understand that the information I provided will be used for a PhD thesis, publications, reports and other research outputs and made available on SOAS Research Online and online through publisher websites.		
I would like to be named in publications, reports and other research outputs.		
I agree to waive copyright and other intellectual property rights in the material I contribute to the project.		

Contact Information

Telephone No: +44(0)7450 213 630 (UK); +251 9303 62491 (Ethiopia)

Email Address: 583646@SOAS.AC.UK

Postal Address: 171 The Vale, London, UK NW11 8TL

Alternative contact: Dr Carlos Oya

E-mail: co2@soas.ac.uk

Telephone: +44 (0)20 7074 5117

Research Participant Declaration

I confirm that I have freely agreed to participate in the research project of WEIWEI CHEN. I have been briefed on what this involves, and I agree to the use of the findings as described above.

I understand the transcript and any notes may be archived and put online for public use. In this case, I give my permission for this, including data that might identify me/provided all possible identification is removed.

Participant signature: ____

Name:____

Date:____

I have accurately read out the information sheet to the potential participant and to the best of my ability, ensured that participant understands what they are freely consenting.

Researcher signature: ____

Name:____

Date:____

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