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## The dynamics of state-business relations between the Ethiopian state and Chinese private firms: A case study of the Eastern Industrial Park

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# **The dynamics of state–business relations between the Ethiopian state and Chinese private firms**

A case study of the Eastern Industrial Park

Weiwei Chen\*

July 2021

**Abstract:** Despite the Ethiopian government's commitment to attracting foreign direct investment to its emerging manufacturing sector and its shared interests with Chinese private businesses in building profitable investments, 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 paper takes the Chinese-financed Eastern Industrial Park in Ethiopia as a case study to explore the dynamics of state-business relations between the host country government agencies (the Ethiopian Investment Commission in particular) and Chinese private businesses. It argues that the institutions led by Chinese government agencies serve only limited purposes and are led by the interests of certain kinds of firms, and that private firms tend to locally improvise and create their own bargaining mechanisms, even when the Chinese state has built official channels for bargaining. Relations between Chinese private businesses and host country governments therefore do not fit simple 'win-win' narratives but are highly complex, context-specific, diverse, and fluid.

**Key words:** state-business relations, Chinese private firms, political economy, institutional bargaining mechanisms, Eastern Industrial Park, Ethiopian Investment Commission

**JEL classification:** O14, P16, P33, L60

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# 1 Introduction

Despite the Ethiopian government's commitment to attracting foreign direct investment (FDI) to its emerging manufacturing sector and its shared interests with Chinese private businesses in building profitable Chinese investments, 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 paper takes the Chinese-financed Eastern Industrial Park (EIP) in Ethiopia as a case study to explore the dynamics of state-business relations (SBRs)<sup>1</sup> between the host country government agencies (the Ethiopian Investment Commission (EIC) in particular) and Chinese private businesses. It pays particular attention to elaborating the existing institutional bargaining mechanisms between the Ethiopian government and Chinese firms, as well as the role of tacit networks. It argues that the institutions led by Chinese government agencies serve only 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), and we see shifts in the effectiveness and usefulness of particular official channels. As this discussion illustrates, relations between Chinese private businesses and host country governments do not fit simple 'win-win' narratives; they are highly complex, context-specific, diverse, and fluid. This paper provides an illustration with specific attention to how Chinese firms in the EIP deal with the Ethiopian government (GoE) and their services.

A deeper understanding of the dynamics of state-business relations between Chinese private firms and host country government agencies is of substantial empirical, analytical, and policy importance. This is because Chinese private investments have been considered the catalyst of the recent drive towards industrialization in many African countries (Cheru and Oqubay 2019). While much of the literature on China-Africa business ties has focused on state-owned enterprises (SOEs), infrastructure-building, and investment 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.

Hence, this paper focuses on how the GoE has shaped Chinese private outward foreign direct investment (OFDI) and integrated these opportunities for the strategic transfer of capital and know-how into Ethiopia's plans for national economic development and industrialization. This research provides a nuanced and balanced view of the dynamics of Chinese private investment in Ethiopia, which serves as an example case for sub-Saharan Africa (SSA). Moreover, this paper challenges the tendency to homogenize any discussion of 'China in Africa' by considering the contingency of state-business relations. The results of this study question the 'methodological nationalism' that characterizes much of the literature on Chinese investments in Africa, as argued by Lee (2017).

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<sup>1</sup> 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: 9).

Methodologically, comparative ethnographic studies are rare in the study of Chinese private investments in Africa (exceptions include X. Tang 2019a, 2019b; Fei 2017, 2020) as such studies not only are time-consuming but also require a significant level of *guanxi*<sup>2</sup> and trust from the informants—something that can be hard for academic researchers to obtain. However, the depth and variety of insights that such an approach yields are essential to filling the gaps in the literature and informing ongoing and future work by other scholars.

As a final contribution, this research provides potentially significant policy lessons. For Ethiopian policy-makers, the absence of rigorous, grounded comparative evidence on the varieties of Chinese private OFDI in Ethiopia impedes their (policy-makers') ability to design, amend, and implement more effective policy in managing FDI. This lack of evidence (or use) also postpones actions for the GoE to help Chinese firms remove constraints that hamper their regular operations, promoting concrete linkages with indigenous firms for industrial upgrades and technology transfer. This research can help Ethiopian policy-makers view Chinese investment from a multifaceted perspective, allowing them to make informed decisions to prevent and resolve problems that firms encounter and ensure that investments run smoothly.

Fieldwork was conducted between October 2017 and September 2018 (11 full months), mainly 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; obtaining life stories of entrepreneurs and Chinese expatriates; and various types of participant observation.

A survey of 14 firms based on management-level interviews<sup>3</sup> was undertaken at the EIP between January and April 2018. Eight of these firms were in light manufacturing industries, and the remaining six were in construction materials industries (see Appendix E for details). The sample of firms was based on a purposive selection after a three-week scoping visit and the first three months of interviews and observations (October to December 2017). I also conducted a survey of 15 additional Chinese manufacturing firms on behalf of the International Trade Centre<sup>4</sup> 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, 96 face-to-face semi-structured interviews<sup>5</sup> were conducted. Of these, 86 were firm-level interviews, including owners and investors, senior management (country

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<sup>2</sup> *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: 1). The term encompasses Chinese attitudes towards social and business relationships and includes implicit assurances and mutual obligations between people (Luo 2007: 1).

<sup>3</sup> See Appendix E for Survey and Interview Framework.

<sup>4</sup> I worked as the national consultant for the ITC-PIGA project in Ethiopia from December 2017 to April 2018. Part of my work was to conduct firm-level surveys and bridge the gap between Chinese and Ethiopian businesses.

<sup>5</sup> In this paper, 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 (e.g. CG), 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 Organization; 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 for more details. Similarly, participant observation sources were coded. Participant observation was conducted between 2017 and 2018 and coded in 2019. The letter codes have the following

manager, factory manager, and department director/deputy director and supervisor), and 10 were with senior officials of relevant institutes/agencies (both Chinese and Ethiopian) from both the public and the private sectors. Public agencies include the EIC, the Ministry of Commerce of the People's Republic of China (MOFCOM), and the China–Africa Development Fund (CADFund). Private organizations include the China Chamber of Commerce in Ethiopia (CCCE), the Eastern Industrial Zone Investors' Association (EIZIA), and a small number of non-Chinese foreign firms (see Appendix B for the full list). I also spent three weeks in China (April to May 2018) conducting follow-up interviews with target firms and local government officials, visiting headquarters, and conducting on-site observations.

This paper is structured as follows. Section 2 introduces the three types of Chinese business institutional bargaining mechanisms in the EIP. In addition, key institutions responsible for FDI are analysed with regard to these mechanisms. Section 3 takes the EIP as a microcosm through which to explore the dynamic and shifting relations between the GoE (in its various representations) and 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 GoE in terms of land conflict, service provision, and environmental governance—the three main areas of friction, which this section explores. This section also extracts key lessons from the examples studied. Section 4 concludes.

## 2 Chinese business institutional bargaining mechanisms in the EIP

The EIP was Ethiopia's first industrial park, opened in 2008. It was developed and is operated by the Chinese private firm Jiangsu Yongyuan Investment Co. Ltd. The EIP was also China's first Overseas Economic and Trade Cooperation Zone (OETCZ) in Ethiopia under the Forum on China–Africa Cooperation (FOCAC) framework. The EIP is a microcosm of Chinese private firms in Ethiopia. As of September 2018, there were 86 firms in the EIP, and 78 of these were Chinese private firms, which had created 14,794 jobs for local people.<sup>6</sup> The EIP is a mixed industry park, where firms mainly engage in textile and garment production, cement production, steel rolling, aluminium rolling, ceramic tile production, footwear manufacture, and automotive assembly.

There are various forms of business bargaining mechanisms<sup>7</sup> that exist in the EIP. Communication and dialogue with relevant government agencies are conducted through three main bargaining mechanisms: the CCCE, EIZIA, and the Eastern Industrial Park Management Committee (EIPMC) (Table 1).

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interpretations: PO = Participant Observation; PO-EG-CCM = Participant Observation-Ethiopian Government-Chinese Company Management. See Appendix C for more details.

<sup>6</sup> Calculated and compiled by the author based on EIP Committee data collected in October 2018.

<sup>7</sup> Chinese business bargaining mechanisms in this paper refers to the organizational structure between Chinese businesses and the state (host country in particular) to foster effective coordination. Forms of bargaining mechanisms vary and can be formal, institutionalized (such as business associations), or informal (such as tacit networks), as suggested by different strands of literature on SBRs, especially 'deals and development' (see Hickey et al. 2015; Kar et al. 2019) and the political settlements framework (see Khan 2010, 2018; Putzel and Di John 2012).

Table 1: Chinese business institutional bargaining mechanisms in the EIP, and main activities of 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 meetings (co-chaired by MOFCOM)	N/A	2012 (became Vice President firm in 2015)
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	N/A	Quarterly report to MOFCOM (Ethiopia)	Monthly meeting with all Chinese firms	2008 President firm
EIZIA	Formal, legitimate (registered under the EIC in 2017)	EIP (OSS) EIP (OSS)	N/A	N/A	Monthly meeting with all Chinese firms	2017 President firm

Note: PMO = Prime Minister's Office; EIP (OSS) = EIC One-Stop Service (see Section 2.4).

Source: author's illustration.

## 2.1 The Chamber of Commerce in Ethiopia

The CCCE is the largest formal legitimate Chinese business association in Ethiopia. It was established in 2008, under MOFCOM's supervision (CCCE 2019).<sup>8</sup> The CCCE initially did not have a bargaining mechanism specifically related to manufacturing issues. It was not until 15 December 2017 that the CCCE was legally recognized by the EIC (CBA1).<sup>9</sup> Any Chinese firm with legal status and a good reputation (in the eyes of the Chinese government) is eligible to become a member.<sup>10</sup> A branch called Investment in the Chamber of Commerce (投资商会) was established in 2010 under the CCCE. In 2015, the EIP became one of the Vice President firms in the CCCE (CBA1). The CCCE is helpful in lobbying on the constraints (such as safety issues and

<sup>8</sup> As the CCCE website states, it is a non-state organization, but in practice it is the Chinese business association with the closest links to the Chinese government in Ethiopia.

<sup>9</sup> 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 it was still not sector-specific (CBA1).

<sup>10</sup> As of August 2018, the CCCE had more than 150 members, including firms in the construction, communications, tourism, textiles, and pharmaceutical sectors (CCCE 2019). See <https://mp.weixin.qq.com/s/5BOSoBR-zX4RvCuiz5SpZQ> for the complete member list (in Chinese).

tax policy) that firms commonly encounter. However, the influence of the private firms in the CCCE remains limited despite the increase of their presence at the decision-making level.<sup>11</sup> A number of private firms<sup>12</sup> in the EIP claimed that the key benefit of joining the CCCE was to receive up-to-date information. However, most SMEs are not members 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).

## **2.2 The Eastern Industrial Park Management Committee (EIPMC)**

The EIPMC was formed by the EIP in 2008 as a self-organized internal management committee for information-sharing, resolving EIP-related issues, and lobbying on 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 institutionalized 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 to 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<sup>13</sup> within the EIP are required to attend the meeting.<sup>14</sup> A monthly report is then produced. In addition, the EIPMC updates the firm-level operational status to the corresponding government agencies on a regular basis; this is sent to MOFCOM, the Prime Minister's Office (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 impede 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)<sup>15</sup> was established

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<sup>11</sup> The organizational politics of the CCCE and the EIC differ significantly. The 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). The establishment of the CCCE was meant as a way to manage Chinese firms and their activities in Ethiopia with a particular focus on the construction sector. Its initial remit was 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 to the needs of these types of companies (construction contractors).

<sup>12</sup> Refer to Appendix B, interview codes CCM10-1-b, CCM11-1, CCM18-1-b, and CCM20.

<sup>13</sup> Data from the EIPMC updated on 26 February 2019.

<sup>14</sup> As of the time of fieldwork, there were 86 firms in the EIP. Other non-Chinese firms previously attended monthly meetings; however, due to language and communication difficulties, they were reluctant to attend later. Key information was usually delivered to them individually after the meeting (author's observation).

<sup>15</sup> 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.



and before the strong drive to build industrial parks in the country. It was pioneering in many ways, which meant that the EIP had to develop its own organizational bargaining mechanisms.

### **2.3 The Eastern Industrial Zone Investors' Association (EIZIA)**

The EIZIA was established in September 2017, after long-term discussions between the EIC and the EIP. On the one hand, the EIC was keen to ensure that the EIP and firms within the park met Ethiopian 'standards for safety, environmental compliance, employee rights and business needs' (EIZIA Protocol 2018: 4). On the other hand, the EIP realized the necessity of improving its bargaining framework so that it could have better conversations with the host country government. EIP managers actively engaged in this learning process as it matched their objectives to manage the park better, while firms were in favour of having a more formal and effective channel through which to express a collective voice.

The establishment of the EIZIA was in line with the evolution of the institutional setting in the EIP from semi-formal to formal. The EIZIA officially represents the interests of the investors to the GoE and engages in and guides policy decisions. The EIZIA is a legitimate association in Ethiopia that has clear protocols and institutional frameworks. 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 Protocol 2018: 3).

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 on the park's construction, development, and investment promotion (CCM 2-2-b).

### **2.4 The Ethiopia Government agencies**

At the early stage of industrial park construction and operation, the EIP received personalized 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 find solutions to them (CCM 2-2-b).<sup>16</sup> In addition, biannual meetings were held between the PM and the EIPMC to discuss problems that the EIP had encountered, and the PMO provided assistance accordingly.<sup>17</sup> Since then, decision-making has evolved with the growing institutionalization of agencies—especially the EIC but also the Ethiopian Ministry of Trade and Industry (MOTI), the IPDC, and the Senior Advisor of the PM's team. They are all connected in some way, although there are complicated hierarchies and divisions of labour, and their relationships have been changing since 2010.

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<sup>16</sup> This was terminated when the development of the EIP reached a mature stage.

<sup>17</sup> This privilege was also given in an informal manner, based on an oral agreement between the PM and the EIP.

During the GTP II period,<sup>18</sup> 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.

### **3 Dealing with the local government and its services**

Fei and Liao (2020: 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 the local government and its services (in terms of land conflict, service provision, and environmental governance), the problems that arose in relation to each issue and the root causes. It will also explore the different processes and institutional mechanisms, with the EIC as a major driver, through which resolutions were sought and whether the problems have been solved and how or, if not, why. Finally, the lessons learned from these conflicts will be discussed to better understand how such issues might best be tackled in the future. Findings from this section come from qualitative interviews, management-level surveys, and my six-month participant observation in the EIP.

#### **3.1 Three sets of problems**

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 2017–18 troubles.<sup>19</sup>

##### *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.

Since the EIP was the first industrial 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

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<sup>18</sup> The Growth and Transformation Plan II (GTP II) is Ethiopia’s five-year development plan for 2015–20.

<sup>19</sup> See, for example, <https://www.politico.eu/article/ethiopia-internal-conflict-explained/>

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).

Initially, however, although the investment proposal was initially approved by the federal government, firms needed to deal with regional and local governments regarding land acquisition (Adem 2019; Fiseha and Gebresilassie 2019). In 2007, senior officials from the federal government suggested to the Chairman of the EIP, Mr Lu Qiyuan, that firms should acquire land in 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 senior official even told Mr Lu it would be impossible for him to obtain land in Oromia (CCM2-1-a), but, despite these ‘warnings’, Mr Lu chose Oromia on account of its abundant resources, cheap labour, arable land, and favourable geographical location (CCM2-1-a).<sup>20</sup>

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).<sup>21</sup> The local authority agreed an extremely low price (1 ETB/m<sup>2</sup>/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 cost of leasing land in the EIP had already increased to 74 ETB/m<sup>2</sup>/year (74 times the price that the EIP had paid to the local authority)—in addition to a development fee that the EIP charged tenants of around 850.5–1064 ETB/m<sup>2</sup>.<sup>22</sup> 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 the land was appropriated for the EIP.

Thus, for the second phase, the local authority asked the EIP to pay 77.84 ETB/m<sup>2</sup>/year (CCM2-3-c). The EIP paid the full amount (130 million ETB) to the local authority on 31 May 2017 (CCM2-3-c). However, as of February 2020, this land had still not been transferred to the

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<sup>20</sup> The EIP is 30 km from Addis Ababa and Bole International Airport and 850 km from the Port of Djibouti. It is closely connected to the national highway and railway from Addis Ababa to Djibouti.

<sup>21</sup> See Appendix B for more details.

<sup>22</sup> Author’s calculation based on EIP data. The average CNY to ETB exchange rate in 2010 was 1:4.73. See: <https://www.exchangerates.org.uk/CNY-ETB-exchange-rate-history.html> (accessed 14 December 2019).

developer, and the EIP could not tell potential investors when the second phase of the development would become available. This inevitably resulted in further friction.

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 the land was owned by them while the local authority claimed that it belonged to the state’, one EIP middle-level manager said.<sup>23</sup> 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 an EIP senior manager, it was the local authority’s responsibility to deal with land enclosure and compensation issues for local residents (CCM2-1a).

### *Problem 2: Service provision*

Although the problems of land acquisition and sub-leasing have now 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. Given the set-up of the EIP, it became highly dependent on the local government to resolve service provision problems, and the local authority did not provide the expected services to resolve them. Especially between November 2017 and February 2018 (before the second state of emergency), the EIP was kicked back and forth between local authorities—the Oromia regional land agency and Dukem city administration—and the latter refused to provide services because of the EIP’s registered name (‘industrial zone’).<sup>24</sup>

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. It only became a problem in 2017 (which escalated 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). In April 2015, Ethiopia issued Proclamation no. 886/2 015 A Proclamation on Industrial Parks. As the first industrial park in Ethiopia, the EIP provided an important reference and support to the enactment of the IPP.<sup>25</sup> 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-

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<sup>23</sup> Author’s participant observation; see Appendix C, O-CM2-1.

<sup>24</sup> There are two types of industrial development in Ethiopia: ‘industrial zone’ (IZ) and ‘industrial park’ (IP). The former existed before the introduction of the concept of the special economic zone (SEZ) and refers simply to areas where local firms have clustered; they do not have any preferential treatment. Before the EIP, Ethiopia had hundreds of IZs (author’s participant observation; see Appendix C, PO3).

<sup>25</sup> For example, two articles in the IPP are the result of issues that were resolved for the EIP. The first was the sub-leasing of land to tenants by the developer (see below) and the second was the delivery of administrative processes such as tax reporting and customs clearance via a one-stop service (K. Tang 2019, cited in Fei and Liao 2020).

owned IPs do not need to pay this fee, as stated in the IPP.<sup>26</sup> As of August 2018, the EIC OSS was still not fully functional in the EIP as it only had the EIC and customs offices,<sup>27</sup> 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.

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 donations’. 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 A), 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), which meant that firms had to bargain with the local authority to get them to agree to a reasonable number of units to donate.

### *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 the chimneys of a factory manufacturing wood products. Since my dormitory was near the factory, I had to shut my windows to prevent the smoke and yellow dust flying in. The pungent smell that accompanied these pollutants was, however, unavoidable (author’s observation).

In early 2018, responding to 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.

## **3.2 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 for two reasons. First, the CCCE has limits to its remit, as discussed in the previous section. Thus, it might not be interested in local-level disputes

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<sup>26</sup> Most other industrial parks are state-owned and are therefore regulated and managed by the IPDC.

<sup>27</sup> Since the system was not ready, only IDs (work permits) and supporting letters (for Duty-Free) could be issued by the EIP (interview with the Branch Manager of EIP OSS on 1 August 2018).

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 unresolved 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, to date, 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 for dealings with the EIC. The first activity that the EIZIA organized was 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.<sup>28</sup> 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.<sup>29</sup>

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 induce 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 like 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 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.<sup>30</sup> 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 EIPMC), 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 government. 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

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<sup>28</sup> Around 40 firm representatives and 10 local authority officers paid a visit in April 2018.

<sup>29</sup> 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).

<sup>30</sup> See Appendix C, PO5.

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 (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. By registering the EIZIA at the EIC in 2017, the EIC gained a certain level of legitimacy to govern the EIP.

Owing to the fractious relations between the EIP and the GoE (at both 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 services.<sup>31</sup> One problem is tax revenue distribution. VAT and corporate income tax go to the federal government no matter where foreign firms are registered in Ethiopia. As the largest recipient of Chinese investment, the Oromia region contributed a lot of tax to the federal government, but the government distributed tax revenue to the regions based on its national budget mechanism. Thus, the proportion of tax revenue received by the region was much smaller than its contribution.

Another issue is that the location written on firms' investment and business licences 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 and manufacturing activities took place 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,

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<sup>31</sup> Author's participant observation (Appendix B, EG1-1 b) and qualitative interviews (Appendix C, PO3).

the largest manufacturer in the EIP by employment,<sup>32</sup> 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 other noise outside the park in the evening. On one occasion, trucks were set alight on the road outside the EIP (author's observation).

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).<sup>33</sup>

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 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

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<sup>32</sup> As of December 2017, there were around 3,500 local workers in Huajian's Dukem factory (CCM1-6).

<sup>33</sup> 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).



standards (EG1-1).<sup>34</sup> 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 environmental assessment report. 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 proposed 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, authorization for the second phase of the development is still subject to the Oromia regional state.

### **3.3 Lessons learned**

The three sets of conflicts discussed above highlight five weaknesses in the political and institutional system in Ethiopia, which in turn point up lessons to be learned from this case. 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 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

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<sup>34</sup> The minimum standards had not been set at the time I conducted the fieldwork. But according to the Deputy Director of EIP (CCM2-3-C), standards would be set up by the federal government (the Environment, Forest and Climate Change Commission) and implemented by the local environment bureau.

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 political system and constitution regarding entitlement to and use of land. 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<sup>2</sup>/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). The lesson for policy-makers is that 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, and did not know the relevant environmental standards but learned them from the HIP. Some firms (early investors in particular) from the EIP were relocating to flee more onerous regulations in China, which suggests that some knew what the standards were but did not want to (or had no 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.

### **3.4 Ways forward**

#### *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. When the EIP, as a private investor, negotiated with the Ethiopian government and lobbied on policy issues, it was always in an inferior position, which made it difficult to resolve major problems in the development of the industrial park, such as obtaining land and services provided by 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 the 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.

#### *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 One-Stop-Shop services, including the processing and issue of investment permits; the issue of business licenses, commercial registration certificates, work permits, tax identification numbers, and customs duty exemptions; customs clearance in the industrial park; and banking services. Due to the controversy over land ownership 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 state-run industrial parks, while arguing for the EIP to have the same treatment as those (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.

## **4 Conclusion**

This paper illustrates the nature and evolution of state–business relations through the case study of Chinese firms in the Eastern Industrial Park in Ethiopia. As the country’s first industrial park, the EIP suffered from many inherent contradictions and frictions, and multiple levels of accountability. A lack of legitimacy and institutional and policy support for industrial park-related issues generally created another layer of complication (Fei and Liao 2020). EIP managers and tenant firms had to engage with the Ethiopian government at each administrative level (federal, regional, and local), using different bargaining mechanisms to realize their development ambitions. They therefore often found themselves caught between different layers of government and were unable to obtain leverage independently of the EIC, as they may have wished. The EIC’s lack of authority affected EIP operations, especially on land, labour, and environmental governance, and the EIP was sometimes used by the local government for political purposes in the struggle over representation and influence.

The EIP case provides a vivid example of how different institutional mechanisms need to be combined in order to solve the problems involved in a development of this nature. It illustrates the primacy of politics in shaping multiple and contingent economic and social outcomes and sheds 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'<sup>35</sup> 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 become more diverse and complex, in three specific ways. The first is that multiple actors are now involved in the process—in our case, Chinese investors, the Ethiopian government (at all levels), and local labour and communities. Furthermore, as with the Chinese investors, where there is significant heterogeneity and diversity, there is also variation within each group of actors. Second, management of FDI 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 this paper shows how the fractious politics of government agencies (at both central and local levels) and bureaucracies influenced political outcomes and economic development. A third layer of complexity may be added by the often fraught political situation in the host country—in Ethiopia's case, increasingly so, with an accompanying rise in ethnic-triggered conflicts.

The combined effects of these different challenges can impede firms' normal operations 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 difficult to tackle for companies as well as individual government agencies. This is why the 'big' political picture is critical to an understanding of the apparent contradictions and inconsistencies in the relations between Chinese firms and state institutions.

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 this language barrier,<sup>36</sup> 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 observations take into account how my participation and perception might have influenced the results. In addition, I participated in a separate research project<sup>37</sup> 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 2019).

Second, the quantitative component of the survey was limited, and the sample of firms was small, hence the greater reliance in this paper on qualitative data. A final limitation is that this research focuses on institutional bargaining mechanisms from the point of view of Chinese private firms; there is no comparison with non-Chinese foreign firms' institutional bargaining mechanisms, which could have added greater depth to the analysis. For future research, it would be useful to explore similarities and differences between these two groups to understand how accumulation

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<sup>35</sup> 'Industrialised capitalist economies experienced a "double movement": as markets expanded, counter-movements emerged to limit their reach and influence' (Polanyi 1944/2001).

<sup>36</sup> 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.

<sup>37</sup> 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).

and business development processes in a new setting unfold, given a wide range of different contextual factors.

This research focused on Chinese private investment in Ethiopia within a given period (2008–18). 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 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;<sup>38</sup> increasingly tense Sino–US relations; and the worldwide spread 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.

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<sup>38</sup> See African Arguments (2020); Foreign Affairs (2020).

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## Appendix A: Request for support

### *Request for 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 sites of eastern Oromia. The Oromia regional state has decided to resettle those displaced from the Somali region in a different part of Oromia.*

*Accordingly, one thousand households are assigned to Dukem city administration to be resettled 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, December 2017<sup>39</sup>

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<sup>39</sup> Internal document collected from the EIP on 26 December 2017.



## Appendix B: Interview codes

Code	Organization	Interviewee	Position	Location	Interview date
<b>CG Chinese Government</b>					
CG1	Zhangjiagang	Mr T	Government official from Zhangjiagang City	China	23 April 2018
CG2	MOFCOM	Mr H	Secretary	Ethiopia	11 July 2018
CG3	China Africa Development Fund	Mr M	Manager	Ethiopia	11 July 2018
<b>CCM Chinese Company Management</b>					
CCM1	<i>Huajian Shoe</i>				
	CCM1-1	Mr H	Vice President of Huajian	China	10 May 2018
	CCM1-2	Ms X	Assistant of Vice-chairman	China	8 May 2018
	CCM1-3	Ms W	HR manager	China	11 May 2018
	CCM1-3-a			Ethiopia	4 Aug 2018
	CCM1-4-a	Ms Y	General Manager of Huajian Garment Factory	Ethiopia	21 March 2018
	CCM1-4-b			China	10 May 2018
	CCM1-5	Mr W	Purchasing Department of Huajian, Ethiopia	Ethiopia	23 March 2018
	CCM1-6	Mr Y	The then HR Manager	Ethiopia	22 March 2018
	CCM1-7-a	Mr Z(H)	CEO and President of Huajian	Ethiopia	4 August 2017
	CCM1-7-b				7 August 2017
	CCM1-7-c				9 August 2017
	CCM1-8	Mr Z	The then Factory Manager of garment manufacturing company	Ethiopia	8 August 2017
	CCM1-9	Mr Q	Manager in finance department	China	9 May 2018
	CCM1-10	Ms Z	Vice Chairman of Huajian	Ethiopia	7 June 2018
	CCM1-11	Ms W	Special Assistant to Mr Zhang Huarong	Ethiopia	20 July 2018
	CCM1-12-a	Mr C	Customs Affairs Department	Ethiopia	28 Sep 2018
	CCM1-12-b	Mr Z	Production Manager of Huajian	Ethiopia	28 Sep 2018
	CCM1-12-c	Mr L	PR Manager	Ethiopia	28 Sep 2018
	CCM1-13-a	Mr T	IT and logistics department	Ethiopia	25 Oct 2017
	CCM1-13-b				14 Nov 2017
	CCM1-14	Mr Z	HR department	Ethiopia	30 Nov 2017
CCM2	<i>Eastern Industrial Park (EIP)</i>				
	CCM2-1-a	Mr Lu Qiyuan	GM and Chairman of EIP	Ethiopia	3 April 2018
	CCM2-1-b			China	23 April 2018
	CCM2-2-a	Mr Gao Yangyang	Assistant to GM and Chairman of EIP	Ethiopia	16 July 2018
	CCM2-2-b				17 Sep 2018
	CCM2-3-a	Mr Jiao Yongshun	Deputy Director of EIP	Ethiopia	3 Oct 2017
	CCM2-3-b				6 March 2018
	CCM2-3-c				20 Sep 2018
CCM2	<i>Zhongshun and East Cement</i>				
	CCM2-4-a	Mr W	Deputy GM	Ethiopia	27 March 2018
	CCM2-4-b				26 Oct 2017
	CCM2-4-c				27 Oct 2017
	CCM2-4-d	Mr Gao Yangyang	GM	Ethiopia	5 Feb 2019
	CCM2-4-e				26 Feb 2019
	CCM2-4-f	Mr X	Factory Manager	Ethiopia	8 May 2019

Code	Organization	Interviewee	Position	Location	Interview date
CCM3	Haibo Garment plc				
	CCM3-1-a	Mr Zou Haibo	GM/Chairman	Ethiopia	10 Feb 2018
	CCM3-1-b				28 Jan 2019
	CCM3-1-c				17 May 2019
	CCM3-2-a	Mr D	Factory Director	Ethiopia	16 March 2018
	CCM3-2-b	Mr H	Logistics Manager	Ethiopia	16 March 2018
CCM4	Linde				
	CCM4-1-a	Mr L	Deputy GM	Ethiopia	17 Sep 2018
	CCM4-1-b				18 Oct 2017
	CCM4-1-c				15 Dec 2017
	CCM4-2	Mr L	GM/Chairman	Ethiopia	23 Nov 2017
CCM5	Dongfang Spinning, Dyeing and Printing				
	CCM5-1-a	Mr Z	GM	Ethiopia	20 Oct 2017
	CCM5-1-b				23 Nov 2017
	CCM5-1-c				20 Sep 2018
	CCM5-2-a	Mr L	Deputy GM	Ethiopia	18 Oct 2017
	CCM5-2-b				24 Nov 2017
CCM6	Yuechen				
	CCM6-1-a	Mr W	Deputy GM	Ethiopia	18 Oct 2017
	CCM6-1-b				23 Nov 2017
	CCM6-1-c				17 Sep 2018
CCM7	Kaipu				
	CCM7-1	Mr S	GM	Ethiopia	18 Jan 2018
	CCM7-2	Mr G	Factory Manager		25 Oct 2017
CCM8	East Steel				
	CCM8-1-a	Mr M	Factory Director	Ethiopia	3 April 2018
	CCM8-1-b				17 Oct 2017
	CCM8-1-c				9 Feb 2018
CCM9	Zhaoxin Wang Wood				
	CCM9-1-a	Mr L	Marketing Director	Ethiopia	17 Oct 2017
	CCM9-1-b				9 Feb 2018
CCM10	Sansheng				
	CCM10-1-a	Mr W	Assistant to GM	Ethiopia	15 Oct 2017
	CCM10-1-b				17 Oct 2017
	CCM10-2	Mr C	GM	Ethiopia	20 Oct 2017
	CCM10-3	Mr H	Factory Manager (construction material plant)	Ethiopia	20 Oct 2017
CCM11	Diyuan Ceramic				
	CCM11-1	Ms N	Marketing Director	Ethiopia	20 Oct 2017
	CCM11-2	Mr Z	Factory Manager		18 Oct 2017
	CCM11-3-a	Mr W	GM		22 Dec 2017
	CCM11-3-b				9 Feb 2018
CCM12	HQ and ZA Manufacturing plc				
		Mr M	GM	Ethiopia	April 2018
CCM13	JPTE				
	CCM13-1-a	Mr L	GM	Ethiopia	11/12 Feb 2018
	CCM13-1-b	Ms Q	Finance director (Wuxi, China)	China	24 April 2018
CCM14	Jiangsu Sunshine				
	CCM14-a	Mr C	GM	Ethiopia	28 March 2018
	CCM14-b				17 July 2018
	CCM14-c				26 July 2018

<b>Code</b>	<b>Organization</b>	<b>Interviewee</b>	<b>Position</b>	<b>Location</b>	<b>Interview date</b>
	CCM14-d				23 Feb 2019
<i>CCM15</i>	<i>Zhenzhen Steel</i>				
	CCM15-1	Mr J	GM	Ethiopia	19 Oct 2017
<i>CCM16</i>	<i>Hensen Wood</i>				
	CCM16-1	Mr Z	GM	Ethiopia	22 Dec 2017
<i>CCM17</i>	<i>Polilotus</i>				
	CCM17-1-a	Mr Qian Xiao	GM	Ethiopia	13 Oct 2017
	CCM17-1-b				8 Feb 2019
<i>CCM18</i>	<i>Lifan Industry (Group) Co. Ltd</i>				
	CCM18-1-a	Mr M	Deputy GM	Ethiopia	19 March 2018
	CCM18-1-b				22 Feb 2019
<i>CCM19</i>	<i>Lianhe Metal</i>				
	CCM19-1	Mr F	GM	Ethiopia	18 Oct 2017
<b>FCM Non-Chinese Foreign Company Management</b>					
<i>FCM1</i>	<i>Dangote (and Sinoma)</i>				
	FCM1-1	Mr C	Plant Manager of Sinoma	Ethiopia	16 April 2018
	FCM1-2-a	Mr D	MD of Dangote (Ethiopia)	Ethiopia	17 April 2018
	FCM1-2-b	Mr B	Plant Director of Dangote	Ethiopia	17 April 2018
	FCM1-3	Mr C	GM of Sinoma (Ethiopia)	Ethiopia	20 March 2018
<b>IO International Organization</b>					
<i>CCCE</i>					
	CBA-1	Mr W	General Secretary		16 July 2018
<b>EG Ethiopian Government</b>					
<i>EG1</i>	<i>Ethiopian Investment Commission</i>				
	EG1-1-a	Ato Fekadu	Researcher	Ethiopia	1 Aug 2018
	EG1-1-b				26 Sep 2018
	EG1-2	Ato Ahemed	Branch Manager of EIC One-Stop-Shop Service Station at EIP		17 Sep 2018
	EG1-3	Ato Temesgen	Deputy Commissioner		1 Aug 2018
	EG1-4	Ato Teka	Deputy Commissioner		26 Sep 2018
	EG1-5	Hilana	Information and Data Department		8 Feb 2018
<i>EG2</i>	<i>Dukem City Administration</i>				
	A1	Professor T	Tsinghua University	Ethiopia	6 April 2018
	A2	M Keyi	Johns Hopkins	Ethiopia	22 July 2018
<b>O Others</b>					
	O1	Mr K	Ethiopian businessman	Ethiopia	22 March 2018

## Appendix C: Participant observation codes

Code	Participant(s)	Organization(s)	Date
PO-1	Mr J, Ms B, Mr A, Ato F	PO-EG1-CCM2	29 June 2018
PO-2	Ato Abebe; Mr M, Ms T, Mr D, Mr B	PO-EG1-CG3	22 June 2018
PO-3	Firm representatives from the EIP, the MOFCOM representative, Dukem government representatives, EIC (OSS) representative	PO-EG1,2-CG2-CCM2	27 March 2018
PO-4	Mr J, Delegate of PI	PO-CCM2-CCM-PI	12 Jan 2018
PO-5	Mr Lu Qiyuan, Ifengweekly	PO-CCM2-M1	9 July 2018
PO-5-1	EIP Monthly meeting: Mr Lu Qiyuan and firm representatives from the EIP	PO-CCM2	15 Aug 2017
PO-5-3			15 Oct 2017
PO-5-4			15 Dec 2017
PO-5-5			15 Jan 2018
PO-5-6			15 June 2018
PO-5-7			15 July 2018
PO-6	Mr Lu Qiyuan, The Dukem Police	PO-CCM2-EG2	30 Oct 2017
PO-7	Mr Lu Qiyuan, Ato Fitsum	PO-CCM2-EG1	8 Jan 2018
PO-8	Mr Lu Qiyuan, Mr J, Ato A, Mayor of Dukem City	PO-CCM2-EG2	28 Nov 2018
PO-9-1	Mr Zhang Huarong	PO-CCM1-1	7–9 Aug 2017
PO-9-2			25 Oct 2017
PO-9-3			20 Nov 2017
PO-9-4			9 Dec 2017
PO-9-5			10/11 Feb 2018
PO-10	Ato Teka, Mr Z, Mr H	PO-EG1-CG2-CCM 20	18 July 2018
PO-11	Mr W, Ato Solom	PO-EG3-CCM2-4	27 Oct 2017
PO-12	Ato Mulugeta, Mr Q	PO-EG1 (OSSS)-CM-PI	29 Oct 2017
PO-13	Ms D	PO-CCM2-1	29 Nov 2017

## Appendix D: Company profiles, history, and background

Table D1: Surveyed light manufacturing firms in the EIP

No.	Investor	Year started	Employees (total/local)	Sector	Origin of firm (Province)	Organizational structure (no. of shareholders)	Investment amount (US\$ 10,000)	Actual investment amount (US\$ 10,000)
1	Individual	2015	338/330	Garment	Zhejiang	1	800	800
2	Individual	2016	256/250	Textile	Jiangsu	4	200	100
3	Enterprise	2012	6747/6543	Footwear	Guangdong	2	2000	1530
4	Enterprise	2013	614/552	Textile	Jiangsu	3	9000	2580
5	Enterprise	2013	78/65	Textile	Zhejiang	2	500	420
6	Enterprise	2016	500/490	Leather bags and suitcases	Zhejiang	3	100	50
7	Enterprise	2014	228/209	Garment (uniform)	Zhejiang	2	100	100
8	Individual	2014	717/700	Garment	Zhejiang	1	500	500

Source: author's calculation and compilation based on a survey conducted by the author, 2018.

Table D2: Surveyed construction materials firms in the EIP

No.	Investor	Year started	Employees (Total/local)	Sector	Origin of firm (Province)	Organisational structure (no. of shareholders)	Investment amount (US\$ 10,000)	Actual investment amount (US\$ 10,000)
1	Enterprise	2016.4	33/26	Steel pipes	Jiangsu	2	900	600
2	Enterprise	2016.3	776/700	Ceramic products	Zhejiang	3	21800	6300
3	Individual	2010	120/110	Cement	Jiangsu	3	1450	1107.13
4	Enterprise	2011	211/196	Steel rebars	Jiangsu	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	1	130	80

Source: author's calculation and compilation based on a survey conducted by the author, 2018.

## Appendix E: Survey and interview guide

Item	Content	Available source(s)
<b>1. Company profile</b>		
Ownership and control	<ul style="list-style-type: none"> <li>• Sole proprietor</li> <li>• Partnership</li> <li>• Limited company or shared company (PLC)</li> </ul>	Survey
Location		Survey
Year of the establishment (in China and/or in Ethiopia)	Year that firm obtained the Investment Licence and Business Licence in Ethiopia	Survey
Sector	Main business(es)	Survey
Investment amount	<ul style="list-style-type: none"> <li>• Registered investment</li> <li>• Actual investment</li> <li>• Re-investment (and when)</li> </ul>	EIC data Survey
Main source of capital and financing (and its percentage)	<ul style="list-style-type: none"> <li>• Self-financed</li> <li>• Chinese commercial bank</li> <li>• Chinese policy bank</li> <li>• Ethiopian commercial bank</li> <li>• Ethiopian policy bank</li> <li>• Other channels (be specific)</li> </ul>	Survey
Main reason(s) to invest in Ethiopia		Survey Interview
<b>2. History and origin of the firm</b>		
The basic development trajectory of the firm in China	<ul style="list-style-type: none"> <li>• Origin of the firm</li> <li>• Main business</li> <li>• Main markets/clients</li> <li>• Main competitors</li> </ul>	Firm's official website and/or profile. Interview
<b>3. Entrepreneur's perspective</b>		
Entrepreneur's background	<ul style="list-style-type: none"> <li>• Educational background</li> <li>• Family background</li> <li>• Working experience</li> <li>• Achieved original accumulation</li> </ul>	Interview Life stories
<b>4. Process of accumulation</b>		
Accumulation	<ul style="list-style-type: none"> <li>• Obtaining investment opportunities</li> <li>• Decision-making</li> <li>• Installation</li> <li>• Financing</li> <li>• Expansion and re-investment</li> </ul>	Interview Life stories
<b>5. Adaption and change of production</b>		
Factory rule		Firm profile Observation
Main products and their final markets (and market that firm intends to explore in the future)		Survey Interview

Item	Content	Available source(s)
Market competition	Main competitor(s)  How did the firm respond to competition?	Survey Interview
Types of production (e.g., flexible, continuous)	How flexible is the production system?  Are 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 mixed methods)  Automation level	Survey Interview
Working shifts	How many shifts per day?	Interview
Raw material sourcing		Survey Interview
Main operational constraints and how did the firm overcome these?		Survey Interview Observation Participant observation
<b>6. Adaption and change of managerial ethos</b>		
Firm's management ethos	If there is no fixed management ethos, why? Because investing overseas or already changing before?	Company profile Interview Observation Participant observation
<b>7. Relations with the state, government policies, and institutional context</b>		
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 the firm encountered		Survey Interview
Whether the firm is sufficiently involved in public-private dialogue in Ethiopia		Survey Interview Participant observation
Main government agencies (both Ethiopia and China) that the firm contacts regularly	Problem-solving mechanism (formal or informal)	Survey Interview
How did the firm join the business association and what kinds of activities did the firm take part in?	What types of business association are present in Ethiopia?  Who dominates the association and why?  The politics of setting up the association	Survey Interview Participant observation

Source: author's construction.