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Article

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Assessment of foreign direct investment inflows into Ethiopia in light of peace and security challenges from 2018 to 2022

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ABSTRACT

This paper aims at assessing the foreign direct investment inflows to Ethiopia from 2018 to 2022. A qualitative research method is applied to analyze current and relevant documents, government reports, and case studies, obtained through library research. The results indicate that investment inflows during the year 2018 to 2022 were volatile due to the global COVID-19 pandemic and unsecured political conditions in Ethiopia. During the onset of the Tigray war, FDI inflows to Ethiopia declined by 6%, even though it accounted for more than a third of foreign investment in the sub-region. According to the findings of this paper political instability associated with various ethnic conflicts, most notably the conflict in the Northern Ethiopia, as well as the insecurity in the Horn of Africa, and the acute shortage of foreign currency is currently viable challenges for foreign investors. On the other hand, the interest rate, FDI-friendly economic environment, adequate supply of labor force, adequate raw materials supply, proxy to international markets, conducive fiscal and monetary policy, and easy import and export procedures are economic opportunities for foreign investors in Ethiopia. The article suggests that the government should maintain stable political conditions and peace to attract more investment inflows into Ethiopia in the future as well as the need for a comprehensive assessment of the overall risks faced by foreign investor in Ethiopia due to the high degree of peace and security and foreign direct investment interconnectedness and interdependence. Policymakers can use this information and needs to develop policies that address the risks faced foreign investor operating in conflict-prone regions in Ethiopia. The study highlights the need for policymakers to promote peace and stability to attract FDI inflows, especially from developed countries.

POLICY IMPLICATIONS

The article suggests that the government should maintain stable political conditions and peace to attract more investment inflows into Ethiopia in the future and the need for a comprehensive assessment of the overall risks faced foreign investor in Ethiopia due to the high degree of peace and security and foreign direct investment interconnectedness and interdependence. Policymakers can use this information and needs to develop policies that address the risks faced foreign investor operating in conflict-prone regions in Ethiopia.

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1. Introduction

Foreign direct investment is one of the most notable features of the contemporary global economy. As a result of FDI's spectacular growth over the past few decades, a sizable amount of empirical literature has been developed to explore the reasons of and ways in which FDI contributes to growth. Key to attracting foreign direct investment is social and political stability, which is defined as the absence of war and various types of social discontent (Okara, 2022). The world is still susceptible to political violence, which can take many various shapes and manifestations. In recent years, political violence has

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become widespread throughout the world¹. According to the Centre for Systemic Peace's 2017 world-wide report, social warfare has become more prevalent globally since 2011, following a downward trend from 1991. Pettersson et al. (2019) demonstrate that since 1989, the years from 2013 to 2018 had the highest levels of non-state violence. Whether it manifests as inter-rebel or state vs. rebel battles in Syria, ethnic conflicts in Ethiopia, political protests in Lebanon, cartel-related violence in Mexico, or terrorist attacks in Nigeria, socio-political instability is pervasive in the developing world (Okara, 2022).

Through mechanisms including knowledge transfer and productivity spillovers, foreign direct investment (FDI) is thought to be a key driver of growth for developing economies. As a result, Ethiopia has included FDI attraction as a key component of its development strategy since the time of the Imperial administration. Three successive development plans covering the years 1950–1974 illustrate the Imperial regime's industrial policy, which viewed FDI as the primary driver of industrial growth and accorded it great importance (Chole, 1995). Because of this, there was a significant amount of FDI, and by the end of the Imperial government, about 65% of medium- and large-scale manufacturing businesses were owned or run by foreigners. With the rise of the Dergue administration, promotion of the private sector, and particularly foreign investment, was halted in 1975. It nationalized all privately owned medium and large manufacturing industries, banks, and insurance companies in addition to introducing a socialism and command economic structure. The military government once again promoted FDI in 1983 by proposing joint venture law that was jam-packed with different incentives. This modest and late-introduced reform, meanwhile, did not succeed in luring FDI to the nation. Foreign investors were further deterred from making investments in the nation by the country's dismal economic situation, growing political instability, and sense of fear (Gebreeyesus et al., 2017).

The Ethiopian People's Revolutionary Democratic Front (EPRDF) government, which took office in 1991, implemented a number of liberalization policies, including market deregulation, privatization, trade opening, and changes to the investment and labour legislation (PSI, 2022). One of the transitional government's first measures was the Investment Proclamation No. 15/1992, which allowed for private investment. The 2003 formulation of the Ethiopian Industrial Development Strategy (IDS) outlined the government's goal for the contribution of both domestic and foreign investors to industrialization. According to the IDS, domestic investors serve essential economic functions and serve as the cornerstone of industrial growth. However, it also underlined the crucial part FDI could play in filling the acute gap that existed in domestic enterprises' access to capital, technology, marketing expertise, and management experience (PSI, 2022).

Stability in society and politics is essential for FDI to succeed. According to the Global Peace Index (GPI) and the Fragile State Index (FSI), Ethiopia has seen a gradual decline in political stability over the past few years, which has been accompanied by a comparable drop in foreign direct investment (FDI) during the same time period. The Institute for Economics and Peace's Global Peace Index (GPI), which takes into account 163 autonomous nations and territories, is the most extensively used barometer of global peace. There are a total of 23 indicators that are developed over three main categories to measure the amount of societal safety and security, the breadth of current domestic and international conflict, and the level of militarization. Since 2016, the year of the Oromo Protests, the GPI has observed a decline in Ethiopia's level of peace. Ethiopia's highest position in peace was 119th in 2016, while its most significant loss in peace was a six-place dip from 133 to 139 in 2018 (Institute for Economics and Peace, 2020).

In World Bank's Ease of Doing Business Index Ethiopia was 159 out of 190 economies in 2021, a metric indicative of the myriad challenges facing any investor in the country. Ethiopia's economic freedom score is 49.6, making its economy the 150th freest in the 2022 Index. Ethiopia is ranked 35th among 47 countries in the Sub-Saharan Africa region, and its overall score is below the regional and world averages (World Bank, 2020). In line with the above condition this paper is

Examine the foreign direct investment inflows in light of peace and security challenges in the country. This study attempt to answer a question to what extent peace and security challenges may influence investment inflows into Ethiopia form a period of 2018–2022?

¹Societal warfare includes civil, ethnic, and communal conflicts.

2. Literature review

2.1. FDI literature review: concept and the theory

Foreign direct investment (FDI) is a type of investment in which a company or individual from one country invests in a business or asset located in another country. FDI can take many forms, including the establishment of a subsidiary or the acquisition of an existing company. The main objective of FDI is to establish a lasting interest in an enterprise operating outside the economy of the investor (Hayes, 2023).

The theoretical and empirical literature on FDI has evolved significantly over the last five decades. Research on multinational firms consisted mostly of descriptive industrial organization studies up through the 1970s. From the late 1970s to the middle of the 1990s, there were significant developments as the literature started to apply economic models of international trade with product differentiation and imperfect competition to the study of multinationals. Starting in the middle of the 1990s, there was significant growth in empirical analysis of FDI, as researchers gained access to firm-level data on the operations of multinationals. In the 2000s, there was another surge of developments in the theoretical modeling of FDI, with the addition of firm heterogeneity and firm-level data. The focus of the models in the 2000s shifted to organizational choices – whether multinational production is internalized within a firm or coordinated through arms'-length outsourcing – and continued the emphasis on firm-level data in empirical work (Riker & Wickramarachi, 2020).

The literature on FDI has identified several factors that influence FDI flows, including market size, natural resources, labor costs, infrastructure, political stability, and government policies. Theories that explain why firms engage in FDI include internalization theory, transaction cost theory, and eclectic paradigm theory (Laura & Jasmina, 2017).

Internalization theory suggests that firms engage in FDI when they can internalize transactions that would otherwise be conducted through market transactions. Transaction cost theory suggests that firms engage in FDI when they can reduce transaction costs by internalizing transactions that would otherwise be conducted through market transactions. Eclectic paradigm theory suggests that firms engage in FDI when they have ownership advantages (such as proprietary technology), location advantages (such as access to natural resources), and internalization advantages (such as economies of scale) (Laura & Jasmina, 2017).

Empirical studies have found mixed evidence on whether FDI leads to economic growth. Some studies have found positive effects on economic growth, while others have found no effect or even negative effects (Veeramani et al., 2020). The effects of FDI on economic growth depend on many factors, including the level of development of the host country, the sectorial composition of FDI inflows, and the quality of institutions (Hayes, 2023). The analysis revealed theoretical inconsistencies within each group and among different groups of financial theories that is also translated into inconclusive empirical results on many occasions. The analysis also uncovered a geographical bias where in multinationals and FDI from emerging countries are substantially under-researched. While the idea of forming one financial theory on FDI is attractive, the review suggests that future research should opt for a context-specific inclusion of financial factors until the debate about the efficiency of financial markets is settled.

2.2. The relationship between FDI and violence

In the literatures on international business/economics, international relations/political science, and development studies, studies on conflict and FDI are generally econometric in form. According to Chen (2017), there are many different types of conflicts that have an impact on FDI flows. These include military, political, commercial, interstate, extrastate, and intrastate conflicts. It is realistic to assume that FDI may suffer as a result of a military conflict. In the context of Japanese FDI in China, Gao et al. (2018) examine whether the home-host country ties reveal uneven effects on FDI across the country's subnational areas from a historical viewpoint. A Civil war is said to prevent FDI both directly and indirectly by destroying assets, raising operating costs for businesses, and, most importantly, by fostering political uncertainty (e.g., Barry, 2018; Blanton & Blanton, 2007; Gates et al., 2012; Mehlum & Moene, 2012). In this regard, foreign direct investment can be diverted by war when it results in employee deaths, material losses, difficulties obtaining inputs, or a sudden decline in domestic demand.

It is also asserted that foreign direct investment (FDI) will not be impacted by conflict if areas of economic interest are not nearby; that different types of violence may not always pose a risk to business operations; that different levels of conflict may have different effects; and that bilateral investment treaties may lessen the uncertainty of policy linked to civil wars. As a result, FDI occasionally decreases prior to the onset of the conflict. However, the form, scope, and duration of a military conflict—which are frequently more significant than the actual fighting or its anticipated start—determine its effects. The actual research findings, however, continues to be (surprise perhaps) contradictory and somewhat ambiguous. Nigh (1985) concluded that inter-nation and intra-nation conflicts decreased U.S. investment while inter-nation and intra-nation cooperation increased it in a noteworthy study on manufacturing FDI by U.S. firms into twenty-four nations over twenty-one years. According to Li and Vashchilko's (2010) gravity model of bilateral investment flows, dyadic military conflict decreased bilateral investment in the high-income and low-income dyads, security alliances increased bilateral investment in the high-income and low-income dyads, and neither military conflict nor security alliances had an impact on bilateral investment into the high-income dyads.

Additionally, Bussmann (2010) discovered the following in a study on the endogenous effects of conflict with FDI inflows, outflows, and stocks between the years of 1980 and 2000: Deadly conflict decreased FDI inflows and stock; conflict was more likely when there was a considerable political gap between the two states; trade interdependence decreased the likelihood that a pair of states would start a conflict; and states that were directly contiguous, were more prone towards conflict. Generally, theoretical studies in the past have shown that violence and instability can have significantly diverse consequences on foreign direct investment companies operating in the same nation. The relationship between conflict and foreign direct investment (FDI) is a complex one. While conflict can have a negative impact on FDI, it can also create opportunities for investment in certain sectors. In general, the impact of conflict on FDI depends on the type of conflict, the duration of the conflict, and the sector in which the investment is being made.

For instance, a study by Blanton and Blanton (2007) found that FDI significantly lowers both the probability of conflict and its intensity. Another study by Mihalache-O'Keef (2018) found that the impact of FDI on conflict was industry-specific; the author found that service sector FDI led to fewer conflicts, extractive sector FDI led to an increase in conflicts, and FDI in the manufacturing sector had a neutral effect.

On the other hand, a study by the United Nations Development Programme (UNDP) found that foreign direct investment (FDI) inflows can be a source of economic growth in fragile and conflict-affected countries (FCAs). The study found that fragility is not a major deterrent of resource-seeking FDI, largely explained by its set of unique investment determinants. Furthermore, that peacekeeping and natural resources are important overlooked factors in understanding the large country heterogeneity regarding the economic impact of conflicts and post-conflict economic recovery, and that peacekeeping could be an important measure in closing conflict-attributable GDP losses.

3. Research techniques and design

This descriptive study examined foreign direct investment in light of Ethiopia's issues with peace and security. Utilising a descriptive qualitative research methodology, prevalent patterns for a given occurrence are explored. By using qualitative research methods, researchers can gain a deeper understanding of the complex relationships between conflict and foreign direct investment. On the other hand, quantitative research methods are useful for analyzing large datasets and identifying patterns and trends, while qualitative research methods are better suited for exploring complex social phenomena and understanding the subjective experiences of individuals or groups. Research methods in conflict Settings provides a comprehensive overview of qualitative research methods in conflict settings. This understanding can help policymakers and other stakeholders to develop more effective strategies for promoting economic development and stability in conflict-affected regions.

The study's focus was on the analysis and presentation of FDI investment projects in Ethiopia, with a focus on the total number of completed and active projects in each investment sector from 2016 through 2022. The Ethiopian Investment Commission, UNCTAD, and World Bank all collected and

documented statistical data that was used to support the studies stated goal. Additionally, information from both published and unpublished sources was acquired to strengthen and improve the quality of this study. The information gathered from the World Bank, UNCTAD, and Ethiopian Investment Commission was analyzed, interpreted, and presented using tables and graphs.

4. Analysis of FDI flows in Ethiopia

The analysis is based on the following categories

Foreign direct investment (FDI): is a type of cross-border investment made by a person who lives in one country (the direct investor) with the aim of acquiring a long-term stake in a company (the direct investment enterprise) that is located in a different country. The goal of the direct investor is to establish a strategic, long-term partnership with the direct investment company in order to significantly influence the management of the direct investment company. Three basic sources of financing are included in direct investment financial transactions (flows) and positions: 1) buying or selling stock capital, 2) reinvesting profits that are not paid out as dividends, and 3) inter-company debt (payables and receivables, loans, and debt securities). Investments of all kinds, including Greenfield investments, mergers and acquisitions, and intracorporate loans, are included in FDI flows.

Greenfield FDI: This type of FDI entails the establishment of new businesses by direct investors in the host nation. In contrast to mergers and acquisitions, which indicate a change in ownership of existing assets, Greenfield investments include the provision of new capital. The report's use of data on Greenfield investment deals comes from FDI Markets, which obtains its information through press releases and business announcements. Figures on Greenfield investment may include debt finance in addition to equity investment, which is not always the case. The data for the two groups are not comparable due to the different sources and methods utilized for overall FDI and Greenfield FDI.

4.1. FDI trend from 2010 to 2020

Prior to 2010, Ethiopia's FDI influx showed little improvement. However, the country had a sharp increase in FDI influx in the early 2010s, becoming Africa's top beneficiary of FDI. From 2000 to 2017, Ethiopia received only \$910 million in average yearly FDI, or 4.56% of all FDI into Africa (JICA, 2022). Despite making up over 9% of Africa's population, Ethiopia only contributed 1% of the continent's inward FDI stock. However, Ethiopia's FDI influx started to pick up speed in 2013 and peaked in 2016 and 2017, after which it started to fall (JICA, 2022) (Table 1).

As we seen Tabe.3.1.above the FDI influx to Ethiopia peaked in 2016 with a \$4.14 billion yearly flow. Fast growth was fueled by the nation's achievement of sustained high economic growth as well as by the government's dedication to and support of initiatives to bring in foreign investment and create industrial parks. However, internal political unrest and the global economic slump caused FDI inflow to start declining in 2017.

Table 1. FDI trend from 2010 to 2020.

Ethiopia Foreign Direct Investment – 2010–2020		
Year	Inflows, US \$	% of GDP
2021	\$4.26B	3.83%
2020	\$2.40B	2.23%
2019	\$2.55B	2.66%
2018	\$3.36B	3.99%
2017	\$4.02B	4.91%
2016	\$4.14B	5.58%
2015	\$2.63B	4.07%
2014	\$1.86B	3.34%
2013	\$1.34B	2.82%
2012	\$0.28B	0.64%
2011	\$0.63B	1.97%
2010	\$0.29B	0.96%

Data Source: World Bank.

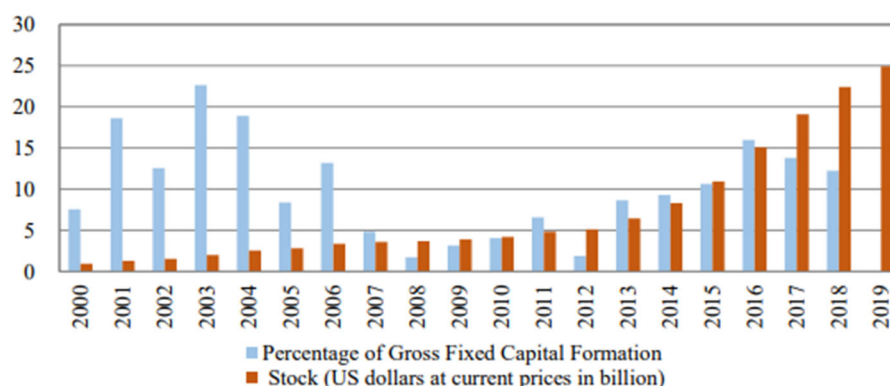


Figure 1. FDI stock and percentage of gross fixed capital formation.

Source: UNCTAD cited JICA (2022).

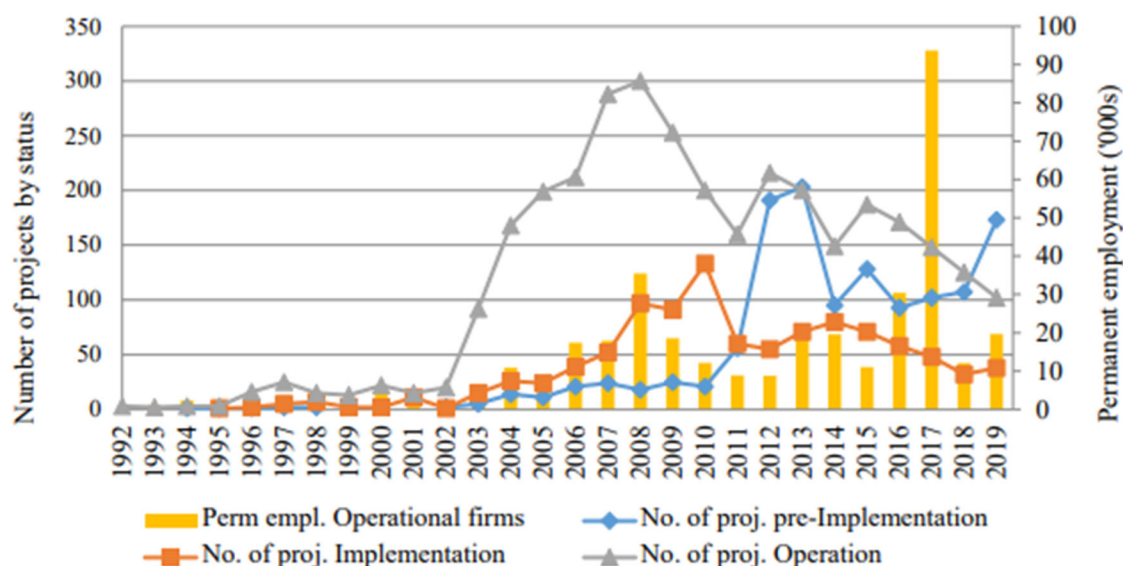


Figure 2. Projects created by operational projects, broken down by status and employment.

Source: Ethiopian Investment Commission (1992–2020).

The net FDI in 2016 topped 4.1 billion USD, which is around 14 times more than the FDI in 2010, which was just about 290 million USD (see below Figure 1). The figure below represented the yearly average flow of FDI and its contribution to GDP growth.

The UNCTAD database shows that Ethiopia's capital stock from foreign investment grew quickly in the 2010s and reached around \$25 billion in 2019 (Figure 1). In a similar vein, between 2013 and 2016, the proportion of FDI capital to gross fixed capital formation rapidly grew. The fact that total fixed capital formation was low during this time period can be used to explain the high level of this ratio. Using the EIC database as a source, Figure 2 shows that 3,307 of the 5,262 FDI projects for which investment licenses were given between 1992 and 2019 have since been operational (PSI, 2022). As of 2019, 373,025 permanent employments had been produced by active FDI projects. But starting in 2002, there was a clear separation between the three investment levels. Between 2002 and 2008, there was a major six-year growth in operating projects, but since then, there has been a downward trend.

Different factors could have contributed to the prior period's dramatic increase in operational projects. One such theory is that the growing global interest in acquiring land and making investments in food production in many emerging nations coincided with this time period. Due to its abundance of fertile land and welcoming climate for businesses, Ethiopia was one of the developing nations that caught the interest of global investors. Investment rules were drastically loosened, particularly for the agriculture industry. Additionally, at this time, various Turkish and Indian investors began operating in Ethiopia, particularly in the manufacturing sector, and Ethiopia's flower industry received significant investment (PSI, 2022).

Table 2. FDI projects by sector and status (1992–2021).

Sector	Total number of licensed	Operational projects					
		projects		capital		Permanent Employment	
		number	Share%	Million Birr	Share%	number	Share%
Agriculture	636	333	12.0	12,752.2	8.9	53,819	33.0
Manufacturing	2,932	1,676	51.5	105,219.2	73.3	190,448	37.0
Mining	22	14	0.2	451.4	0.3	591	0.1
Electricity	22	1	0.1	1.0	0.0	10	0.0
Education	113	63	1.4	393.1	0.3	2,121	0.6
Health	111	60	1.1	795.0	0.6	2,046	0.1
Hotel and restaurants	241	149	3.9	1,966.3	1.4	5,475	0.8
Tour operation, transport, and communication	130	76	2.0	288.0	0.2	1,005	0.2
Real estate, machinery & equipment rental construction	1480	881	26.0	19,153.0	13.0	117,105	26.0
Others	116	70	1.8	2597.9	1.8	1,755	1.8
Grand Total	5,783	3,323	100.0	143617.5	100.0	374,375	100.0

4.2. The sectoral composition of FDI

The distribution of FDI flows to Ethiopia is fairly diversified into various sectors ranging from the primary including all types of agricultural activities and mining & quarrying to secondary sector or the industrial activities to the tertiary sector including electricity generation, construction, real estate, trade, hotel and tourism, transport service, education and health service. As can be seen from [Table 2](#), manufacturing accounted for 51.5% of the total FDI operational investment projects and about three-quarters (73.3%) of capital invested in the country over the period 1992–2020. The agriculture sector accounts for about 12% of operational projects but a third (33%) of total permanent employment created. This suggests the labor-intensive nature of this sector. On the other hand, real estate and machinery and equipment rental and consultancy services, and construction contracting in sum account for 26% of total operational projects, 13% of capital and 26% permanent employment created.

In Africa, where FDI primarily goes to extractive industries and services, it is uncommon to see a substantial concentration of FDI in the manufacturing sector. Ethiopia's vigorous manufacturing-focused promotion, which includes the creation of industrial parks, is a contributing factor in this. Another factor that may have contributed to the growing concentration in the industrial sector is the fact that foreign investment is prohibited in a significant portion of the service and construction industries (PSI, 2021).

5. Foreign direct investment influx into Ethiopia from 2019 to 2022 (during the conflict's onset)

Prior to the commencement of the conflict and epidemic in 2018, Ethiopia, which was rated fifth on the African continent, attracted the greatest foreign direct investment (FDI) in the region of East Africa. Of the 240 Greenfield FDI projects that have been carried out in the country since 2003, 18% have been in the textile industry, which has had the most success enticing international investors. Despite the fact that it was still large, Ethiopia's investment flow did decline in 2020, according to the UN Conference on Trade and Development's Investment Trends Monitor (UNCTAD, 2021).

FDI inflows to Ethiopia decreased by 6% to USD 2.4 billion in 2020, as seen in [Table 3](#). above, even though they still made up more than a third of all foreign investment in the sub-region. However, it was predicted that the overall value of FDI stock climbed from 24,956 billion USD in 2019 to 27,4 billion in 2020, and then to 31,596 in 2021. In 2020, the sectors that garnered the biggest shares of investment were manufacturing, agriculture, and hospitality. On the other side, according to the 2021 GPI, Ethiopia experienced the third-largest decline in peacefulness in Sub-Saharan Africa in the year 2020, dropping 6 places with declines in all three areas. According to the 2020 FSI scores, there has been a little decline, with the overall score rising from 94.2 to 94.6. Ethiopia's overall score increased to 99.0 (ranked 11th), reflecting significant declines in the use of force by the security apparatus, group grievance, and human rights, making it the third most worsened country in the 2021 FSI (Fiertz, 2021). Ethiopia has utilized the crisis in Bangladesh's textile sector to draw in foreign textile companies, despite the fact that FDI flow has decreased there from 2019 to 2020.

Table 3. FDI flow in Ethiopia during the onset of conflict.

Foreign Direct Investment	2019	2020	2021
FDI Flow (million USD)	2,549	2,381	4,259
FDI Stock (million USD)	24,549	27,337	31,596
Number of Greenfield Investment	32	11	7
Value of Greenfield Investment (million USD)	1,908	503	132

Source: UNCTAD, Latest available data.

The Economic Reform Programme and privatization are also mentioned as additional factors that will improve the flow of FDI in 2021. The Economic Reform Programme and privatization are also mentioned as additional factors that will improve the flow of FDI in 2021. Ethio Telecom, a state-owned telecommunications business, was privatized by the government and sold to Safaricom Telecom to increase FDI inflow. The next ten years, Safari com is anticipated to invest about \$8 billion (Yigal, 2021). The amount invested will be the greatest foreign direct investment (FDI) ever made in Ethiopia. As can be seen in Table 3 above, foreign direct investment (FDI) into Ethiopia decreased as the conflict began in 2020, but it began to increase in 2021 as investor anxiety grew as the fighting in the Tigray region worsened starting in November of that year. The epidemic, the fighting in the Tigray region, political unrest, and the slowness in debt restructuring negotiations have generally discouraged investors over the previous four years. Despite these challenges, Ethiopia has made significant progress in terms of transport infrastructure and electricity production in order to improve its attractiveness to foreign investors. The impending privatization of the state-owned railway, maritime, air transport, logistics, electricity, and telecommunications sectors is expected to boost private investment as is the creation of special economic zones. In order to improve the business climate, the government recently approved a new foreign investment law and issued new investment incentives regulation in 2022².

5.1. Origin of FDI

Ethiopia has been attracting high amounts of FDI in recent years, with almost half of the inflows to the East African region. Between 2018 and 2022, China has been the main source of new FDI projects permitted in Ethiopia, accounting for 60% of all Greenfield FDI projects, with significant investments in manufacturing and services. The other main investing countries are Saudi Arabia, the United States, India and Turkey (Leiva, 2021). Analyzing investor engagement through time reveals China's unmistakable rise to the position of Ethiopia's most active investor. The sector that drew the most investors was manufacturing. As can be seen from Table 2 above, greenfield investments started to decline during the pandemic from 32 total projects in 2019 to 11 with a total value of 1,908 million USD in 2019 to 503 million USD in 2020, and they reached a total of 7 projects with a total value of 132 million USD at the start of the conflict. The total investment in Greenfield fell as soon as hostilities started, as seen in Table 2. Flows also showed a similar level of instability, combining peaks (2019 fall during the epidemic and of the war.

5.2. Opportunities for FDI in Ethiopia in view of the country's issues with peace and security

With a booming population of over 110 million people, Ethiopia is the second most populous nation in Africa after Nigeria, with around two-thirds of its population under the age of 30 (PSI, 2022). In 2021, the Government of Ethiopia (GOE) revised the commercial code for the first time in more than 60 years, granted a spectrum license to a private telecom operator, and started the process of privatizing other state-owned industries like the telecom and sugar sectors. The new investment law that was established in 2020 ought to improve the business climate even further. The nation possesses a strategic location that gives it access to rich markets in the Middle East and Europe as well as the Red Sea and Suez Canal, as well as abundant and inexpensive trainable manpower. With a focus on strengthening the role of the private sector in the economy and luring more foreign direct investment, the "Homegrown Economic Reform Plan" serves as a formalized path to achieve extensive macro, structural, and sectoral

²Foreign direct investment (FDI) in Ethiopia - International Trade Portal (lloydsbanktrade.com).

reforms. Reform initiatives are anticipated to gain steam in the wake of the recent passage of an investment law. It is anticipated that telecom and logistics reforms will increase competitiveness and open those industries to the private sector. Additionally, it is anticipated that the formation of special economic zones and the upcoming privatization of the state-owned railway, maritime, air, logistics, and telecommunications sectors will increase private investment. Economic opportunities for foreign investors in Ethiopia generally include interest rates, an environment that is friendly to foreign direct investment (FDI), an adequate supply of skilled labourers, an adequate supply of raw materials, access to international markets, appropriate fiscal and monetary policy, and simple import and export procedures.

5.3. Upcoming challenges of FDI in Ethiopia

Ethiopia is moving in a positive direction, but to maintain these achievements, the government will need to push reforms even farther. For instance, foreign investors claim that the updated investment law still excludes them from a key area, the financial markets. The banking industry is currently underdeveloped and solely welcomes domestic investors. Due to regulatory delays, high land transportation costs, corruption, and logistical obstacles, businesses frequently experience lengthy lead times while importing products and shipping exports. The ability of businesses to repatriate profits and procure investment inputs is severely hampered by a severe foreign exchange shortage (the Ethiopian birr is not a freely convertible currency) (US Department of State, 2022). Growth of the private sector is hampered by a lack of a capital market. The Ethiopian birr continues to be overvalued, and the country struggles to diversify its exports outside its major industries (coffee, gold, and oil seeds). Major intellectual property treaties like the Madrid System for the International Registration of Marks and the Paris Convention for the Protection of Industrial Property are not signed by Ethiopia. In addition, the political unrest and security issues brought on by different ethnic conflicts, particularly the one in northern Ethiopia, have hurt the economic climate and discouraged foreign direct investment (FDI). The COVID-19 pandemic, a drought in the southern and eastern lowlands, political upheaval in some regions of the country, and other economic issues also plagued Ethiopia in 2021 (World Bank, 2020). Over 30 percent inflation, scant foreign exchange reserves, a sizable budget deficit, and declining credit ratings were the hallmarks of Ethiopia's macroeconomic situation (Table 4).

Ethiopia is ranked 176th out of 190 economies in the World Bank Group's 2021 Doing Business report's Getting Credit index (World Bank, 2020). Ethiopia did, however, make progress with property registration. The official list of documents needed for property registration was published, among other things, to improve the quality of the nation's land administration system (World Bank, 2020). On the other side, there is geopolitical rivalry between superpowers in the Horn of Africa, ongoing Al-Shabaab attacks, piracy off the coast of Somalia, proximity to the civil conflict in Yemen, and, last but not least, the Red Sea is becoming more secure as evidenced by Djibouti, which now has more foreign military bases there.

6. Discussion

According to the findings of the study in Ethiopia the extent of the impact of conflict on foreign direct investment (FDI) is a complex one. For Instance, during the period between (2018-202) FDI inflows in Ethiopia is high compared to other countries in the sub-Saharan Africa despite global challenges such as COVID 19. But, when the conflict between the Federal government and Tigray rebels force is onset significantly reduced the FDI inflow in the country by 6%.

In general, this study observed that the impact of conflict on FDI depends on the type of conflict, the duration of the conflict, and the sector in which the investment is being made. For example of the nexus between foreign direct investment (FDI) and conflict numerous study are found among this in an empirical study of 147 countries, Mihalache-O'Keef (2018) found that the impact of FDI on conflict was industry-specific; the author found that service sector FDI led to fewer conflicts, extractive sector FDI led to an increase in conflicts, and FDI in the manufacturing sector had a neutral effect. Similarly, in a study of 27 African countries, Asiedu and Lien (2011) found that FDI inflows to countries with a history of conflict were lower than those without a history of conflict.

Table 4. World Bank doing business 2021.

Indicator set	Ethiopia out of 190	Impact on PPP promotion due to low ratings	
Starting Business	168	negative	Time and cost may be required to establish SPC for PPP projects
Dealing with permits	142	Negative	It could cause delays in project implementation and an increase of costs
Getting electricity	137	Positive	The growing need for PPP projects in the electricity sector can be expected
Registering property	142	Negative	It could cause adverse effects in the case of projects requiring property registration
Getting credit	176	Negative	There is a risk of making it difficult to get funding
Protecting minority investors	189	Negative	In particular, foreign investors often become minority shareholders, which increase risks
Paying taxes	132	Negative	It could cause an increase costs
Trading across borders	156	Negative	Time and cost may be required to procure equipment from outside of the country
Enforcing contract for	67	negative	Business risks will increase if the certainty of contract is not executed
Resolving insolvency	149	Negative	There is a potential trouble in the event of a project failure

In another study of 25 countries in the Middle East and North Africa, Al-Sadig (2009) found that FDI inflows were negatively affected by political instability and conflict

This study has consistent findings with similar study conducted Blanton and Blanton (2007) and Mihalache-O'Keef (2018) that finds FDI significantly lowers both the probability of conflict and its intensity and the sector in which the investment is being made. According to the finding of the study in Ethiopia during the studied period the FDI inflows are negatively affected by military conflicts, and the negative effect is more pronounced for FDI in the manufacturing sector than for FDI in the service sector.

7. Conclusion

This study makes an effort to analyses FDI influx in Ethiopia in light of risks to its security and peace, with a focus on Ethiopia from after 2018 to 2022. Data were gathered for this purpose from the World Bank, UNCTAD, and Ethiopian Investment Commission. Overall the yearly FDI flow has increased steadily since 2010, reaching a record high of USD4.5 billion in 2017. As a result, Ethiopia was listed as one of the top five FDI locations in Africa. But in 2018, the flow began to decrease. This study highlighted three significant issues as contributing factors to the fall in FDI flow in Ethiopia. These issues may stifle economic activity and investment inflow beginning in 2018.

The first is the unfavourable business climate, where there are numerous fundamental inefficiencies and vulnerabilities as well as a severe lack of foreign cash as the main issue. The second is the escalating internal political and ethnic unrest that has hampered corporate operations and reduced investor confidence in recent years. The third is the COVID-19 pandemic, which hinders corporate expansion and causes problems. The first two issues are internal to Ethiopia, whereas the third is a worldwide issue that affects all nations and industries, albeit to different degrees. Within a few years, the pandemic should be under control, and life should return to normal. The first two, however, are structural long-term challenges that will need a lot of national effort and enough time to solve

8. Recommendations

Attracting foreign investors during a conflict can be challenging, but there are several strategies that governments can use to encourage investment. Here are some ways that Ethiopian governments can attract foreign investors:

1. **Offer incentives:** Governments can offer incentives such as tax breaks, subsidies, and other financial incentives to attract foreign investors. These incentives can help offset the risks associated with investing in a conflict zone.
2. **Strengthen legal protections:** Governments can strengthen legal protections for foreign investors by enacting laws that protect foreign investments and provide a stable legal environment for investors.
3. **Promote stability:** Governments can work to promote stability in the conflict zone by negotiating peace agreements, providing security for investors, and working to reduce the risk of violence.
4. **Provide information:** Governments can provide information to foreign investors about the conflict zone, including the risks and opportunities associated with investing in the area.
5. **Partner with international organizations:** Governments can partner with international organizations such as the World Bank and the International Monetary Fund to attract foreign investment. These organizations can provide financing, technical assistance, and other resources to help attract foreign investors.

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Availability of data and materials

Data and material would be made available upon request.

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