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A POST STATE-CENTRIC ANALYSIS OF CHINA-AFRICA RELATIONS

**INTERNATIONALISATION OF CHINESE CAPITAL
AND STATE-SOCIETY RELATIONS IN ETHIOPIA**

Edson Ziso



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A Post State-Centric Analysis of China- Africa Relations

Internationalisation of Chinese Capital and State-
Society Relations in Ethiopia

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To my mother Aletha and my father Shepherd

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LIST OF ACRONYMS

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

FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FOCAC	Forum for China-Africa Cooperation Forum
GTP	Growth and Transformation Plan
IMF	International Monetary Fund
IR	International Relations
JECC	Joint Ethiopia China Commission
KANU	Kenya African National Union
MIDROC	Mohammed International Development Research and Organisation Companies
MoFA	Ministry of Foreign Affairs
MoFED	Ministry of Finance and Economic Development
NFLA	National Front for the Liberation of Angola
NGOs	Non-Governmental Organisations
NPC	Standing Committee of China's National People's Congress
OPDO	Oromo People's Democratic Organization
PMAC	Provisional Military Administrative Council
PPESA	Privatization and Public Enterprises Supervising Agency
PRC	People's Republic of China
RBC	Road and Bridge Construction Company
SDPRC	Sustainable Development and Poverty Reduction Program
SEPFD	Southern Ethiopian People's Democratic Front
SEZs	Special Economic Zones
SNNPR	Southern Nations Nationalities and People's Region
SOEs	State-Owned Enterprises
TNS	Transnational State
TPLF	Tigrayan People's Liberation Front
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNITA	National Union for the Total Independence of Angola
US	United States
WB	World Bank
WC	Western Consensus
ZANLA	Zimbabwe African National Liberation Army
ZANU	Zimbabwe African National Union
ZTE	Zhong Xing Telecommunications Equipment Company Limited

Introduction

1.1 INTRODUCTION

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

stereotypical assumptions about rising powers and the role of China that has become the staple of international relations literature.

At its core, the book argues that we need an ‘inside out’² approach that looks at the constitutive relationship between the internal and external as it plays out within processes of state transformation both in Africa and in China. The central question thus is: How are Chinese economic relationships—particularly the role of Chinese capital—internalised within the state? Ethiopia is the case study. In essence, the focus is on the specific internal ways in which social forces have been impacted in Ethiopia. Our present understanding of this issue remains scant at best and unknown at worst. This is where this study comes in, focusing specifically on state-society relations. Thus, the approach of this work challenges the view of the African state as a black box that either acts autonomously in relation to China or as the instrument through which China pursues its strategic interests. Hughes and Floyd, for example, open their article with the question: ‘Is China good for Africa or bad? That seems to be the never-ending debate from international development and investment policy experts and organizations.’³ This Eurocentric assumption is pervasive and has best been exposed by Tull. He notes that ‘there is indeed a growing awareness in Europe that China’s rise as a global superpower poses significant challenges in terms of its accommodation into a global order of things that hitherto was largely defined by Western countries.’⁴ The approach of this book, however, is different. Instead of viewing China’s presence in Africa as deliberately exploitative where Africa is a passive victim, the analysis regards the African state in relational terms as an institutional complex through which different social forces act.

Using this approach, the study looks at the internal implications brought about by the external forces through Chinese capital to explore the new implications of South-South interaction. This is because in Africa, broadly speaking, Chinese globalisation is viewed through the prism of this traditional South–South cooperation model. By definition,

South-South cooperation is a broad framework for collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it can take place on a bilateral, regional, sub regional or interregional basis. Developing countries share knowledge, skills, expertise and resources to meet their development goals through concerted efforts. Recent developments in South-South cooperation have taken the form of increased volume

of South-South trade, South-South flows of foreign direct investment, movements towards regional integration, technology transfers, sharing of solutions and experts, and other forms of exchanges.⁵

The proposed ‘inside out’ approach illuminates the discussion on state-society relations in Africa and how they are affected by Chinese investment in the context of broader South-South arrangements. Informed by Gourevitch’s ‘second image reversed’⁶ analogy, which explores the links between domestic and international politics, the ‘inside out’ approach is crucial, as the study is centred on the interaction of both domestic and external factors in shaping state-society relations in Ethiopia. Chinese investment in Ethiopia is therefore the external variable and its form and China’s behaviour is read as ‘globalisation with Chinese characteristics.’⁷

In explaining globalisation with Chinese characteristics, several key features that explain it stand out. Breslin notes that the form of capitalism that has materialised in China is one where state actors, often at the local level, remain central to the functioning of an economic system that has dysfunctionally emerged to suit their interests.⁸ China is not just an alternative economic partner—a new source of aid and investment and an increasingly important market—but an economic partner with a distinctive developmental model from that advocated by traditional institutions such as the World Bank (WB) and the International Monetary Fund (IMF). It is this distinctiveness of its neo-liberal model and its mutual accommodation with Ethiopia’s own political economy that is at the core of the thesis of this book.

At the same time, crucially, Ethiopia is a good example of a typical African state still associated with numerous questions surrounding the very aspect of ‘state.’ According to Flanary, the African state ‘is widely understood as existing as a hierarchically structured and centrally directed system of authority which is inherently a source of inequality, both in terms of power and the benefits which are attainable as a result.’⁹ In addition to all these, Ethiopia still must be analysed individually in its own right as a state. It possesses its own set of distinctive circumstances and local challenges including religion, ethnicity and underdevelopment. These factors shape the state transformation processes that are taking place as attributable to the presence of Chinese capital in the country. Therefore, whilst acknowledging the political roots of the relationship, the study goes further and extends frontiers by stressing that new South-South cooperation is now more organised in economic rather

than political terms. The China–Ethiopia relationship is therefore a good example of new South-South cooperation. Although it is a bilateral relationship, the study emphasizes that this relationship is also uniquely intertwined with regional and global factors.

China’s current prominence is located firmly within its stature as an ‘emerging’ power. According to Alden, ‘emerging powers’ is a phrase coined to describe a new group of states which have through a combination of economic prowess, diplomatic acumen and military might have managed to move away from developing country status to challenge the dominance of traditional, mainly Western, powers.¹⁰ At the moment, China shares this label with Brazil, Russia, India and South Africa or ‘BRICS’ countries. The emergence of this wider ‘BRICs-plus’ group—or the new global ‘middle’—is already giving rise to the reordering of actual global relations and highlighting the need to rethink definitions and practices of global governance.¹¹ In the past two decades, China has re-emerged as a global economic force mainly due to decades of internal reform and its economic transition from socialism to capitalism, albeit a distinct form of capitalism: state-oriented capitalism.

Externally, China has spread its wings and its economic force continues to be felt across the world. However, this book argues from the point of view that China in Africa is better analysed in terms of bilateral relations with individual countries. The book agrees with Aning and Lecoutre that this makes for good analysis as, ‘consequently, China adopts an individualised approach towards each country instead of a one-size-fits-all approach to the whole of Africa.’¹² This helps the study avoid the hazard of misleading over-generalization because China is essentially engaging and impacting different countries differently. This study therefore exclusively analyses the China–Ethiopia relationship in a bilateral context, without necessarily negating the multilateral complex. Statistically, Ethiopia is fourth after Nigeria, South Africa and Zambia with the most Chinese investments in Africa.¹³

This introductory chapter will lay out the study’s research questions before explaining the aims in greater detail. Because the study is located within the broader China–Africa relations scholarship, the next section discusses the perspectives and approaches that have so far dominated academic analysis on China–Africa relations. By identifying the gaps therein, the groundwork is laid of the book’s argument as it explains how it aims to contribute to this body of literature whilst at the same time filling these gaps. To reinforce the uniqueness of the study, the section

that follows then justifies Ethiopia as a case study, further explaining why the East African country's political and economic relations with China provide the perfect laboratory to test the main arguments of the book. In the section that follows, a detailed discussion of the methodological approaches employed in the course of gathering and analysing all the necessary data used in the study is provided. Lastly, an overview of the structure of the thesis closes the chapter. Throughout the whole thesis, the US dollar (\$US) is the currency of value.

1.2 CHINA IN ETHIOPIA

The broad research question upon which this book is premised is: In what ways is Chinese capital affecting state-society relations in Ethiopia? China has become a very important, if not decisive, component of Ethiopia's contemporary economic development trajectory. This is seen through various ways including trade, development finance, investment and technical cooperation. According to Geda, 'Chinese engagement in the Ethiopian economy is being intensified from time to time. The degree of this intensification differs across sectors, however.'¹⁴ The trade and investment figures are huge. According to the China Global Investment Tracker, which provides a comprehensive data set covering China's global investment and construction activity, Chinese investments and contracts in Ethiopia between 2004 and 2016 stand at \$17.62 billion.¹⁵ This book, however, goes beyond the figures of trade and investment to advance the argument that the impact of Chinese capital in Ethiopia extends to state-society relations. This is happening as a result of the links that are developing between Chinese capital and local social forces in Ethiopia. The book seeks to analyse the impact of Chinese investment on state-society relations in Ethiopia, by, among other aims, uncovering the new alliances that are emerging within the state.

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

The study's central objective is to offer an alternative way of understanding the impact of Chinese capitalism in an African country by deploying a framework that explores the state as a complex relation rather than a

black box. Brenner *et al.* have criticised the view that conceives the state ‘as a static, timeless territorial “container” that encloses economic and political processes.’¹⁶ To date, a key dent of much of the China-Africa scholarship is that it has used a geostrategic approach which black-boxes the state in such a way that it is unable to acknowledge or explain how Chinese engagements and investment in Ethiopia shape the way new and old social forces respond to external forces of capital within state institutions. This study addresses this deficiency in China–Africa International Relations (IR) by deploying the state-society perspective to best understand how international capital, specifically Chinese capital in Ethiopia, is influencing state-society relations in Ethiopia.

It applies the state-society perspective to understand how international capital, specifically Chinese capital in Ethiopia, is influencing state-society relations in the East African country. This is done by bringing out the expression of social forces within the Ethiopian state in the context of international capital, specifically of Chinese origin. The thesis concurs with Carmody and Owusu that ‘States are comprised of sets of practices and social relations, rather than unified actors.’¹⁷ By using this approach, the thesis will add a distinct perspective to existing knowledge on the multi-faceted nature of the impact of Chinese capital in Africa. The key, unique contribution of this thesis is its deployment of a hybrid approach comprising of a state-society framework, relational state theory and a ‘second image reversed’ perspective, which is able to account for the specific effects of Chinese capital on state-society relations in Africa.

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

From the outset, it is important to note that much of Africa has a history and present that has continued to call into question the very idea of the ‘state’ in the region. Some authors, like Engleburt even hold extreme views and boldly assert that the contemporary African state is ‘neither African nor state.’¹⁸ Such views stem from what is seen as the inability of the African state to live up to some of the core Weberian aspects of statehood. From precolonial forms of governance to long and

brutal periods of colonialism and now contemporary globalisation and internationalisation, the process of state-building in Africa has been fraught with many practical bottlenecks including challenges of nation-building, postcolonial identity-based conflicts, border conflicts and civil wars.¹⁹ Today again, as the African state is under increasing internal and external stress, there is a logic to the conceptual exploration of the non-state sphere for possible alternatives or supports.

Now, when juxtaposed with external forces and, in the present case, international capital from China, the study hypothesizes that the encounter in and of itself must have the potential to uniquely contribute to the redefinition of state-society relations. It can be argued with great plausibility that either Chinese capital is reinforcing existing values, norms and institutions or introducing new ones with state transformation ramifications. Further, like all other African countries, Ethiopia has over time adopted various economic approaches in pursuit of economic and social progress. It has had to rely on borrowed models, for example, pursuing market-based approaches under the Emperor and socialism under the Dergue.²⁰ The Ethiopian People's Revolutionary Democratic Front (EPRDF) government began with a Western-model-type of capitalism, but with its recent engagement with China, it is important to analyse how, why or if it has been influenced by the Chinese model and in what ways various other social groups have played a part.

The past decade has seen a proliferation of literature focused on explaining China's interests and actions in Africa. Much of it is guided by several perspectives including, but not limited to, extractive 'resource diplomacy',²¹ the 'developmental' or the 'internationalisation of the state' abroad,²² and China's 'Going global'²³ strategy, among others. All of these perspectives focus on what China is imagined to be and never what Africa is. This book aims to add to this literature but also goes beyond it by reflecting if Ethiopian society in its various forms has limited or affected the Ethiopian state's engagement with China. Answers to this question will be found by reflecting on interest articulation, policy implementation and attitudes to threats and opportunities occasioned by Chinese capital in Ethiopia. They will also be found by examining how the state has had to negotiate and compromise with some social forces inside the state in a way that would not antagonize its multifaceted political, social, economic and diplomatic relationship with China.

China's involvement in Africa is multifaceted to include a wide array of activities including aid, trade, debt cancellation, development financing,

and investment among others. Chinese aid does not attach liberalizing or ‘good governance’ strings to economic relations.²⁴ This could explain the current expansion of Chinese capital in Africa. Estimates of China’s foreign aid, development financing, and other economic activities in Africa give rise to varying sums. Some reports of China’s annual aid to the continent suggest a range of \$1–2.7 billion.²⁵ The World Bank referred to People’s Republic of China (PRC) ‘infrastructure financing’ in Africa (funding for roads, railways, and power projects) worth \$7 billion in 2006.²⁶ In 2007, the China Exim Bank stated that it had extended concessional loans to Africa with a total outstanding balance of approximately \$8–9 billion, while the China Development Bank reportedly set up a \$5 billion China–Africa Development Fund to finance infrastructure, industrial and agricultural projects.²⁷ China’s involvement in Africa is therefore a huge and complex mixture.

Hence, China is now heavily involved in Ethiopia’s patterns of economic growth and accumulation. For example, ‘the Chinese are involved nearly in all power generation projects’²⁸ and ‘in the transport/road sector, Chinese companies have totally dominated the Ethiopian scene.’²⁹ China–Ethiopia expanded economic relations span more than a decade, so it is now opportune to surmise how this is fundamentally reshaping the state and social forces that are organised through it. According to Adem, in general, three strands of thought inform the ongoing debate about the long-term impact of China in Africa: ‘Sino-optimism, Sino-pragmatism, and Sino-pessimism.’³⁰ Such analytical categories are of course extremely useful. However, they may also mask a significant amount of knowledge about other important changes occurring in Africa as they essentially also fall into the binary analysis trap of whether China is a ‘good’ or ‘bad’ economic partner for Africa. The impact on state–society relations in Africa as a result of Chinese globalisation is one such question that escapes analysis. As the next section argues, this facet of China’s impact on Africa has, thus far, been largely neglected in the literature.

1.3 PERSPECTIVES ON CHINA IN AFRICA: IDENTIFYING THE GAPS IN EXISTING APPROACHES

As already highlighted, there has been an explosion of literature and analysis on China’s presence in Africa and this matches the expanding economic activity taking place both in terms of volume and depth. This is being driven in part by the wider resurgence of China in world affairs, but is also

the result of the recent visibility and interest in the growing presence, roles, and impacts of Chinese actors throughout the continent.³¹ The scholarship on China in Africa can be broadly divided into various categories informed by different perspectives, namely, political geography, geopolitics, geoeconomics, as well as modernisation and underdevelopment theories. Views and opinions on China in Africa are therefore as numerous as the commentators. These perspectives are the subject of this section and, as will be discussed, they have made an immense contribution to China–Africa scholarship. The book argues, however, that because existing views are mainly guided by geostrategic analysis in particular, perspectives on China in Africa continue to concentrate on the so-called big issues like energy politics to the neglect of other unexplored aspects of Chinese investment such as the impact on state-society relations in individual African countries. Moreover, they also neglect the way these changes have been internalised within the state and political institutions through its impact on patterns of class and state transformation.

Whilst energy politics, for example, remains one of the commonest prism through which China’s presence in Africa is understood, it is not the best perspective through which state-society relations can be fully understood. In fact, little attention is paid to state-society relations where energy politics is discussed. It is therefore not surprising that those other aspects of Chinese expansion into Africa such as the impact on state-society relations are sidelined and sacrificed at the altar of geopolitics where the ‘state’ is the central player and not so much the ‘society.’ This is one of the many compelling reasons why, according to Dunn, ‘Western IR ignores Africa: because of its neo-realist insistence on placing the state at the centre of explanations.’³² The black-boxing of the state in mainstream IR approaches blunts their analytical power, as Boone,³³ Bratton³⁴ and Chazan³⁵ have brilliantly argued and exemplified by some IR literature on Africa.

Apart from academics and scholarly researchers, ‘the scramble by Western governments, international organizations, and Non-Governmental Organisations (NGOs) to assess the implications of China’s rise in Africa and how to ‘engage’ China over Africa, and Africa over China, continues.’³⁶ The attention on China’s multifaceted relationship with Africa is quite understandable because besides trade and investment, the Asian country is also providing development assistance without many of the conditions Western countries apply in Africa. However, in most cases, China’s activities in Africa seem to be bound altogether. For example, by the end of the 1st quarter of 2009, China cancelled 150 mature debts of 32

African countries.³⁷ Similarly, President Hu Jintao's promise to provide development assistance 'within our power' is part of Beijing's repertoire to underline its support for Africa.³⁸ In 2002, some 44% of China's widely spread overall assistance to developing countries of \$1.8 billion went to Africa.³⁹ This naturally raises a lot of questions for international relations and international political economy researchers with regard to what China's rise or re-emergence means to the prevailing global order. For example, Eisenmann and Kurlantzick assert that 'China's unwillingness to put any conditions on its assistance to Africa could undermine years of international efforts to link aid to better governance.'⁴⁰ Likewise, according to Taylor,

Driven by a desire to obtain sources of raw materials and energy for China's ongoing economic growth and for new export markets, Chinese expansion into Africa is more and more attracting the attention of policymakers in the West: 15 pages of a recent Council on Foreign Relations report entitled *More Than Humanitarianism: A Strategic US Approach Towards Africa* was spent assessing the impact of China's increasing role in Africa.⁴¹

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

If we take Adem's three strands analogy highlighted earlier, from the perspective of Sino-optimism, China's re-entry into Africa is to be celebrated because 'the new-type China-Africa strategic partnership features cooperation in the political, economic, cultural and security fields as well as in international affairs.'⁴² As a result, Africa stands to gain much from close cooperation with China. From the perspective of 'Sino-pragmatism', China's greater involvement in Africa may be neo-colonial in consequence, if not in intent, since the logic of capital is the same whether those in the driving seat are Europeans, Americans, or Chinese.⁴³ According to the

Sino-pessimist paradigm, Africa's engagement with China will perpetuate the structure of dependency and underdevelopment that is already in place and, moreover, inhibit or block Africa's efforts to overcome it.⁴⁴ This book contends that while they give different answers, these lines of enquiry share a common 'outside in' problematic. The over-reliance on this one analytical approach by the bulk of current literature justifies the need for the new, 'inside out' perspective adopted in this work.

'Sino-optimists' would include such scholars as Wenping who assert that China is assisting African economies to boost their capacity and capability after years of redundancy, and that China's Africa policy is a 'balancing act'.⁴⁵ Others like Sautman and Hairong argue that;

China possesses 'distinctive links' with Africa that makes it more attractive to Africa than Europe or the West and that now, for Africa, there exists a "Chinese model, now often labelled the "Beijing Consensus" (BC) that stands in contrast to FDI/export-led rapid industrial expansion. It is an image of a developing state that does not fully implement Western Consensus (WC) prescriptions, does not impose onerous conditions on African states' policies, and is more active than the West in promoting industrialism in the global South".⁴⁶

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

On the other side are 'Sino-pessimists' who have concentrated their efforts on arguing that China's presence in Africa is destructive and reversing many of the gains occasioned by Africa's hitherto close relationship with the West, for example, in the contentious areas of good governance, rule of law, free markets and democracy promotion. Tull, for example, argues that China's interest in Africa is based on strategic considerations, and doubts both that the relationship is a 'win-win' when it perpetuates Africa's resource curse and that China will improve democracy in Africa.⁴⁷ Sino-pessimists largely view China's presence in Africa as nothing other than resource expansionism. Mensah, for example, emphasizes the primacy of energy, especially oil, in explaining China's geo-economic interest in Africa. For Mensah, 'this oil-focused intrusion by China is one of comprehensive outreach on the African continent, with the Chinese government spearheading a drive to use its diplomatic sway to win contracts and concessions for its firms'.⁴⁸

A significant section of scholarship is convinced that China's energy-hungry economy is driving the country's ambitious Africa strategy.⁴⁹ Chintu and Wilson point out that 'contrary to theories that depict Chinese interest in Africa as part of a grand political game or an emerging world power struggle, China's drive into Africa is both more obvious and more mundane: China has an almost insatiable thirst for natural resources and energy, and Africa probably has the largest untapped reserves on earth.'⁵⁰ Some commentators, such as Broadman,⁵¹ Zhu⁵² and Harris⁵³ are more pragmatic and view this relationship as the consequence of a growing Chinese economy where capital by its very nature would hunt for more opportunities on and offshore. They are however keen to give this relationship a chance rather than roundly make bold, premature conclusions of success or failure. The approach of this book is not influenced by optimism, pragmatism or pessimism towards China's actions in Africa. Rather, it views the complex China–Africa relationship as not cast in concrete but one that is constantly changed and reinforced by the changing dynamics of Ethiopian and Chinese links.

When one shifts attention to the political geography school, the major issue arising out of China's growing Africa presence is what this means to the global geopolitical and geo-economics order. In the overall context of the BRICS charge, Stephen argues that 'the liberal content of global governance is being challenged from within,'⁵⁴ whilst for Mawdsley, 'Africa is one arena in which economic and diplomatic competition is being played out.'⁵⁵ Eisenmann *et al.* focus on the 'implications of China's approach for African nations and the United States.'⁵⁶ Carmody and Owusu talk of 'competing hegemon', pitting 'Chinese and American geo-economic strategies in Africa.'⁵⁷ For Mhandara *et al.*, the relationship is considered as 'asymmetrical.'⁵⁸ Hence, the political geography perspective is too focused on the implications of China's presence in Africa on global politics to be adequate as a framework for understanding the impact on state-society relations. While it does offer the 'outside' perspective of the role of 'international political economy in shaping political development.'⁵⁹ This book argues that an 'inside' perspective of the internal forces is also required to fully grasp the extent of this relationship and its impact. It goes further to posit that international forces are linked with domestic forces in Ethiopia. To elaborate on this, it will use Gourevitch's 'second image reversed' framework to theorize Chinese investment in Ethiopia as well as Migdal's 'state-in-society' relations perspective to better rationalize the role of internal social forces and their relationship with the state in this Ethiopian analysis.

It is worth emphasizing that among all of the available scholarly perspectives on China–Africa relations, it is geostrategic perspectives that have dominated the contemporary debate. Here, international relations and political economy scholars view the relationship variously in terms of ‘geopolitics’ (Mathews)⁶⁰; ‘gloeconomics and geopolitics’ (Alden)⁶¹; ‘geostrategy’ (Kaplinsky)⁶² and ‘geo-economics’ (Mensah).⁶³ Mohan and Power take this perspective a step further and propose a ‘critical geopolitics’ to critically explore ‘the geopolitics of China’s relations with African development.’⁶⁴ According to Taylor, the China–Africa relationship is pivoted on China’s critical energy needs and therefore should be seen through the lens of ‘oil diplomacy.’⁶⁵ Noting China’s continued influence, Hurrell asks what role can be ascribed to would-be great powers in the context of the prevailing ‘hegemony, liberalism and global order.’⁶⁶

What also seems to be missing from the existing literature is a clear determination and disaggregation of the specific types of Chinese capital and its differential impact in respective investment destinations in Africa. This is another gap this book attempts to fill via the Ethiopian case study. Chinese capital comes in different forms and from various sources and it is governed differently. It may originate from the Chinese central government (via state-owned enterprises), the provincial state or the sub-national state and may even be private capital. To this end, it is important to disaggregate Chinese investment in Africa since this has significant implications on different sections of society in destination countries. According to Breslin, ‘this includes thinking about the role of non-state actors, but perhaps most clearly, thinking about what we mean when we talk of the Chinese state—breaking it down and identifying different voices, interests and actors *within* the state system itself.’⁶⁷ The specific types of capital from China operating in Ethiopia therefore need to be identified with a view to ascertaining their differential impacts on state-society relations in Ethiopia.

The book also challenges enduring assertions that one of the key reasons African countries are deepening economic relations with China is because of the absence of political and economic conditionalities. Vibe-Christensen, for example, has argued that ‘China has a policy of non-interference with domestic policies. China also focuses on the profitability of each project.’⁶⁸ The book concurs with Gonzales, who, using the concept of embeddedness, has argued that China’s concept of non-intervention is quite narrow because on closer examination, China does interfere with domestic politics of other states in practice. ‘Any economic or development-based encounter is, at a minimum, a political intervention in support of the prevailing institutions, norms and political elites.’⁶⁹

China has implicitly intervened in the domestic affairs of African sovereign states, for example, by ensuring that it only has relations with those countries that do not support Taiwan but support China's 'One China' policy.⁷⁰ Such unique features around China's economic diplomacy are crucial in the final analysis of what this means for the process of state-society relations in a country like Ethiopia.

Ethiopia faces various social, political and economic dynamics, which are embedded in a complex history of contests and struggles for domination between the state and various social forces. These dynamics react to foreign investment and there is a need to highlight the volume and uniqueness of Chinese investment which have interesting state-society implications. In summary, the various frameworks that have been mainly used so far in analysing China–Africa relations have all made important contributions to the understanding of what China is doing in Africa. The main problem though, from the point of view of this book, is that though they come to different conclusions, they start off with the same problem: they ignore or downplay the role of society. They have some common themes, namely, state-centricity: a focus on state-state relations and the elevation of geostrategy as the overarching prism. Subsequently, because of their focus on inter-state relations, they have missed the fact that a new economic order is emerging in which new alliances are emerging within the state as a result of Chinese investment. This has contributed to their collective failure to incorporate domestic influences and provide what I have termed an 'inside out' perspective that focuses on the dynamics of state transformation.

1.4 CHINA–ETHIOPIA RELATIONS: AN 'INSIDE OUT' PERSPECTIVE

The book's point of departure is that to understand the state-society changes that underpin the core argument, both internal (social forces) and external (Chinese capital) factors operating in Ethiopia must be examined. To that end, the book's argument is conceptualised using Gourevitch's 'second image reversed' approach. This, therefore, inspires the 'inside out' perspective I propose. The internationalisation of Chinese capital has wide-ranging effects on Africa, but a comprehensive understanding of these cannot be achieved by existing statist frameworks such as geopolitical, geoeconomic, dependency, underdevelopment and predatory neo-colonialism theories. According to Glassman,

the internationalization of capital is the internationalization of the classes in capitalist society.⁷¹ Thinking with Bryan, this study concurs that the critical point to note is that while economic processes may be said to be (increasingly) internationalised, political processes remain much more nationally based. The nation remains the essential unit in which classes organise politically and class relations are played out.⁷² Tubilewicz and Jayasuriya would add that 'the internationalisation of state capital is not simply a market-driven process as it requires the active engagement of state institutions to secure the extra-economic conditions for the facilitation of the accumulation process.'⁷³ The transnationalization of economic processes creates new kinds of economic groupings, that is, capital that is increasingly connected to postnational economic forces.

This book focuses therefore specifically on understanding how external imperatives are transmitted through domestic institutions and social forces. It will determine the make-up of the Ethiopian state, the social groups organised through it, how social ties and alliances are negotiated and compromised therein, the dominant patterns of hegemony and the role of social forces in how state power is produced and reproduced formally and informally. It takes Migdal's view that

In the modern world, it is impossible to understand the term 'society' without the state. The formation of the state has created and activated society. If society is the outermost limits with which people identify, then it is the state that initially determines those limits or those boundaries. But that does not mean that the state simply moulds the groups that make up society.⁷⁴

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

A geopolitics approach which focuses on inter-state relations provides only a limited understanding of China–Africa relations. In this book, we bring the society into the discussion about the state and its relations with the rest of the other social groups that are organised through it in the context of the internationalisation of Chinese capital in Ethiopia. The state therefore assumes the identity of struggles and contestations of the various, key social groups that are affected by policy choices and directions, reform or the maintenance of the status quo.⁷⁵ Chinese investment as the external variable illuminates the discussion about state-society relations in

Ethiopia in the context of ‘globalisation with Chinese characteristics.’ To this end, it is a central theme of this book to examine whether the state is still the only conduit through which processes of capital accumulation are occurring including class formation and development, or if new alliances are emerging in it.

In the context of Chinese investment and related processes, the analysis explores ‘by whom and how state domination is fashioned (“actors, resources, repertoires”), where these processes take place (“negotiation arenas and tables”) and what the main outcomes and issues at stake are (“objects of negotiation”).’⁷⁶ Such questions would only be answered if an appropriate case study is used. Chinese capital now has a huge presence in Africa and it is being hosted in most African countries. This means that any African country could probably have been the case study, yet Ethiopia has been selected for this study. The next section thus spells out why Ethiopia is the best-placed sub-Saharan case study for this purpose.

1.5 JUSTIFICATION OF ETHIOPIA AS A CASE STUDY: CHINA’S SPECIAL RELATIONSHIP WITH ETHIOPIA

The expansion of Chinese investment in Ethiopia is not happening in a vacuum but is part of a wider, global internationalisation of this distinct Chinese capitalism, and Africa is a prominent destination of Chinese Foreign Direct Investment (FDI). Chinese capital is distinctive but so is China’s distinctive mode of capitalism. It is therefore important to highlight the bigger African picture in terms of Chinese investment first in order to locate and explain why Ethiopia deserves the special focus we accord it. To illustrate the extent to which Africa has steadily become a Chinese focus, by 2006, according to the China–Africa Business Council, China was Africa’s third most important trading partner, behind the USA and France, but ahead of the UK.⁷⁷ Today, China is Africa’s largest trading partner, surpassing the USA in 2009.⁷⁸ The figures are huge even in terms of investment. Both China’s state-owned enterprises (SOEs) and private sector account for \$14.7 billion FDI as of 2012, a growth of more than 60% from 2009. Overall, China’s investment in Africa has exceeded \$40 billion in FDI, through various kinds of investment.⁷⁹ Beijing, meanwhile, has overtaken the World Bank in lending to Africa. In 2005, for instance, China committed \$8 billion loans to Nigeria, Angola and Mozambique, while the World Bank distributed just \$2.3 billion throughout the continent.⁸⁰

With China's rise as an influential global political and economic player, there has been an increased desire on the part of developing African countries themselves to tap into this historical opportunity by increasing ties with China in the context of a historical South-South cooperation relationship. Countries as varied as Zimbabwe, Kenya, Tanzania and Namibia began to pursue a strategy of 'looking Eastward' in the hope of entering the Asian market and thereby the global economy by cooperating more with Asian countries such as China and India.⁸¹ However, while region-wide terms and figures provide a good idea about the extent of Chinese capital at a glance, it hides the fact that this capital is not only differentiated, but unevenly distributed across the continent. Indeed, it does not provide the important detail that Chinese capital is more concentrated in some countries such as Ethiopia for very important economic, political, diplomatic and geostrategic reasons. China and Ethiopia have developed multidimensional relations, with people-to-people, business-to-business, and government-to-government and party-to-party relations as the cornerstones of the relationship.⁸² Ethiopia is therefore a very crucial case study in the discussion of the internationalisation of Chinese capital in sub-Saharan Africa.

A snap survey of exactly where Chinese capital is concentrated in Africa shows that it is mainly in those oil-producing as well as resource-endowed countries such as Nigeria, Angola, South Africa, Sudan and Egypt. The mineral output, including bauxite, copper, iron and gold, is positively and significantly correlated with FDI.⁸³ However, Ethiopia is the odd one out. Chinese investment in Ethiopia, a country without significant natural resources, suggests that resources are not the only driver of China–Africa investment relations. For China, Ethiopia is a potentially large market and an important investment destination; for Ethiopia, China is a major source for the transfer of industrial capacity and technology.⁸⁴ The book identifies China's special interest in Ethiopia as well as the arrangements and the relationships that are developing with a view to analysing their respective effects on Ethiopia's state-society relations. For example, Chinese state-owned firms in Ethiopia are known 'to submit bids below cost in an effort to break into the market besides poor standards of corporate governance, including a lack of transparency. Examples include Asmara's Oratta Hospital in Eritrea and a \$300 million hydroelectric dam and power plant on Ethiopia's Tekeze River.'⁸⁵ Rarely have studies confronted the question of how Chinese business approaches are impacting on Ethiopian society including its approach to commerce.

Ethiopia is a hub of Chinese diplomatic and economic activity in sub-Saharan Africa. Diplomatically, Ethiopia has become the conduit through which China is accessing Africa especially via its status as the host of the continent's premier multilateral institution, the African Union (AU). China's bilateral trade with Ethiopia has been growing rapidly, largely due to China's promotional measures, jumping from just \$32 million in 1992 to \$100 million in 2002 and to \$1.46 billion in 2009.⁸⁶ China needs the goodwill of the AU in order to fulfil its foreign policy designs on the continent, especially in such flashpoints as South Sudan where it has controversial oil interests. China constructed the state-of-the-art complex AU building in Addis Ababa and commissioned it in 2012 effectively entrenching itself, in the words of Ighobor, in 'the heart of Africa.'⁸⁷

At a time when China seeks a 'peaceful rise,'⁸⁸ it requires Africa's support for its 'One China' policy and for its foreign policy agendas in multilateral forums such as the United Nations (UN).⁸⁹ Addis Ababa's status as a diplomatic hub means it attracts more foreign representation than other African capitals of a similar size, including another vast international organisation: the United Nations Economic Commission for Africa (UNECA).⁹⁰ Politically, Muekalia would add, another benefit for China from this geopolitical relationship is increased support for its world vision of multipolarity and the ability to compete for markets, alternative energy sources and strategic space against equally increasing US engagement.⁹¹ To China, one can say Ethiopia is a 'one-stop shop' in its diplomatic endeavours not only to garner African support, but for its multifaceted ventures in the region.

Even before the construction of the AU building in Addis Ababa, China had already shown goodwill though through various bilateral actions. China had either donated or assisted in building a hospital in Luanda, Angola; a road from Lusaka, Zambia's capital, to Chirundu in the south-east; stadiums in Sierra Leone and Benin; a sugar mill and a sugarcane farm in Mali; and a water supply project in Mauritania, among other projects.⁹² The AU building, however, was significant in that it was a bilateral and multilateral political and economic offensive which firmly put China in a very prime position for a good and potentially lasting economic relationship with Ethiopia and the continent. Its construction in Addis Ababa also led the Chinese to ensure more capital projects in Ethiopia, especially in Addis Ababa in preparation of a long-term charm offensive 'demonstration' strategy. Most mega projects built by China are calculated to have a 'demonstration effect'⁹³ as they catch the attention of African leaders and their delegations during the year-round diplomatic trips to Addis Ababa.

There are hundreds of Chinese companies now operating in the East African country as a result of internationalising Chinese capital. Between 2005 and 2016, the total amount of Chinese investments and contracts in Ethiopia stands at \$17, 62 billion.⁹⁴ A good number of these are private firms but it is the State Owned Enterprises (SOEs) that are involved in the larger, higher impact projects. These include China's leading global telecom equipment and solution provider ZTE, Sino Hydro Corporation, Huawei Technologies plc, among others. China has become an integral part of Ethiopia's economic development, especially within the last decade when a deliberate government policy made the relationship with China a foreign economic policy priority. This is, of course, an expanding economic and political relationship rooted in a historical continuity of South-South cooperation. It is best understood when seen in the context of the increasing presence of China in Africa at an exponential rate in what is now a re-emergence of China in Africa.

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

1.6 OUTLINE OF THE BOOK

The key theme of this book is that China's growing presence in Africa has been spawning an expanding body of literature seeking to explain the former's motivations and the consequences for the latter. However, as detailed above, most of the frameworks to have emerged in this literature are too state-centric to offer a comprehensive understanding of the role of Chinese investment in Africa such as its impact on state-society relations. This is because they neglect the ways in which internal social forces transform politics. Required, therefore, is a framework that whilst acknowledging the role of external forces, also brings in the internal social forces organised through the state to examine how they link with the external variable, in this case foreign Chinese capital. In Chap. 2, the theoretical basis of the study is discussed. A single theory cannot explain the state-society impact

of Chinese capital adequately. A number of them, namely the state in society framework, Gourevitch's 'second image reversed' approach as well as the relational concept of state power are introduced, discussed and their suitability and complementary relationship for this task justified. The perspectives and approaches that have so far dominated past and ongoing debates will be canvassed in the discussion and explained. Their inadequacy in explaining state transformation through state-society relations is then discussed, before the proposed combination of frameworks for this study is introduced.

The third chapter then provides a deeper understanding of the case study, Ethiopia. By elaborating on the economic and political organisation in Ethiopia since 1974, an adequate understanding of the crisis and contradictions of Ethiopia under the socialist Dergue is made possible. In Chap. 4, the transition from socialism to neo-liberalism under the EPRDF regime is examined. This chapter provides the crucial background that made internationalisation of Chinese capital in Ethiopia possible. The chapter is therefore a bridge that traces the changes that took place from a command, centralised socialist economy to a more market-oriented and neo-liberal regime, with the latter ushering in a new wave of external, capitalist players who would eventually seek alliances with local fractions across various economic sectors, a key factor in the transformation process of the Ethiopian state. Chapter 5 identifies, discusses and analyses the drivers of Chinese investment in Ethiopia focusing on how this investment is producing new modalities of state intervention in Ethiopia. The analysis is on the way in which Chinese mode of international engagement—driven by its own distinct capitalist transformation—reinforces Ethiopian neo-liberalism particularly by strengthening various forces within the state.

The state-society perspective to Chinese investment in Ethiopia is then deployed in Chap. 6. Here, the distinctive impact of Chinese investment in Ethiopia is identified, explained and interpreted showing how this has led to Chinese globalisation interacting with and reinforcing distinct forms of Ethiopian capital. Chapter 7 then lays out how Chinese investment reinforced a system of party capitalism and created and sustained a system of informal politics in Ethiopia. Chapter 8 concludes the thesis by emphasizing that the debate on China in Africa needs to be widened beyond the current theoretical approaches that seem too trapped in state-centric analysis. The chapter also highlights the limitations of the study and suggests some future avenues for research with regard to China–Africa relations.

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

2.1 INTRODUCTION

A key task in this project is to theorise the changing nature of state-society relations as these are played out within the Ethiopian state, in the context of growing Chinese investment. The main challenge is to show how the internal and external link together. To meet this challenge, the book draws on ‘state-in-society’ approaches, a relational conception of state power and a ‘second image reversed’ perspective. Migdal’s critique of some of the Weberian foundations of defining the ‘state’ and his alternative state-society framework inspires this study, providing the take-off point. This approach is deliberately preferred because it makes the analysis of social forces and their expression within the state institutions the key point of the analysis. As Migdal notes, ‘the interconnections of the state with other social forces have taken place in multiple arenas of society, and in most instances the state’s agencies have created a formidable presence, precipitating realignments of local forces.’

The relational approach to understanding state power will theorise the internal alliances that the two regimes the Dergue and Ethiopian People’s Revolutionary Democratic Front (EPRDF) have formed with various sections of the Ethiopian population in legitimating their power. The ‘state-in-society’ and relational perspectives address the internal dynamics of state transformation. To encompass and understand the external variable, this chapter also theorises Chinese capital. Gourevitch’s work on the

'second image reversed' is deployed for this task because Chinese capitalism is an 'international source of domestic politics'¹ in Ethiopia. The chapter also grapples with, and problematises, the 'state' and 'society' as theoretical concepts. This also includes the concept of institutions with specific regard to informal institutions as they form a vital cog in the thesis. In sum, this chapter is focused on a comprehensive discussion of all the theoretical perspectives that underpin the book.

2.2 PROBLEMATIZING THE 'STATE AND SOCIETY': STATE-SOCIETY RELATIONS AND GLOBALISATION

The 'state-in-society' framework provides as a cornerstone for the analysis. Proposed by Migdal et al., this analytical framework is used in this book not only because of its ability to effectively bring the society into political analysis, but also because it is a non-statist theory which interrogates the very 'state' itself. It declares that 'societies affect states as much as, or possibly more than, states affect societies.'² Bieler and Morton complement Migdal's argument from a Gramscian perspective on the integral state. The theory of the integral state brings civil society within the dialectical totality, situating it in a dialectical relationship with the capitalist state.³ Bieler and Morton argue that 'capital is not simply represented as an autonomous force beyond the power of the state but is embodied by classes or fractions of classes *within* the very constitution of the state.'⁴ Chinese globalisation, just like any other globalisation, does have state transformation consequences in those countries where its international capital interacts with local social forces through the state.

As Weiss points out, global integration raises many questions about the nature and form of the state. Its policy capacities, its institutional integrity and, not least, its political powers have been dramatically altered, so many pundits claim, by the spread of social relations across the globe.⁵

Of all political organisations, the state is the largest, most formal, and most powerful. Yet the state is only one form of organisation among many: It is an organisation within society that coexists and interacts with other formal and informal political organisations. It is, however, distinguished from the myriad of other organizations in seeking predominance over them and in aiming to institute binding rules regarding the other organizations' activities.⁶

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

Ethiopia provides a laboratory to understand the nature of this state-society complex within the changing global political economy and particularly the internal consequences associated with the rise (or re-emergence) of China. The high volume of Chinese investment in its various forms including trade and investment capital alerts us to the fact that state-society relations are also resultantly undergoing a metamorphosis. This chapter introduces the theoretical framework underpinning this study's main aim, which is to show how state-society relations are being impacted by Chinese capital's interaction with some social forces in Ethiopia.

According to Migdal, 'social forces in society represent powerful mechanisms for associative behaviour. These forces encompass informal organisations (such as Senegal's patron-client networks, or friendship groups and old-boy networks in other societies) as well as formal organisations (such as businesses and churches).'⁷

Social groups do differ in 'social standing, organisational capacity and political influence' and they 'include state actors such as higher and lower echelon bureaucrats, political parties, customary authorities, professional associations, trade unions, neighbourhood and self-help organizations, social movements, national and international NGOs, churches and religious movements, but also guerrillas, warlords, 'big men', businessmen, multinational corporations, regional and international (government) institutions and foreign states'.⁸

'Big men,' in Ethiopia, would refer to politically connected actors who by virtue of their proximity to the state through the EPRDF regime and its apparatus are major beneficiaries of economic opportunities and normally insulated from legal and other bureaucratic constraints. A state-society perspective makes clear the internal effects of Chinese capital in

effecting or rearranging power structures, social dynamics and economic relations in Ethiopia. It is also crucial in identifying the specific social groups that are fundamentally reshaping the state in Ethiopia.

2.3 THE 'STATE-IN-SOCIETY' FRAMEWORK: BRINGING SOCIAL FORCES INTO THE ANALYSIS

Since the 'state-in-society' framework is a key pillar of the theoretical grounding, it is imperative to begin with a theoretical explanation of state and society before going on to discuss the specific nature of the state and society in the specific case of Ethiopia. In the classic definition of the modern state, Weber specified that a 'compulsory political organization with continuous operations will be called a "state" insofar as its administrative staff successfully upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order.'⁹ In the expanded Weberian sense, therefore, the state is defined

as a territorial entity ruled by an authority that has a monopoly over the legitimate means of violence and that is recognised (or at the very least tolerated) by members of the polity and the larger international community. The keywords are: territory, polity, authority backed by the monopolistic control of the legitimate means of coercion, and recognition at home and abroad.¹⁰

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

Among these recurring aspects is the emphasis on 'the state's institutional character (as an organisation or set of organisations), its functions (especially regarding the making of rules), and its recourse to coercion ("monopoly of the legitimate use of physical force").'¹¹ Building on Weber's definition, Rueschemeyer and Evans conceive 'the state to be a set of organisations invested with the authority to make binding decisions for people and organisations juridically located in a particular territory and to implement these decisions using, if necessary, force.'¹² Another core recurring aspect in most definitions of the Weberian state is that the state is regarded 'as a power organisation that engages in centralised, institutionalised, territorialized regulation of many aspects of

social relations.¹³ The state is also said to possess 'power,' essentially 'the capacity of the state actually to penetrate civil society, and to implement logistically political decisions throughout the realm.'¹⁴ Indeed, ideal-typical notions of the state as a monopolist of legitimate physical violence, as an autonomous bureaucratic apparatus, as the embodiment of popular sovereignty, and as a spatially and territorially coherent entity enjoy global prominence.¹⁵ These conceptions of the state are enduring and 'constitute the analytical lenses through which scholars interpret state politics around the world.'¹⁶

Clearly, state-centrism has been a dominant theme in analysing political economy as the state has been regarded as the basic unit of analysis. This spans Marxist, modernisation and neorealist theoretical frameworks. However, exposed to various emerging factors, including contemporary globalisation, the state has undergone and continues to undergo various forms of transformation that serve to underline some of the limitations of the Weberian framework. One example that has exposed the limitations of Weber's definition of the state is the fact that the state no longer enjoys monopoly of the use of force. In revising and developing Weber's definition, Mann offers a looser version of the state, which comprises four key pointers making it an institutional rather than a functional conceptualisation of state: (1) the state is a differentiated set of institutions and personnel (2) embodying centrality, in the sense that political relations radiate to and from a centre, to cover a (3) territorially demarcated area over which it exercises (4) some degree of authoritative, binding rule making, backed up by some organized political force.¹⁷

Such a revisionist definition of the state suggests an important departure from the Weberian school which presented the state as necessarily neat, homogenised and closely integrated. From the above, it is clear that in actual fact, 'states are institutional "messes" rather than the homogenous structures of ideal type.'¹⁸ To this end, Shaw would add a new (fifth) criterion to Mann's four criteria for what a state must be, that is, 'to a significant degree *inclusive* and *constitutive* of other forms or levels of state power (i.e. of state power in general in a particular time and space).'¹⁹ This understanding of the state is important as it reflects the influence of globalisation and how it has affected the power of the state by taking away some of its long-held privileges and monopolies.

Many other scholars have added their voice in exposing some flaws in the classical definition of the state, challenging some of its core foundations and developing a more comprehensive understanding of the state's power and its social foundations. Among them is Migdal, who argues that the main problems with these Weberian definitions include that (1) they tend to feature one dimension of the state, its bureaucratic (or rule-enforcing) character; and (2) they do not capture well the formulation and transformation of its goals. As the state organisation comes into contact with various social groups, it clashes with, and accommodates to different moral orders; and therefore (3) the state (should) not be viewed as a fixed ideological entity. Rather it embodies an ongoing dynamic, a changing set of goals, as it engages other social groups and is thus inseparable from these wider contestations.²⁰

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

In their discussion on state construction and deconstruction processes in contemporary Africa, Hagmann and Peclard have suggested an interpretative (heuristic) approach different from mainstream frameworks that derive from the Weberian school of statehood, which they term 'negotiated statehood.' Rarely can any social force achieve its goals without finding allies, creating coalitions, and accepting accommodations.²¹ Stated differently, statehood is essentially the outcome of compromise among various players and not the result of the 'power of the state' as a singular, formal entity. 'The objective of this analytic of statehood in Africa is to better understand how local, national and transnational actors forge and remake the state through processes of negotiation, contestation and bricolage.'²² This book makes a contribution to this thinking by providing an analysis of the interplay between Chinese capital and Ethiopian state and society. The distinctiveness of this interplay is that in terms of economic space, the relationship between state and economy is, to say the least, blurred.²³ Considering all the views on theorising the state, this book agrees with Jessop that 'state power in turn must be considered as a complex, contradictory effect of class (and popular democratic strug-

gles) mediated through and conditioned by the institutional system of the state.²⁴ The Ethiopian neo-liberalism that has emerged from the fusion between the politics and economics in Ethiopia can be read in the same sense.

2.4 THE RELATIONAL UNDERSTANDING OF STATE POWER

From a Marxist perspective, Bryan offers a relational view and considers the arena of the state to be a messy affair dominated by struggles and counter-struggles. State power is a complex social relation, reflecting the conjunctural balance of social forces.²⁵ Just as both dominant and social classes are components of the social relation of capital, so subordinate as well as dominant classes are represented and expressed within the capitalist state. The state is not a subject itself which exercises political power, but is a locus of political struggle. Political struggles occur within and between apparatuses of the state, so that to posit the state as a unified set of institutions precludes it from being seen as a terrain in which political struggle occurs. It follows also that the capitalist state is not a passive political institution which can be ‘operated’ by one class or another, but embodies the contradiction between classes.²⁶ It is the hegemony of one class (or alliance of classes) within the state which expresses the political dominance of that class (or alliance) in social relations generally. There exists social forces organised through the state in Ethiopia. It is imperative to identify and analyse these in preparation for then laying out how and why they have come to mesh with Chinese capitalism in Ethiopia.

A further strength of this relational perspective is that we can conceptualise the mutual relationship between internal and external forces in shaping contestation over state power due to globalisation. Globalisation in its contemporary form has played a very important role in how the state has been reconfigured. According to Brenner, ‘globalization as the most recent historical expression of a *longue duree* dynamic of continual deterritorialization and reterritorialization that has underpinned the production of capitalist spatiality since the first industrial revolution of the early nineteenth century’²⁷ has led to two important changes: (1) the transcendence of the state-centric configuration of capitalist territorial organisation that prevailed throughout much of the twentieth century; and (2) the production of new configurations of

territoriality on both sub- and supra-national geographical scales.²⁸ Therefore, the effort to escape the 'territorial trap' of state-centrism does not entail a denial of the state's continued relevance as a major geographical locus of social power, but rather a rethinking of the meaning of both state territoriality and political space in an era of intensified globalisation.²⁹

The strength of the relational perspective has already been exemplified elsewhere, for example, Jones' work on Myanmar. He cautions that rather than viewing the 'state' as a rigid entity, it is instructive to consider that states are actually produced.³⁰ This leads to various forms of state transformation, for example, through various state-society changes. States are seen as being produced, transformed and constrained by conflicts between social forces, particularly classes and class fractions but also ethnic, religious and other groups, as they struggle for power and control over resources.³¹

2.5 GOUREVITCH'S 'SECOND IMAGE REVERSED': THEORISING EXTERNAL AGENCY

To strengthen the book's argument that the internationalisation of Chinese capital as the external agency is an important factor in the changing nature of state-society relations in Ethiopia, Gourevitch's 'second image reversed,' where the impact of international factors on domestic structures is articulated, completes the theoretical frameworks. Just as both dominant and social classes are components of the social relation capital, so subordinate as well as dominant classes are represented and expressed within the capitalist state. The state is not a subject itself which exercises political power, but is a locus of political struggle. According to Gourevitch, instead of being a cause of international politics, domestic structure may be a consequence of it.³² This book advances the claim that Chinese neo-liberalism and internationalisation of Chinese state capital has contributed to shaping a distinctive Ethiopian neo-liberalism and is playing a significant role in affecting state-society relations in Ethiopia. That international market forces affect politics and have done so for a long time seems incontrovertible.³³ The key task for this study is to show and explain how this is playing out within the state and society. However, to determine the sort of changes that are taking place, it is critical to also first understand fully the internal character of the Ethiopian state itself.

Chinese capital is distinctive and its impact on state-society relations in Ethiopia will depend largely on the nature and composition of the internal

social forces that make up the Ethiopian state. This is where Gourevitch's 'second image reversed' approach is further useful to complement the state in society framework. The state-society and relational frameworks are all linked together with Gourevitch's international sources of domestic politics as 'the impact of each international situation cannot be determined without knowledge of the internal character of each society.'³⁴ Armed with this critique, this study thus makes a contribution to the 'China in Africa' debate by going beyond the usual geopolitical narrative, by instead employing the state in society framework to unpack the impact of Chinese engagement on the Ethiopian state and society. In view of the spoils and pains that accompany international capital from China in Ethiopia, it is imperative to not only identify the social groups with an interest therein, but also to analyse how their struggles in this context are reshaping the state as witnessed in subsequent policy articulation, distribution of resources and even how international capital is being governed within the Ethiopian state.

2.6 THE AFRICAN STATE: TRENDS IN PARTY-STATE SYSTEMS AND INSTITUTIONALISM

This project is conceived within the context of the African region, specifically sub-Saharan Africa. One of the main challenges in examining the African state based on the classical Weberian sense or any theoretical frameworks grounded in the Weberian conception of the state is that one soon runs into analytical and contextual problems. Put differently, the analytical flaws of Weberian conceptions of the state become clearest when they are applied to African states. The African state hardly passes its first encounter with these conceptions because when this is done, the African state can only ever appear as 'failed' as the result mainly of the shortcomings of its leadership. Implicit in modernisation theory, for example, was a belief in near-absolute autonomy of the political sphere, and in the capacity of the new political elite of tropical Africa to reshape societies in their own image.³⁵ African leaders were assumed to have highly personalised the state to an extent that instead of them serving the state, the state actually served their purpose.

The African state has thus been characterised as strong, centralised and personalised. However, 'African states have not always been able to secure a monopoly of force against ethno regional opposition movements and, on twenty occasions in the last thirty years, have seen the national territory

embroiled in internal war.³⁶ According to Bratton, this actually creates a paradox: the African state is weak by any conventional measure of institutional capacity; yet it remains the most prominent landmark on the African institutional landscape.³⁷ However, the relational perspective has been used in the study of the African state by scholars such as Boone to come out with clearer explanations.

It is difficult to continue a discussion on the 'African state' without initially considering the views of Claude Ake. In one of the most ground-breaking, early scholarly contributions to the study of the political economy of Africa, the celebrated African scholar described African economies by pointing out the following as the first of five broad characterisations: 'They are highly statist, that is to say, the state dominates the economy – much more so than in the industrialised West.'³⁸ Ake's contribution was to therefore emphasise the overriding supremacy of the state as the most, if not only, important entity in Africa. Writing in 1976, this indeed could have seemed as the case given the problems associated with the then newly independent countries like Ghana, Nigeria, Zambia, Kenya and others, where emergent liberation war victors penetrated the new economy through clientist and rent-seeking behaviours. Since then, the wave of globalisation has swept across Africa, resulting in several internal and external struggles, contradictions and contestations. These have reshaped the state especially in terms of exercising its sovereignty and power, precipitating a relational, instead of absolute, exercise of power.

Further, besides still falling within the narrow, state-centric lenses of earlier perspectives, some 30 years later, Ake's assertion now needs an update. So much has happened in various African countries and Ethiopia is no exception. Internal political changes have seen governments changing and in the present case of Ethiopia, successive revolutions have deposed very strong regimes beginning with the military Dergue regime, which toppled the Imperial regime of Emperor Haile Selassie I in 1974 only for it to meet the same fate at the hands of the EPRDF in 1991. Further, in the context of this study, Ethiopia's economic relations with China under South-South cooperation have been developing and beginning from 1995—some 20 years after Ake's assertions—are presently assuming a great prominence and shaking the state in a way that would have been unimaginable three decades ago.

Flanary describes the African state after independence as a neo-patrimonial state. The main elements of this theory as a concept of politi-

cal domination include highly centralised and often ‘personalised’ political power upheld through personal loyalties and patron-client relations; politics and economics are seen to be inherently self-sustaining as politics becomes a means of accumulating wealth and vice versa; a high degree of coercion, nepotism and corruption are also deemed to be characteristic features.³⁹ Again this theory assumed a conception of the state as a ‘thing’ standing above society and completely neglected the role of society in its disparate forms in reshaping and reorganising the state. By completely being transfixed with the political elite as the only agency in explaining state behaviour, modernisation theory falls short as a framework that can be relied upon to explain state-society dynamics in Africa.

Political economists challenged modernisation theorists’ notion of state autonomy by pointing to neo-colonialism and dependency.⁴⁰ In this category fell some writers like Englebert whose strong views on the external agency to the African state actually led him to the extreme conclusion that what has been called an ‘African state,’ is neither ‘African’ nor a ‘state.’ It is instructive to quote the thrust of his view at length:

The contemporary state in sub-Saharan Africa is not African. It descends from arbitrary colonial administrative units designed as instruments of domination, oppression and exploitation. No doubt after some 40 years of independence these states have been transformed, adopted, adapted, and endogenized. Yet, their origin remains exogenous: European, not African, and set up against African societies rather than having evolved out of the relationships of groups and individuals in societies... Nor is the African state a state.⁴¹

Englebert’s argument stems from the fact that ‘by the standards of Max Weber’s classical definition, a state is ‘a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory.’⁴² This is a condition Englebert believes most African states do not meet, for ‘theirs is a dubious community of heterogeneous and occasionally clashing linguistic, religious and ethnic identities; their claim to force is rarely effective and much less monopolistic; their frequent predatory nature fails the test of legitimacy; and their territoriality is generally at best hesitant and contested.’⁴³ Though containing important insights, Englebert’s views over-generalise the nature and role of the African state and, once again like modernisation theorists, tend to see the state as the only instrument. A consequence of this is that he neglects the way in which the state reflects contestations between various social forces.

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

the African state has significant common characteristics pointing to a particular configuration, including (i) it's post-colonial status, with all the implications this has for the evolution of 'civil society', (ii) it's *a priori* problematic relationship as regards its territorial jurisdiction, (iii) it's heavy involvement in a restricted resource base (usually primarily agricultural), (iv) it's still relatively undifferentiated yet ethnically heterogeneous social infrastructure, (v) its salient processes of centralisation and consolidation of power by new ruling classes, and (vi) its pervasive external context and dependency.⁴⁴

In many respects, this passes as arguably the prime common feature of the African condition in much of African political economy literature by underdevelopment theorists. Underdevelopment theorists argued that African ruling classes enjoyed little autonomy vis-à-vis neo-colonial interests and little autonomy to act in ways that systematically violated the logic of global capital.⁴⁵ However, this book argues that we need to understand the African state in a more 'relational perspective' by combining both the internal and external variables.

While Ethiopia fits into some general characteristics commonly associated with the African state in African countries, it certainly possesses its own unique characteristics as a case study. For example, it is one African country with the historical imperialistic exception in that it was never colonised. Ethiopia can thus not be sufficiently explained by generalised perspectives of postcoloniality, for example. Ethiopia offers unique and interesting challenges to the understanding of how different states have evolved and most importantly, how social groups outside of the formal state have played a prominent role in shaping the state.

In terms of contemporary debates and discussions, several of the key assumptions in the modernisation and underdevelopment frameworks about the African state continue. One of these assumptions is that of a weak African state that merely takes instructions from powerful countries like China and the USA. This assumption underpins much of the China-Africa scholarship where emphasis is on the salience of geopolitics. This literature neglects the way in which internal social forces and politics are an integral part of how the state ultimately behaves. In light of the

influence, importance and intensity of Chinese capital in Ethiopia, ‘serious research is now needed ... on the types of political realignments and social changes that are occurring...’⁴⁶ A critical conception of the Ethiopian ‘state’ therefore forms the requirements for a fresh analysis of how social relations of production are being reorganised as a result of Chinese international capital. Creating the conditions for domination in society and maintaining domination—the reproduction of power within society—are the products of the multiple ongoing struggles and accommodations.⁴⁷ Flanary and Callaghy are among scholars on Africa who have unequivocally attempted to separate the African elite from the society. African ruling classes are said to have thus transformed their political power into a means of capital accumulation. The conversion of political power and position into economic wealth for the benefit of the few at the expense of the many has led to the disarticulation of the public and a clear disengagement between state and society.⁴⁸ Chinese investment in Ethiopia offers opportunities to re-examine some of these claims.

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

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

Massive state control [has] encouraged and advanced nepotism, bureaucratic and political corruption, and constrained the development of viable and sustainable economic and governmental systems... The control of most economic activities by the state has produced... obstacles to economic and social development in the continent⁴⁹

Buried in this strong statist explanation is the unacknowledged role of social groups. This is because of the fatal tendency to separate the state from its society. States are embedded in society such that it is very misleading to separate the two as distinct 'stand-alone' entities. This has been the case for Africa through precolonial, colonial and postcolonial times. For example, 'the colonial state was strongly shaped by "indigenous social forces" as colonial rulers relied on and incorporated numerous local intermediaries to govern, while postcolonial states "exacerbated and institutionalized" many of the deficiencies of colonial administrations.'⁵⁰ The role of social forces as well the relational nature of the exercise of power in Africa cannot therefore be overemphasised. There is a lot of knowledge to be gained from combining these two internal factors with the Chinese capital as the external variable to produce an inside-out perspective.

2.7 THE 'PARTY-STATE' SYSTEM IN AFRICA

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

The study acknowledges that dominant party systems in much of sub-Saharan Africa are not new and can indeed be historicised. The majority of African countries lacked a history of centralised rule or a homogenous political tradition and often did not recognise the political value of party competition and lacked the ideological basis for such competition.⁵¹ The legacy of one partyism was then engendered soon after the wars of liberation by the liberation war parties such as Zimbabwe African National

Union—Patriotic Front (ZANU PF) in Zimbabwe, African National Congress (ANC) South Africa and Kenya African National Union (KANU) in Kenya, among others. It was imposed from above by dictatorial regimes, ostensibly on the basis of uniting the people motivated by the socialist and communist countries that had provided the ideological orientation of the liberation wars. However, assuming that the same historical factors that nurtured the 'party-state' system in Africa are the same and unchanging is a failure to understand how contemporary globalisation is making possible complex linkages between internal (e.g. political parties) and external forces in mutually reinforcing relationships. I combine the relational argument and the role of internationalised Chinese capital to argue that this has reinforced the EPRDF party in unique ways.

The EPRDF party has been in power since 1991 and clearly appears to be getting even stronger, increasing its grip on the Ethiopian state. In the last elections in 2015, the EPRDF, and its allies, won every single parliamentary seat.⁵² This is in contrast to other dominant, veteran parties around it in the region that have regressed and/or lost political power such as the KANU in Kenya, the Convention People's Party (CPP) in Ghana, the Malawi Congress Party in Malawi or the United National Independence Party (UNIP) in Zambia. This study will posit that the EPRDF's unique longevity and continued hegemony is significantly attributable to its party-party linkages with the Chinese Communist Party (CCP), which linkages are an important component of Chinese investment in Ethiopia. These linkages have provided immense economic opportunities that the EPRDF has converted into political capital and hence the strength of its power retention capabilities. The fall of other dominant political parties elsewhere in the region alongside the EPRDF's continued strength in Ethiopia can in part be attributed to the significant role of the latter's linkages with the CCP. These linkages facilitated through economic links have provided opportunities for regime hegemony.

Many other examples of dominant liberation war political parties that have fallen by the wayside abound and although this was largely necessitated by the end of the Cold War as emphasised by scholars who credit external agency, the role of social forces internal has hardly been given enough attention. By definition, according to Greenfeld and Martin:

Although it usually possesses some recognizable attributes, such as territory, continuity in time, structural differentiation, etc., society cannot be defined by any combination of such attributes. It's only definitive characteristic is

that it is the outermost social structure for a certain group of individuals who, whatever might be their attribute to it, view themselves as its members and experience their identity as being determined by it.⁵³

Various social groups interact with formal state structures and various other actors in a rather messier way than is often believed. Part of the literature on the state in Africa still assumes that there is a neat differentiation between the realm of the state and the realm of society. This differentiation then leads observers to expect clear-cut boundaries between private and public, legal and illegal, indigenous and foreign, and collective and individual domains.⁵⁴ This book emphasises that throughout Africa's colonial and postcolonial history, the interaction between the centre and the periphery has been a constant, relational relationship that has played a key role in producing and reproducing the state.

Having discussed the political economy of the dominant political party system in Africa, the discussion now shifts to the other aspect that is an indicator of the impact of Chinese capital in Ethiopia: informal institutions. According to Bratton, 'the structure of political organisations may be more or less formal and – especially in sub-Saharan Africa – the informal sector of politics has broad scope. Some organisations may be so informal – for example, ethnic or class movements or clienteles of personal patrons – as to be better conceptualised as social forces.'⁵⁵ These examples highlight once again the relational exercise of power in the state in so far as they clearly show that power and its reproduction lie not only in the formal institutions of the state like political organisations, but also in informal institutions in their various types. These two interrelated strands, namely party-oriented capitalism and informalisation of politics and institutions in Ethiopia represent the study's main evidence of state transformation as a result of the internationalisation of Chinese capital in Ethiopia. While the detailed evidence is discussed in the last Chap. 8, the theoretical aspects surrounding these two strands are first outlined here.

2.8 INSTITUTIONS

One of the distinctive aspects of Chinese capitalism we note in Ethiopia is that despite all the formal arrangements that it seeks to establish, it also ends up thriving through informal institutions and informal networks. Even though this is part of the core subject matter in the Chap. 7 of this book, it is important that the theory behind informalisation of politics be

engaged here. This section theorises informal institutions also in order to determine what they really are. To eliminate possible misconceptions and enhance a clearer understanding, the section will begin the discussion by examining the concept of formal institutions. It is by understanding what formal institutions are that it becomes easier to understand what the informal ones are or are not. The section examines the various types of informal institutions and this provides a good basis for identifying those informal institutions that exist in Ethiopia. It also elaborates on the social forces that underlie them, through which Chinese capital was able to penetrate into Ethiopia. This links with the relational argument threading through the thesis, because informal institutions become a legitimating force if the formal institutions act as barrier to the entrance or smooth operations of Chinese capital in Ethiopia. The section heavily draws from Helmke and Levitsky,⁵⁶ who have contributed immensely to institutional analysis, both formal and informal.

Institutional analysis has become a very important framework of analysis in politics. Institutions are affected by, and also affect, many political, economic and social arrangements within a given polity. The modern institutionalist theory has at the core of its research agenda two main themes: (1) the search for causality in the relation between institutions and the behaviour of political agents, and (2) the analysis of the sources of institutional change.⁵⁷ It is by understanding institutionalism that it becomes possible to appreciate and explain the extent to which the external variable (Chinese capital) has impacted on domestic variables (social forces) via the attendant institutions in the state and the resultant transformation of state-society relations in Ethiopia. This reasoning is in line with one of the key arguments of the book founded on Migdal's assertion that strongly cautions against treating the state as some form of a unitary entity whose response to outside forces is not influenced by domestic actors. It is therefore important to discuss some definitions around institutionalism before explaining informal institutions.

Winięcki defines institutions as spontaneous or humanly devised arrangements which shape repeated human interactions.⁵⁸ For Wang, institutions refer to rules of the game; they include formal institutions that take the form of laws and regulations and informal institutions that are implicit norms and customs.⁵⁹ In many developing countries, informal institutions carry more weight (in terms of compliance) than formal ones in view of the weakly regulated business environment, poor legal systems and poorly enforced laws.⁶⁰ From the foregoing, the central question that

will be answered in the chapters to follow would be, how then has Chinese capital navigated investment terrain under these circumstances, in the process strengthening and/or creating certain institutions directly and indirectly?

Formal Institutions

According to Makinda, institutions are defined in two ways: primary institutions and secondary institutions. Primary institutions would refer to 'a stable set of rules, principles and norms whilst in the second sense, an institution is a formal organization or secondary institution.'⁶¹ Helmke and Levitsky have provided a more comprehensive definition, explaining that formal institutions are rules and procedures that are created, communicated and enforced through channels widely accepted as official. This, following Makinda's differentiation, also comprises secondary institutions which 'includes state institutions (courts, legislatures, bureaucracies) and state-enforced rules (constitutions, laws, regulations),'⁶² but also what Ellickson calls 'organisation rules,' or the official rules that govern organisations such as corporations, political parties and interest groups.⁶³ Makinda goes on to stress that a key relationship exists between primary and secondary institutions: 'in fact, primary institutions underpin secondary institutions.'⁶⁴ Formal institutions, or formal rules (as they are more often called), are constitutions, codes, statutes and other legislative acts. They also include common law and administrative rules.⁶⁵ Formal rules establish a minimum degree of conduct expected by persons or businesses in society. Bratton defines formal institutions as the organised routines of political democracy, such as regular elections for top officeholders and legal constraints on the political executive.⁶⁶ However, like in most of Africa, it is worth re-emphasising that formal institutions in Ethiopia are very weak and often found wanting because they are either non-existent or underdeveloped. The key point to note in this book, however is that the main focus is on primary institutions.

Informal Institutions in Africa

Formal institutions in Ethiopia are still developing and at various levels are constrained by various problems far too many to even begin discussing here. This has naturally created space for informal institutions to thrive. Informal institutions based on trust and reputation demand more from

businesses than formal institutions. Furthermore, the cost of relying on such informal institutions is lower than the costs of depending on formal rules to resolve specific problems.⁶⁷ Throughout sub-Saharan Africa's pre- and postcolonial history, institutions have been central in shaping political, economic and social developments. Hyden asserts that Africa is the best starting point for exploring the role of informal institutions.⁶⁸ The inadequacy and underdevelopment of Africa's formal institutions has contributed to the informalisation of politics. For Ethiopia, where colonialism was resisted, the building of modern, conventional institutions necessary for a capitalist mode of production is understandably and uniquely 'behind schedule.' Nevertheless, even where they exist, a problem arises when institutions are unable to guarantee the order for which they were created, that is, when a discrepancy arises between the behavioural norms of formal institutions and the actual behaviour of individuals.⁶⁹ This necessitates the birth, emergence or natural creation of the opposite: informal institutions.

According to Bratton, the term 'informal institutions' refers to the patterns of patron-client relations by which power is also exercised.⁷⁰ These institutions or rules are more varied than formal institutions and consist of customs and other tradition-based conventions, beliefs (religious, ideological), self-imposed codes of conduct, and so on. One should include here ingrained habits, often shaped by previous formal rules. It should be noted in passing that such habits were themselves an amalgam of the impact of still earlier formal rules, which, together with the previous formal rules (then in existence), influenced interactions.⁷¹ Critical dependencies are managed by ties of trust and reputation. Informal institutions take the form of agreed-upon rules/codes of conduct that produce cooperative outcomes through features such as accounting and auditing standards established through professional associations, ethical behaviour of firms or corporate social responsibility. Standards are often set by business or trade associations.⁷²

Patron-client relationships are therefore very pronounced and most arrangements have to operate in the informal world. Bratton has lamented that 'sadly, neither of these two types of political institutions (patron-client relationships), nor their interactions, are well understood as they exist in and touch on Africa.'⁷³ Seyoum certainly could have had countries like Ethiopia in mind when he opined that 'in countries where the formal institutions are weak, market participants gain information about the business environment, quality of investment partners, etc., through informal alternatives. In countries with efficient corporate boards, accounting/

auditing information and professional management, for example, business information is more transparent and reliable'.⁷⁴ Foreign capital, just like domestic capital, relies heavily on informal institutions in Ethiopia for information, speeding up transactions and even for beating the system on taxes, regulations, and so on.

The major differentiating factor between formal and informal institutions is the agency of facilitation, enforcement and regulation. Whilst formal institutions are guaranteed by state agencies and their disapproval is sanctioned by that state, informal institutions are based solely on the fact of their existence and of their effectiveness.⁷⁵ Compliance is not based on legal enforcement or state coercion but established or internalised norms founded in shared expectations as well as social and economic sanction for deviant action.⁷⁶ Informal institutions find ways of self-regulation; compliance is rewarded with earned respect, trust and future promises of further engagement, whilst deviance results in not necessarily quantifiable but effective social costs like the loss of reputation or exclusion. This effectively shapes behaviour.

Informal institutions are thus socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels. Informal networks exist in every society. Even in the most advanced industrialised societies, which come closer to the Weberian ideal of a rational legal order, informal networks play an important role in maintaining political order and facilitating economic activities, not to mention providing social cohesion. For instance, political patronage networks, old boys' networks in employment and professional development, and ethnic networks of economic and social support are prevalent in the USA. Informal networks dominate Japanese politics and economy.⁷⁷

However, it is also important to acknowledge early on that despite their significant usefulness as an analytical tool, studying informal institutions is fraught with difficulties precisely because of what they are: an informal phenomenon. Regardless of methodology, informal institutions are harder to observe than formal ones. Survey-based indicators are admittedly approximate and fail to capture the full dimensions of complex informal phenomena.⁷⁸ To improve clarity and minimise distortions and misleading conclusions therefore, extra care should be taken to certainly avoid labelling everything that is not a formal institution as automatically falling into the informal institution category. For one thing, it is much more difficult to obtain knowledge about the informal institutions of a country than it is to form an opinion about the formal institutions.⁷⁹ Helmke and Levitsky

helpfully suggest that informal institutions may be partly defined by reference to what they are not. Their argument is paraphrased thus: to be considered informal institutions, they (1) should be distinguished from weak institutions; (2) must be distinguished from behavioural regularities as illustrated by Brink's example that removing one's hat in church is an informal institution, whereas moving one's coat in a restaurant is simply behavioural regularity, and (3) should be distinguished from informal organisations.⁸⁰

Types of Informal Institutions

Informal institutions come in various forms and it is helpful to look at their various types with a view to making identification of the same within the Ethiopian state manageable. Informal institutions and social forces have always been important in Ethiopia's political economy to the extent that they have significant economic, political and social influence within the state and how power is exercised within the state. For example, the elite class can be summarised thus: until 1975, the Ethiopian elite were 'landed and titled by the monarchy and were mainly Amhara (from central Shewa province), "Amharized" Oromo (again primarily from Shewa), and a smattering of Tigrayans and Amhara from the neglected northern core of the historic Ethiopian state.'⁸¹ In the period between 1975 and 1990, it was the top echelon of the state bureaucracy, mainly the military. But from 1991 to the present, the top elite is found among the TPLF and top echelons of the satellite parties under EPRDF. Chinese investment has had the impact of strengthening such institutions as well as creating some at the same time. For example, local businesspeople who work with the Chinese are among those who form the core of the elite now.

Complementary institutions are informal institutions that coexist with effective formal institutions, such that actors expect that the rules that exist on paper will be enforced.⁸² Such institutions "fill in gaps" either by addressing contingencies not dealt with in the formal rules or by facilitating the pursuit of individual goals within the formal institutional framework. These informal institutions often enhance efficiency. Then there are accommodating informal institutions, which are informal institutions that create incentives to behave in ways that alter the substantive effects of formal rules, but without directly violating them; they contradict the spirit, but not the letter, of the formal rules. Accommodating informal institutions are often created by actors who dislike outcomes generated by the formal rules but are unable to change or openly violate those

rules. As such, they often help to reconcile these actors' interests with the existing formal institutional arrangements. Hence, although accommodating informal institutions may not be efficiency enhancing, they may enhance the stability of formal institutions by dampening demands for change.⁸³

Competing informal institutions are informal institutions that coexist with ineffective formal institutions. In such cases, formal rules and procedures are not systematically enforced, which enables actors to ignore or violate them. Particularistic informal institutions such as clientelism, patrimonialism, clan politics, and corruption are among the most familiar examples.⁸⁴ Substitutive informal institutions are employed by actors who seek outcomes compatible with formal rules and procedures. Like competing institutions, however, they exist in environments where formal rules are not routinely enforced. Hence, substitutive informal institutions achieve what formal institutions were designed, but failed, to achieve. Substitutive institutions tend to emerge where state structures are weak or lack authority.⁸⁵

However, one of the thesis' central contributions is to show that informal institutions and the relationship between the formal and the informal are not merely part of political culture or the continuity of African traditions. The thesis' argument is that the increasing role of informal institutions in Ethiopia reflects, in part, the emergence of new social forces that are emerging out of the effects of Chinese capital. Hence, the growing informalisation of institutions is reflective of the new dynamics of the Chinese capital. For example, corruption, policy networks, patrimonialism, norms and cultures are some of the informal institutions that have either emerged or been reinforced by various forms of Chinese capital in Ethiopia, as illustrated in Chap. 6. The relational perspective, a key theoretical component of the study allows us to study the informal institutions in terms of the underlying social forces and interests that sustain and reproduce these informal institutions.

2.9 CONCLUSION

Scholars need to now go beyond the geo-strategic approach to focus on the way the Chinese engagements and investment in Ethiopia shape the way new and old social forces respond to the external imperative within state institutions. This task is aided by a theoretical framework that brings in social forces in the calculus of state transformation. This chapter has

explained and justified this framework, making it well-placed to answer the research question. The state-society framework marks itself out as a unique approach capable of making an important contribution to politics in Africa. Because it pays close attention to the crucial questions surrounding the 'state,' it challenges established approaches especially those that have for a long time attributed to the formal state an immense amount of authority, influence and power. By bringing social forces into the centre of the discussion, it is an approach that indeed, unlike many others, tries to keep pace with the fast changes occurring in society and plays a crucial role in shaping the state. Indeed, the challenge to political analysis has always been how to systematically combine the internal and the external factors and their contribution to the creation of new alliances and fractions as well as the remodelling of old ones. The framework alerts us to the fact that state power can be understood best as a complex social relation. In Chap. 3, this logic guides the discussion by explaining the social formations and the link between state and society or formal and informal power. This chapter has also discussed the two interrelated strands that form the backbone of the thesis: party statism as well as informal institutions as dimensions of state transformation. In Chap. 3, the study examines the crisis caused by the Dergue and more importantly, how it set the stage for Chinese investment.

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Crisis and Contradiction in Ethiopia Since 1974: Setting the Stage for Chinese Investment

3.1 INTRODUCTION

Two periods have significantly shaped contemporary Ethiopia: the reign of the Dergue regime (1974–1991) and the reigning EPRDF government since then. Most scholars on Ethiopian politics including Young¹ and Keller² concur that the period immediately after the year 1991 was the turning point in Ethiopia’s social, political and economic development. Whilst this book is essentially located in the period immediately relevant to expanded Chinese investment in Ethiopia, that is from 1991 onwards, it is only possible to understand the political economy of this period by understanding the predecessor regime. This chapter engages in an analytical discussion of Mengistu’s socialist Dergue regime (in power between 1974 and 1991) to demonstrate how the state has always been embedded in social struggles in Ethiopia. To achieve this, the chapter carefully selects a number of internal issues like ethnicity, land and economic policy that clearly denote the relational aspect of power in Ethiopia. When the liberal reform under the EPRDF regime is examined in the next chapter, the important difference between the two periods is the external dimension that lacks in the Dergue period. This difference must be understood to appreciate the distinct nature of state-society relations in either period.

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

of the limited foreign influence that could be had since, among other measures; the regime was not inclined towards foreign investment. The socialist policies of the Dergue provide a background to the shift to liberalism by its successor EPRDF government. The latter opened the avenue for foreign capital, particularly Chinese investment, the subject of Chap. 4. First, however, the chapter opens with a brief background to the Ethiopian state, before analysing by far the most important aspect of Ethiopia's political economy: ethnicity. An analysis of the socialist policies of the regime is then followed by a discussion of the subsequent crisis that the policies caused, leading to its demise.

3.2 BACKGROUND TO THE ETHIOPIAN STATE

Ethiopia is one of the oldest continuing polities in the world, with its political beginnings rooted in the Axumite kingdom that reached its zenith between the fourth and the sixth centuries AD.³ Ethiopia has an interesting history and occupies a special place on the African continent, especially in the sub-Saharan African region. Perhaps the most famous aspect of Ethiopia is that it is virtually the political and economic capital of the continent and hosts the seat of the African Union (AU) as well as the Economic Commission for Africa (ECA) in its capital, Addis Ababa. Central to the reasoning behind making it Africa's regional citadel must have been the historic fact that it is the only country never to have been colonised on the whole sub-Saharan African continent, what Aalen terms a 'historical exception.'⁴ Ethiopia is the only African country to fight and defeat a European colonising force, successfully repelling Italian colonial forces in the early twentieth century. This is notwithstanding the brief interlude of Italian occupation that did not last more than 200 days.

However, especially for the purpose of this book, there is something unique about Ethiopia that makes the academic enquiry on its transformation quite illuminating. First, it has a political regime that came to power after waging a successful armed struggle, and has instituted a unique political system in Africa: an ethnic-based federation whereby the old unitary state was given up and sovereignty was vested in the country's 'nations,' 'nationalities' and 'peoples.'⁵ Secondly, Ethiopia is home to a very significant amount of Chinese investment. As the seat of the African Union, it also has a very important political multilateral diplomatic relationship with China alongside an individual, economic and political bilateral relationship.

Officially, the country is known as the Federal Democratic Republic of Ethiopia (FDRE) whose capital city is Addis Ababa. The Federation is composed of Nine States (*killils*): Tigray, Afar, Amhara, Oromia, Somali, Benishangul-Gumuz, Southern Nations Nationalities and People's Region (SNNPR), Gambella and Harari Regional States; and two Chartered Cities—Addis Ababa and Dire Dawa.⁶ The Ethiopian state traces its roots to the Axumite civilisation in the first millennium BC, whose centre was in what is now the province of Tigray.⁷ Although it declined after the seventh century AD, Axum's legacy was sustained in the core of what was to become Ethiopia in the form of Coptic Christianity, the liturgical Geez language of the Church, which is the basis of the modern languages of Tigrigna and Amharigna spoken by the two branches of the Abyssinian family, and a feudal system that survived up to the 1974 revolution.⁸ Geographically, it enjoys a unique location at crossroads between Africa, the Middle East, and Asia. Ethiopia is bordered by Djibouti and Somalia to the East, Eritrea to the north, South Sudan and Sudan to the west and Kenya to the south. Covering an area of 1.14 million sq. km., 45% of which is arable land and a population of over 80.9 million (2010–2011) and a population density of 70.96 per sq. (2010–2011),⁹ Ethiopia is one of the largest countries on the continent and the most populous landlocked country in the world, as well as the second most populated country in Africa.¹⁰

Ethiopia is a multilingual society with around 80 ethnic groups; with the two largest being the Oromo and the Amhara.¹¹ Major religions in the country also resemble this ethnic diversity. The major ones are Christianity and Islam but there are a number of traditional ones as well. It is a predominantly poor country with the rural population constituting up to 85% of the population.¹² The extreme poverty has been exacerbated by frequent famine and, historically, plagues of locusts.¹³ This demographic statistic does indicate the importance of the rural population when it comes to political power by the sheer fact of their numerical strength and also emphasizes the sensitive nature of the land resource. The political system is built around a multiparty federal system. The Ethiopian constitution was adopted in 1995. The constitution provides for a federal system, which is structurally based on the federal government with nine autonomous regional states and two chartered city administrations.¹⁴ The FDRE has a parliamentary form of government with a bicameral parliament, which comprises the House of the People's Representatives and the House of the Federation. The House of the People's Federation is the highest authority of the Federal Government.¹⁵

Amharic is the working language of the Federal Government and Oromiffa and Tigrigana are other major languages widely spoken in the country.¹⁶ At present, there are about 70 cultural groups in Ethiopia.¹⁷ Of these, the Oromo, Amhara, Tigray, Afar and Somalis are the largest, but none has a demographic majority.¹⁸ There are two dominant religious groups: Muslims, constituting about 40%, and Christians, a slightly larger group.¹⁹ There are a number of traditional religions as well. Nevertheless, the Amhara Tigray Christian hegemony remained the most distinguishing feature of the Ethiopian state despite several attempts to alter this from within and without.²⁰ Ahmed Gran's Islamic conquests in the sixteenth century (Gorman 1981), Beta Israel's (Felasha) opposition to Christian hegemony in the fourteenth and fifteenth centuries (Quirin 1993), and the Mahdist attacks from Sudan in the late nineteenth century (Erllich 1996) are cases in point.²¹

Political power in Ethiopia is closely tied to material and economic interests. This predates both the EPRDF and the Dergue regimes. In the imperial era of Haile Selassie, for example, the landholding class was the basis of power, and the inequalities and economic stagnation in that system contributed to the downfall of the emperor in 1974. However, in line with the state-society framework employed, the book concurs with Abbink's assessment that a focus on formal politics is misleading. In Ethiopia, where institutional reforms and a process of political liberalization began in earnest after 1991, the vital political decisions are made in the informal sphere, behind the façade, in circles and networks of a neo-patrimonialist nature, impervious to what institutions like a parliament or a high court say.²² The relationship between formal and informal institutions of power is central to the analysis of Ethiopian politics.

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

economy of Ethiopia is enhanced by appreciating the ethnic dynamic. Access to power,²³ identity as well as distribution of resources is largely linked to ethnic politics and ethno-nationalism in Ethiopia.

3.3 THE ENDURING LEGACY OF ETHNICITY IN ETHIOPIA

According to Azam, state formation in Africa began with an institutional endowment of ethnic division.²⁴ The aspect of ethnicity is a crucial variable in the political economy of not just Ethiopia, but across sub-Saharan Africa. It is a source of tension, identity, entitlement and disenfranchisement. In the majority of countries, ethnic tension is exacerbated by a colonial legacy of balkanised ethnic and tribal groups through the arbitrary drawing of borders that began with the Berlin Conference of 1884–1885 at the peak of the ‘Scramble for Africa.’²⁵ Essentially, various ethnic groups were lumped into one state with far-reaching consequences for future peace, sustainability and coexistence. Additionally, colonial policies, including divide and rule politics that were instrumental in the administration of colonies, have had domino effects that have continued into the postcolonial era. Ethnic tension, often mixed with religious differences has at various periods threatened to rip apart countries like Rwanda, the Democratic Republic of Congo (DRC), Kenya, Zimbabwe, Nigeria, Burundi and Liberia among others. Lesotho is the only African country with a population comprised of a single ethnic group.

Bringing back the discussion to Ethiopia, persistent ethnic cleavages, suppressed until 1974, were brought into the open as a result of the revolution of 1974, and ethnic-based organizations proliferated all over the country.²⁶ As alluded to earlier, it can be stated with a great degree of certainty that probably the single-most important factor that is crucial in Ethiopia’s state, politics and economy is ethnicity. It is a crucial arena for political, economic and social contestations over the distribution of material and identity resources. The next section will discuss in detail how this contestation plays out within the state. Ethiopia is ‘one of the most ethnically diverse countries aptly described by a twentieth century Italian historian Carlo Conti Rosini as the museum of people.’²⁷ Internally, religion, regional location, ethnicity and nationality have each, at various times and in varying combinations, served as focal points in the contest for power and control over economic resources.²⁸ However, it has often been overlooked that various ethnic groups are themselves a crucial social force in Ethiopia than others. They exert influence on the political elites in the

negotiation and production of ethnic space and the opportunities that come with it. Crucially, these ethnic identities are mobilised in political struggle and contestation and become the focus of the struggle within the state. The Dergue regime was ethnically aligned to the Amharic group and its reign reflected its pro-Amharic attitude with regard to distribution of power and control in the state. When it was overthrown in 1991 by the EPRDF, however, the new political authority also began to build its power along ethnic lines and because the Tigrayan-dominated TPLF was the leading faction in the coalition, the EPRDF is accused by its critics for replacing an ‘Amharic hegemony’²⁹ with a Tigrayan one.

It is necessary to begin with an examination of the ethnic question because it helps to elucidate why the EPRDF later introduced a radical reform making Ethiopia an ethnic federal state. According to Aalen, the federalisation of Ethiopia was introduced after a long period of attempted centralisation in the country and was received with both hope and scepticism from the international community and political groupings within the country.³⁰ This move was despite the fact that ‘at no time in their modern history have Ethiopians ever made demands for separation along tribal lines.’³¹ Ethnicity has always been a flashpoint in Ethiopia’s sociopolitical development given how ethnically diverse the country of more than 80 million people is. Many contestations that arise in the socio-economic and political arena in Ethiopia are entangled with ethnic identity. For this reason, political players in Ethiopia always have used ethnic politics as a political mobilisation tool as well as a mechanism for legitimating their power. This book underscores that ethnicity is one of the clearest examples of the relational exercise of political power in Ethiopia.

It is from ethnic groups that informal political, social and economic networks emerge. According to Azam, roughly speaking, ‘ethnic capital’ is the ‘social capital’ that the ethnic group provides for its members.³² What makes Ethiopia unique in any study that appreciates the role of ethnicity in state-society relations in Africa is that, by virtue of the fact that it had not been subjected to colonialism, it survived the complex problem of externally imposed tribalism where colonial rulers exploited ethnic differences for their own ends. Crucially, the ensuing legacy, even after the colonialists had departed, has blighted postcolonial Africa with serious consequences for nation-building, state-building, internal cohesion, and peace and development. In virtually all of sub-Saharan Africa, governments face a very difficult challenge posed by the multi-ethnic nature of their countries. The Rwandan genocide of 1998 that saw the massacre of close to a million

people inside just one hundred days is probably the most well-known example of this problem. Even in countries not in conflict, or at least with no outright hostilities, ethnicity is still skilfully used in all sorts of ways that impact on the state and its transformation. For Ethiopia, however, ethnic organisation is purely a product of endogenous factors.

3.4 THE SOCIALIST DERGUE REGIME (1974–1991): NATIONALISATION, THE RURAL ECONOMY AND LAND REFORM

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

The 1974 popular revolution that took place in Ethiopia initially replaced Emperor Haile Selassie with the Provisional Military Administrative Council (PMAC). 'From the earliest days of the revolution, the state as represented by the Provisional Military Administrative Council (PMAC) or the Dergue assumed a vanguard role.'³³ Describing how the system operated then, Sklar noted that 'the dominant institution is not the vanguard party; rather it is the state constituted as a military oligarchic ruling class'.³⁴ Some scholars like Kebede, however, argue that what happened in 1974 was not a revolution but a 'stolen revolution' as they accuse the Dergue of hijacking a people's revolution, insisting that 'a revolution inspired and led by the Ethiopian civilian left was gaining momentum when it was brutally interrupted by a military coup.'³⁵ Kebede's argument is another example of the role of social forces in shaping the political order of the state being ignored in most analyses.

The Dergue may have eventually installed itself as the ruling political force in Ethiopia after the fall of the Imperial regime but this significant state transformation in 1974 was made possible by the role of other social forces such as students and intellectuals. These two played an important role in the revolution not because they were powerful, but because they

defended and popularized an ideology that fitted, unintentionally, the interests of the Dergue. Their resounding participation in the civilian unrest; their defence of socialism as the right solution to Ethiopia's problems; the reputation they had acquired during their long and solitary struggle against Haile Selassie; the fact that socialism appeared as the position of the majority of modern educated Ethiopians; and the prestige of Marxism as the dominant ideology of the time, all helped students popularize the socialist ideology.³⁶ The Dergue was able to relate to this ideology and adapted it to justify its rule. Without such a vocal group that popularized the Marxist-Leninist ideology with articulate and revolutionary slogans like 'land to the tiller,' it is inconceivable the Dergue would rise to the apex of the Ethiopian state or the state would transform the way it did in 1974.

Inspired by Marxist-Leninist ideas, the Dergue's approach to economic organisation indicates a desire for national wealth redistribution but whose main aim was to control the state firmly. By all measures they adopted a 'hard control' regime.³⁷ By January 1975, the Dergue's economic program was very clear. In February 1975, the Dergue took the 'socialist' measure of nationalising 101 leading companies.³⁸ In August, a further proclamation was issued calling for the nationalization of most urban property.³⁹ By the end of the 1970s, the broad outline of a quasi-socialist economy was in place; all land, extra houses, and large as well as medium private enterprises were nationalised without compensation.⁴⁰ The Dergue intensified the administrative centralisation programme of the monarchy under a unitary state, and implemented an unprecedented degree of state ownership and control of the modern sector of the economy.⁴¹

As it increased its grip on power, the Dergue regime did not just limit itself to the modern sectors of the economy in the urban, metropolitan areas only. It also targeted the rural areas, which form the core of the Ethiopian population and therefore a crucial constituency for its regime political survival agenda. The rural population was then organised into peasant associations and these state-sponsored associations were soon to serve as stepping stones for the establishment of producer cooperatives or quasi-collective farms.⁴² In March 1975, all rural property was nationalized; thus, the most significant base of power for the feudal aristocracy and their collaborators was eliminated in one fell swoop.⁴³ By mid-1983 there were more than 20,000 associations with a total membership of about eight million. The most important aim of the proclamation establishing these associations was to provide the basis for socialist agriculture

by promoting cooperative farming. It was envisioned that there would be a gradual transformation from service cooperatives to an elementary form of producer cooperative; the latter institutions would in turn be transformed into advanced producers' cooperatives.⁴⁴ Peasants were thus the major beneficiaries of the nationalisation of land and this effectively dismantled the feudal system which had kept them under decades of servitude. The main objective of this proclamation was to weaken the power and wealth of those social classes vested with the land and income of rental houses.⁴⁵

To perpetuate its coordinated approach to link all sectors of the economy to its overall power design, the Dergue ensured a link between the agricultural producing sectors with the manufacturing sector. Much of the inter-regional wholesale and retail trade in key staples and important industrial goods was reserved for parastatals.⁴⁶ Aligning key economic activities and giving parastatals a leading role in the economy was part of the regime's efforts at firmly controlling the state by taking charge of the economic levers. It should also be emphasized that peasants' associations were set up to organize, administer and defend peasant communities.⁴⁷ The Dergue firmly believed in being heavily involved in the political and economic affairs of the state. This brought with it the creation of new social forces such as the bureaucratic cadres. The military regime's vision of state-led industrialization included an overzealous 'villagization' campaign, to facilitate political control as well as the delivery of social services; an ambitious but poorly planned programme of 'resettlement' of the drought-vulnerable population; and a programme of import substitution for key industrial goods. By mid-1988, villagization had grouped 12 million people—one third of the rural population—into more than 12,000 large villages.⁴⁸

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

Put otherwise, peasants were cornered, so to speak: they were forced to defend the regime because, after the radical proposal, the very idea of land reform would be withdrawn if peasants did not come in defence of the Dergue. Peasants obtained something they did not ask for, but which they could not refuse without losing everything.⁴⁹

The regime secured this ‘consent’ in the Gramscian sense by using land reform to sustain a coalition with a key social force. It is therefore quite instructive, from this example, to emphasize that the relationship between formal and informal institutions of power is central to the analysis of Ethiopian politics. It is not just the ‘state’ or the ‘ruling elite’ that wields ‘power’; rather, power is wielded through alliances with various subordinate social forces. A kind of ‘social economic block’ is therefore formed through what Morton would call a ‘passive revolution.’ According to Morton, a passive revolution can be a technique of statecraft, which an emergent bourgeois class may use by drawing in subaltern social classes while establishing a new state on the basis of the institution of capitalism.⁵⁰ It is how the contestations, compromises and alliances that eventually play out from such arena as land reform that the direction of state transformation is carved.

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

the nationalisation of land amounted to a disguised privatisation, since it did no more than ‘confirm the *rist* family-holdings in the North, and restore peasant landholder rights in the South’ but with the interesting twist of channelling the surplus produced by millions of peasants directly to the state. Such is the irony: the Dergue will be remembered in history for having committed the infamous act of carrying out a capitalist revolution in the name of Marxism and, even worse, for having destroyed Ethiopian socialists in the name of socialism.⁵¹

Consequently, the heavy state involvement, regulation as well as the statist policies including nationalisation was not without consequence as the economy buckled⁵² under it.

3.5 CRISIS AND CONTRADICTION OF THE SOCIALIST MODEL AND THE DEMISE OF THE DERGUE

Internal contradictions as well as some external factors precipitated the demise of the Dergue. Critics argue that the revolution never got off on a good start after the overthrow of the Empire. According to Chege, ‘whether it was possible to proceed from there to a socialist transformation of society was rendered entirely academic by the rise of a military dictatorship reminiscent of Bonapartism, devoid of any popular class base, and

beholden to the Soviet Union.⁵³ A war with Somalia proved to be very costly and disastrous, given the thin economic base and support from the Soviet Union was not forthcoming as it was also faced with a serious crisis after 1988. The economy shrank by 7.0% during and immediately after the height of the civil war in 1988–1992.⁵⁴ Second, the idea of communist statism and socialism became ideologically discredited⁵⁵ internationally. Third, the economic consequences of the campaigns of villagization, resettlement and producer cooperatives proved disastrous for an already impoverished population.⁵⁶ The system was confronted by growing tensions in 1980s.

These and other factors combined to render the socialist system unworkable. Sweeping socialist reform triggered an exodus of foreign business people and banks; the nationalisation of land, industries and property; and the reconstitution of many firms as state-owned enterprises (SOEs).⁵⁷ Because the state attempted to do too much, it inevitably narrowed the space available for the private sector. Saving and investment in this sector declined partly because of the policy environment.⁵⁸ Local capital was forced to engage in largely speculative, albeit profitable, activities. From the time the Dergue regime ruled Ethiopia in 1974, there was not a single instance of new private foreign investment in the country, whatever public investment took place being very limited.⁵⁹ What resulted was the loss of internal support, leading to the crumbling of the Dergue regime. Between 1974–1975 and 1989–1990, growth decelerated to 2.3% (–0.4% in *per capita* terms). Growth was also extremely irregular given its dependence on the agricultural sector, which is vulnerable to the vagaries of nature.⁶⁰ The Dergue regime was also characterized by intense conflict, which accentuated the dismal growth performance.⁶¹ The GDP contracted by 13.2% in 1984–1985, exacerbated by a devastating famine.⁶²

Towards its twilight years, desperate reform efforts were made to arrest the decline in the wake of the poor economic performance in Ethiopia. Clearly, the relationship between the state and society was breaking down and this led to modification in the regime organisation and the institutions of the state. This of course was exacerbated by the fall of the Soviet Union, as the socialist system became discredited in much of the world. Attempts were even made at some significant concessions to the market, including decontrolling of prices, lifting of restrictions on private trade, and compensation to foreign nationals whose enterprises had been nationalised. In terms of investment, for example, the Joint Venture Proclamation was issued in 1989; there was to be no capital ceiling on investment; it removed

the limits on the proportion of equity contributed by each party, on the total legal life of the Joint Venture, and the areas of operation.⁶³ The Dergue lost the support of key social forces in Ethiopia including students and the private sector such as private capital and small traders.

These reforms proved ineffective and in the end, what came out of the reform effort was a mixture of both state and market-oriented economic policies and institutions. The internal crisis of the state was compounded by a series of external challenges. While the government was attempting to legislate its reform measures of November 1988, things were moving at a dizzying pace on the international front. Most significant was the demise of socialism in Eastern Europe and its imminent collapse in the Soviet Union. These developments, including the deepening economic crisis, the continued military defeats, the internal and external confidence crisis these generated and dwindling external resource flows, limited the government's room for manoeuvre and rendered the November 1988 reform inadequate.⁶⁴ As a result of these and numerous other problems, the World Bank classified Ethiopia as the world's poorest country. Serious economic ruin ensued and this precipitated the demise of the Dergue regime. Mengistu's early 1990 adoption of a new economic policy failed to reinvigorate Ethiopia's ailing economy.⁶⁵ It was this broader crisis of this economic regime and the corresponding crisis of the state that saw the emergence of a TPLF-led coalition to topple the Dergue.

The enduring impact of the Dergue reign, which is still a factor in Ethiopian politics today, is that of a 'cadre system of party control of the economic, military, and administrative sectors of the state bureaucracy.'⁶⁶ Its socialist orientation meant that economic activity was centrally planned and indeed, heavy state involvement was entrenched and the private sector severely crowded out. The major beneficiaries were workers, peasants, the petit bourgeoisie, and all anti-feudal and anti-imperialist forces. The Dergue's relations with these social groups consisted primarily of co-opting as many of them under its vanguardist party so as to assume perfect control of the state. It was a relational arrangement which guaranteed the regime's rule as long as it pursued populist policies under a common vision of socialism. However, the contradictions and failure of the socialist system to keep the economy afloat resulted in some social forces making political and economic demands difficult for the regime. This prompted the regime to scramble for some sort of reform to appease these social groups, including some far-reaching moves towards liberalisation and international engagement particularly in trade.

On 28 May 1991, the Dergue regime fell. Despite the many promises it made to the Ethiopian people, the Dergue delivered very little such as land redistribution to the peasants. It became clear that it was to ‘focus mainly on increasing military equipment supplied by the Soviet Union to fight opponents and separatist guerrilla groups in Eritrea and Tigray among others.’⁶⁷ Without any funding, it could not sustain its military rule and was therefore unable to fight the armed insurrection. Mengistu Haile Mariam fled to Zimbabwe (where he remains in self-imposed exile) and was replaced by a coalition of rebel forces, the Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF) and the Tigray People’s Liberation Front (TPLF), the most important group in this coalition which originated from the northern highland region of Tigray.⁶⁸ This closed one of the most significant chapters in Ethiopia’s long social, political and economic history.

3.6 CONCLUSION

This chapter has presented a crucial period in the history of the Ethiopian state, a period that has a direct and important influence on the present era. The failure of the socialist policies of the Dergue provided the groundswell for the emergence of the EPRDF as well as its far-reaching neo-liberal reforms, one of which was the opening up of the hitherto closed economy to foreign capital, including Chinese capital in Ethiopia. The second aim was to show, by way of carefully selected examples, the socialist government’s involvement in the struggles and contestations within the state. It has been shown that even though it was a military regime, the Dergue exercised its power through particular elements within the Ethiopian society. To provide the political setting, this chapter has also discussed ethnicity as a crucial aspect of the Ethiopian political economy. It is at the centre of Ethiopian politics and is the main arena where struggles within the state find expression. This theme became more important when the EPRDF, which was made up of an ethnic minority, succeeded the Dergue regime. State-society relations under the Dergue regime are important because it was these structures and institutions that were adapted and reshaped by the process of neo-liberalisation, which is discussed in the next chapter.

Other than ethnicity, this chapter has focused on two other themes, namely the land question, and investment. State-society relations under the Dergue were characterized by sustained efforts by the military regime

to heavily immerse itself in the state following a Marxist-Leninist model that underwrote its socialist program chiefly nationalisation of lands and industries. The economic crisis that was induced by the fall of communism and socialism led to an armed rebellion which finally culminated in the fall of the Dergue regime in 1991. The new government, a coalition led by the TPLF, rolled out a reform process. This reform period is the genesis of an opening up of a closed economy and the penetration of Chinese capital in Ethiopia with far-reaching consequences for state-society relations in the East African country today. In the next chapter, this period of the reign of the EPRDF is examined, with specific reference to its neo-liberal reform agenda which emerged following the failure of the Dergue socialism.

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From Dergue Socialism to an ‘Ethiopian Neoliberalism’: Transition and Reform Under the EPRDF Since 1991

4.1 INTRODUCTION

This chapter analyses the defining transition that took place in Ethiopia from a command, centralised socialist economy to a market-oriented and neoliberal regime. In particular, it provides an understanding of institutional mechanisms and processes through which Chinese investment was then able to penetrate Ethiopia and establish various networks of state and society linkages. The chapter links the economic and political transition that happened when the EPRDF regime took power in 1991 to the emergence of new social forces with links to state institutions. The main argument of this chapter is that the reform period ushered in by the change of government in 1991 gave rise to a particular variant of Ethiopian neoliberalism whose form and character were shaped by pre-existing social relations and political structures. As the capitalist transition was emerging out of the political and social context in Ethiopia, the internationalisation of Chinese capital was simultaneously beginning to be a key feature of the global political economy. It is the intersection of these two forces that have shaped neoliberalism in Ethiopia. Rather than calling it a ‘facade’¹, the book regards the political and economic liberalism that was instituted by the EPRDF to be essentially a particular variant of neoliberalism.

The chapter pays attention to three aspects of the state-society complex in particular: ethnicity, land and investment policies. These three are arenas where social struggles and contestations clearly play out when the

EPRDF's liberal reform agenda rolled out from 1991. Focussing on these three aspects is meant to achieve two objectives. The first is to show how the state was embedded in these contestations. Secondly, they highlight elements of the type of neoliberalism that has emerged in Ethiopia, which is far from a full-blown neoliberalism or 'Western' neoliberalism. The changes in land policy as well as investment policy, for example, clearly bring out how the state has sought to retain control even in the face of liberal economic reform.

This shift in ideology affected the interest of private capital in a peculiar way, such that the reforms essentially placed the state, via its state-owned enterprises (SOEs), at the core of the economy. Henceforth, the Ethiopian state became actively involved in the economy as a player and private companies have had to compete with the state-linked entities in many areas. In explaining this, Alemu argues that this is because 'while committed to opening up the economy and attracting investment, directed state control is always evident, as part of a carefully managed transition.'² The essence of the reform period is that it changed the role of the state in Ethiopia. The book argues that in introducing neoliberalism, the state merely distributed power as a mechanism of maintaining it.

The chapter proceeds in two broad sections. First is a brief elaboration of the genesis of and rationale behind the reform agenda based on the EPRDF's imagined new state project. This is followed by a closer analysis of the specific liberalisation features drawn from the three selected case studies. This will show the limited³ nature of Ethiopian neoliberalism, as it emerged from a pre-existing context which explains why it retained a significant level of centralism. The last section then provides a link between the type of liberalisation reform that was instituted and the emergence of some new social forces linked to the state. As a prelude to the next chapter which discusses Chinese investment drivers in detail, a brief section at the end then links the liberalisation in Ethiopia to the entry of Chinese capital.

4.2 THE EPRDF REGIME AND LIBERAL REFORM: TOWARDS A NEW STATE PROJECT

The previous chapter outlined how the Dergue regime's economic policies created a trail of disaster on Ethiopia's socio-political and economic fabric. Mengistu's Dergue military regime had presided over a dictatorship running a command economy. His eventual overthrow by rebel forces

emanating from the provinces of Tigre and Eritrea ushered in a wholly different political dispensation to ostensibly democratise the state as well opening up the country to foreign capital. However, there were two particularly big challenges for those who took over the running of the state in 1991. Firstly, how to rebuild a country devastated by a brutal 15-year civil war. Secondly, how to reunite a much divided country whose population had coalesced around various political groups. There was a multiplicity of interests that had to be managed including the various ethnic groups (major and minor), former rebel forces, numerous political groups as well as various factions of political elites. Engedayehu observed then that ‘the ideological, ethnic and political differences of these groups have made it a monumental task to develop a long-lasting political framework.’⁴ Further still, the new EPRDF government had the duty of coming up with a political framework that was also acceptable to the former rebel forces. With this background, it becomes possible to understand why a relational arrangement in the exercise of power was the most viable for the EPRDF.

The period from May 1991 to the present, therefore, is the reign of the EPRDF. The EPRDF is a coalition of ethnic political movements ‘which is made up of the Tigray People’s Liberation Front (TPLF) and two other small fronts, the Ethiopian People’s Democratic Movement (EPDM) and the Oromo People’s Democratic Organization (OPDO).’⁵ However, in spite of the nominally coalition structure of the EPRDF, from the beginning the TPLF provided the leadership, ideological direction and majority of the fighters of the movement.⁶ Critics like Gebrewold contend that ‘even if the EPRDF pretends to be an inclusive political organisation, it is obvious that it is dominated by Tigrayans.’⁷ This has created tension between the Tigrayans and other ethnic groups especially the Amharic and the Oromo. However, any public discontent actually results in more *Tigrayanisation* of Ethiopian politics because the Tigrayan ethnic group is forced to ensure its ethnic dominance subsists, with the leadership as a mutual safeguard.

Given the multi-ethnic nature of Ethiopia and the problems associated with it, political control over the state would be fragile unless the party forged a social block with the minority Tigray ethnic group. The EPRDF has achieved this by also co-opting many opposition parties that emerged, including creating puppet parties, many of which are apparently of its creation such as the Southern Ethiopian People’s Democratic Front (SEPDF), consisting of several EPRDF-affiliated parties in the south of the country.⁸ In other regions, the EPRDF has assisted the establishment

of several political parties which are not members of the coalition, but closely affiliated and supervised by the ruling party.⁹ The Tigrayan ethnic group dominates the national army. The TPLF regime in Ethiopia has been promoting the domination of a minority ethnic elite, that is, the Tigrayans, in all spheres of the nation's life—economy, military, intelligence and security services, foreign affairs, and so on.¹⁰

Accordingly, Abbink notes that the nation-building dream of the EPRDF was already problematic owing to this '*Tigrayanisation*' of the power structure. Irrespective of age, experience or job qualifications, many leading positions in the state machinery, the public services, the economy and the decision-making centres from the national to the local level, are given to people of Tigray background.¹¹ This ethnic engineering has worked very well for the EPRDF. A cursory consideration of literature on the politics of ethnicity in Africa provides some clues. Ethnicity in Ethiopia may be viewed as a device or tool through which the EPRDF established a social relationship of interdependence with other ethnic groups as well as other social forces to establish what Gergen termed *relational nuclei*.¹² From Gergen's perspective, relational nuclei means that the mutual interdependence of members in a society means that 'all personal outcomes are essentially contingent on interchange.'¹³ The well-being of the EPRDF was therefore dependent on the well-being of some social forces within the Ethiopian state to guarantee its political control.

When one considers the views of Mafeje, it is also clear that the exploitation of ethnic capital in Africa is part and parcel of the relational exercise of power. Mafeje argues that, closely examined, ethnicity is nothing but an invention that is skilfully manipulated by the elite for power and domination. He adds that 'properly understood "tribalism" and "ethnicity" are ideological ploys, stratagems, cunning culturally informed manoeuvres so as to gain political advantage. This is an instance of the worst kind of political cynicism wherein the supposed leaders are prepared to sacrifice unsuspecting masses of people for their own immediate and mundane interests.'¹⁴ This analysis aptly captures how politicians skilfully use identity-based differences to make subjects dependent on them while also depending on them to maintain and exercise sovereign power and authority. In most African countries, ethnicity is the main form of identity. It is a major source of both unity and division. In Ethiopia this would be even more significant given the multiplicity of ethnic groups that are disgruntled by Tigrayan hegemony. Ethnic issues therefore fused with the economic reform project to trigger a process of an Ethiopian neoliberalism.

After assuming power, the EPRDF set about implementing new and controversial policies, the most contentious of which was the acceptance of Eritrea's independence and the reversal of the age-old quest of Ethiopian rulers to centralise the state and integrate a population belonging to more than 80 ethnic groups, or nationalities.¹⁵ The EPRDF adopted the typical structural adjustment policies of market liberalisation, with the support of the Bretton Woods institutions.¹⁶ This ostensibly ushered in a very vigorous political and economic reform process. The EPRDF promised to begin an era of multi-party democracy and ethnic equality and to put an end to the command economy.

In the first decade, the ruling EPRDF's policies and strategies had been based on ideology of the so-called revolutionary democracy¹⁷, or in local Amharic language '*Abyotawi* democracy'¹⁸ in pursuit of a 'revolutionary era'.¹⁹ According to Abbink, 'revolutionary democracy aims at the collective mobilization of the people, led from above by the party. It derives from a combination of Marxist and ethno-regional ideology and has no negotiated, evolutionary basis in Ethiopia.'²⁰ It was an ideology grounded in the belief that only the party knew what was good for Ethiopia and it was not obligated to consult other political groups including civil society. According to Bassi, 'the ideology of revolutionary democracy was grounded in three components that were incompatible with liberal democracy. These were the Leninist component, where 'rather than a "party of the working class", what was needed is a "party for the working class"'.²¹ The second was the Stalinist component and this operation was made by re-framing the national question in the logics of democratic centralism.²² The third and final component was the influence of Chinese communism. This ideological shift provides a significant pointer to the form and direction of neoliberalism that was taking shape in Ethiopia.

In the late 1990s, the EPRDF moved from the revolutionary democracy mantra to a 'developmental state' approach. Prime Minister Zenawi explained that, 'the "developmental state" should be obsessed with value creation, making accelerated and broad-based growth a matter of national survival.'²³ Fantini has elaborated how this ideology played out in Ethiopia in practice noting how the Ethiopian government has immersed itself and taken control of 'domestic revenues and international development assistance, as well as of the bank sector.'²⁴ The property of land is retained in public hands, with the official goal of avoiding processes of rural land dispossession, accumulation and consequent uncontrolled urbanisation. The state is by far the main supplier of basic social services (health, education,

water and sanitation, food security schemes).²⁵ This demonstrates a very active role for the state as opposed to 'privileging market forces over state intervention in most areas of economic activity.'²⁶ The reforms introduced by the EPRDF clearly bring out the changing role of the state in Ethiopia. Now, the state would be central in the economy as a player as well. The justification for that, according to Lefort, was in keeping with fears of leaving everything to 'market forces'. To that end, the EPRDF felt 'rendering the state 'non-activist and non-interventionist' and reducing it to a 'night watchman' role, thus 'unleashing the market' while expecting it to correct its own 'failures', would lead to a 'dead-end''.²⁷ In pursuing a 'developmental state', Ethiopia was emulating the Chinese development state.

According to Fantini, 'the politics of emulation goes beyond the mere adoption of imported political models, authorising practices of extraversion of external paradigms and their hybridisation with autochthonous political repertoires.'²⁸ Therefore, although the adoption of this model is an emulation inspired by the success stories of China in particular and East Asia in general, Ethiopia nevertheless carved out a specific developmental state model for itself. We now look at how the three aspects that underwent liberal reform, namely, ethnicity, land reform and economic policy, explain how the state has been involved in these contestations. To grasp the neoliberalism variant that emerged in Ethiopia, an understanding of the changing roles of the state is required. These case studies bring out the Ethiopian regime's approach and understanding of the idea of liberalism and democracy but also how this is shaped by pre-existing social contexts and political structures.

*The EPRDF and the Politics of Ethnic Democracy:
The State and Ethnic Engineering*

Ethnicity has for a long time been a central theme in the political economy of Ethiopia and sub-Saharan Africa at large.²⁹ According to Young, ethnicity might be conceptualized in terms of three defining elements, namely as 'a variable list of shared cultural attributes; an active consciousness of collective selfhood and lastly as defined by boundaries.'³⁰ To mitigate the potential for conflict and tension as well as to foster unity, some multi-ethnic African countries have devised ethnic federations. A federation of ethnic groups is a typical African organisation of society where the state bureaucracy and the political elite are composed of people from most of the different ethnic groups of the country; they in fact play the part of

‘delegates’ of their kin groups or ethnic groups.³¹ According to Azam, ‘in peaceful African countries, a sophisticated system of inclusion of the educated people from the different ethnic groups in various organisations (e.g. students unions or single party) has evolved, whereby the state purchases loyalty from the groups through their educated urbanite ‘delegates’.’³² In Ethiopia during the Dergue era, ethnicity had still been a contentious issue but the regime (dominated by the Amharic ethnic group) had tightly controlled it under a unitary, socialist system to the extent of making Amhara the only official language.

Economic, social and political questions of the day are ultimately linked to ethnicity in Ethiopia³³ due to massive contestation especially between the Amharic and Tigray ethnic groups and to some extent, the Oromo. Amhara are discontent because of the lost political power; Oromo are discontent because of marginalisation though it is the majority ethnic group in Ethiopia.³⁴ There are about 100 other political parties in Ethiopia, most of which are organised along political lines.³⁵ Consequently, a general problem in Ethiopian political life is the difficulty of distinguishing the party organs from the administrative organs of the state. People tend to see the party and the state as one. This problem appears at national, regional and local level.³⁶ The Dergue regime was seen as an Amharic hegemony. In order to create favourable conditions necessary to implement its neoliberal and ruling agenda, the EPRDF dismantled the Amharic structures that underpinned the Dergue hegemony, including its ethnic political capital. The EPRDF-TPLF replaced a perceived ‘Amhara/highland’-dominated ethnocratic state with a multi-ethnic state, but with one clear leading core group.³⁷ The Ethiopian regime seems to have attempted to manoeuvre the ethnic question to maintain control in the state. Resultantly, one of the most important changes introduced by the EPRDF was the replacement of Amharic hegemony with Tigrayan hegemony.

In what it termed ‘ethnic democracy’, the EPRDF chose to institutionalise ethnicity through a specialised federal manoeuvre: dividing the country into specific tribal regions (*Killils*) although according to Mehretu, ‘at no time in their modern history have Ethiopians ever made demands for separation along tribal lines.’³⁸ Each region was designated by a nationality, and two special chartered cities of multi-ethnic composition were created.³⁹ By so doing, the old unitary state was given up and sovereignty was vested in the country’s ‘nations’, ‘nationalities’ and ‘people’.⁴⁰ The logic here was that the EPRDF would use this as a way to give each of the 12 ethnic groups a stake in the governance of the

country, something which the Amharic-centric Dergue had failed to do. Mobilisation of rebellion against this Dergue government, led by Lt.-Col. Mengistu Haile-Mariam, had been successful on the basis of an appeal to this ethno-regional or ethnic aspect in people's identities, and it found resonance among some other large ethnic communities or their elites.⁴¹ Rhetorically, the EPRDF argued that political liberalisation was central to its reform agenda as it sought to dismantle the centralisation of politics in favour of decentralisation. Ethiopia thus officially became an ethnic federation. This was all part of the pursuit of a new 'state project' based on an open and decentralised political economy underpinned by constitutionalism and legislated federalism.

Zewde identifies four major factors that account for the dominance of ethnic-based mobilisation strategies in the post-1991 period, namely: (1) the political philosophy of the ruling party, (2) the destruction of the multi-ethnic left in the late 1970s, (3) the precedence of East Europe and (4) the material rewards that ethnic nationalism brings.⁴² These four factors provide the context in which this ethnic democracy concept was conceived. The fourth factor further attests to the relational exercise of power in Ethiopia which dovetails with the state-society framework to explain how social forces shape or reshape political processes through formal and informal institutions within the state. Gudina emphatically sums up exactly how ethnic mobilisation is central to Ethiopian society and politics, when noting that 'Ethiopian elites of various ethnic backgrounds promote contradictory views in the interpretation of the past, the way they understand the present and way they perceive the future.'⁴³ This melting pot of the ethnic complex is central to understanding Ethiopia's body politic, national psyche as well as the political economy of the country's development.

Abbink confirms that the prevailing context shaped the thinking behind this policy of ethnic liberalism and ethnic democracy. He opines this as he offers a suggestion, if not a justification, why there was some basis for this route to be taken. Abbink remembers that 'back in 1991 the TPLF-EPRDF ideology of ethnic federalism could have been seen as "the best possible model" after the ravages of the civil war and a regime marked by harsh centralist government suppression of ethno-regional sentiments and interests, and a relentless war.'⁴⁴ At the same time, ethnic-based decentralisation via the system of devolution, through regional administration, shows the dynamics of formal and informal power as institutions within the state to offset concerns over ethnic domination of some ethnic groups over others.

This approach has however been criticised by opponents of the regime. The EPRDF has been accused of using the principle of ethnic-based politics as a power retention ploy. By introducing this form of ethnic democracy as a component of neoliberalism, the regime is instead consolidating power by reordering the Ethiopian state in a way that is unambiguously meant to elevate the Tigray ethnic group through systematic marginalisation of the rest of the other ethnic groups.

The harshest critics of the regime such as Gudina have particularly pointed to what they regard as blatant discrimination against the Oromo ethnic group as an example of a systematic Tigray project for ethnic domination. Gudina dismisses the revolutionary (ethnic federalism) democracy introduced by the EPRDF, arguing that ‘the cosmetic changes introduced by the present regime under the guise of democracy and decentralization of power have failed to meet the Oromo people’s quest for real self-rule and democracy.’⁴⁵ To ensure the permanency of the new political order, created according to its own image, the EPRDF is accused of having undertaken constitutional engineering in 1994, where the ethnic-based federal structure, first-past-the-post electoral system, a bicameral parliament and above all a parliamentary system of government were introduced.⁴⁶ For some like Vestal, this is nothing more than ‘sponsored ethnic hatred.’⁴⁷ Ironically, where it claims to have introduced liberal democracy, the EPRDF is instead accused of arresting the democratisation process of the Ethiopian state.

Despite the decentralisation rhetoric, the central state still maintains tight control over the decentralisation process and there is a great deal of continuity in power disparity between the centre and the regions.⁴⁸ This demonstrates that the state became the major beneficiary of the reform process. Opposition also came from the other end of the political spectrum from those who regarded the ethnic policy as designed to dismember the Ethiopian state. Opposition groups and many of the country’s intellectuals have vehemently opposed EPRDF plans to devolve powers to ethnically based administrations because of concerns that these moves would bring about the dismemberment of Ethiopia, although the Front argues that such criticisms represent a rear-guard attempt to protect Amhara hegemony whilst the Oromo Liberation Front (OLF) in turn feared that the government’s intention was to deny Oromos a right to national self-determination that would include independence.⁴⁹ Official government attempts, therefore, at decentralisation based on ethnic geography have thus always been met with strong suspicion of ill-will.

The key point as regards the ethnic policies that were introduced by the EPRDF especially the ethnicisation of politics in Ethiopia is that this should be seen in light of the carving out of an Ethiopian version of neoliberalism within the context of the democratisation and economic reform political project. Brenner has argued that neoliberalism should be understood as not just a set of economic policy but a process that creates new state institutions.⁵⁰ The ethnic engineering that the EPRDF initiated was part of its neoliberal state project. However, this was influenced in shape and form by pre-existing conditions. For example, the government, in defence of its policies, declared that the ideological basis for its policy of ethnic federation was based on the idea that the central policies in Ethiopia had historically been hegemonic and exploitative and were thus a major detriment in previous internecine strife and civil war.⁵¹ Critics argue that though the EPRDF made ethnicity its signature issue in remaking Ethiopia and prominently placed the objective of 'rectifying historically unjust relationships', ethnicity was not as much of a divisive force until the EPRDF made it so.⁵² The ethnic democracy introduced by the EPRDF can therefore be viewed as a specific type of Ethiopian democracy but skilfully implemented by the regime. As an ethnic minority, the Tigray-led EPRDF was able to gain firm and total control over the country through a calculated policy of ethnic democracy.

*The Reform Era and Economic Liberalisation:
The Dominant Role of the State*

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

the removal of price controls; the liberalisation of commodity distribution, particularly agricultural produce; gradual devaluation of the Ethiopian Birr; the introduction of a regular Foreign Exchange Auction; the reduction of tariffs on imported goods to encourage imports; reform of tax policy, and gradual computerisation of tax administration; revision of labour and employment law, notably the previous regime's guarantee of government employment for graduates; gradual sale of a limited number of public enterprises under a wider, and still ongoing, programme of privatisation; the introduction of treasury bill options; the introduction of legislation allowing the establishment of privately owned banks and insurance companies; and the introduction of a land-lease system, designed to be more 'market oriented' and foster commercial investment, whilst retaining land in public ownership.⁵³

Before getting into detail of the process and form of this liberalism, it could be instructive to highlight by way of some statistics how this liberalism has lifted the economy. Ethiopia has shown increasingly impressive economic growth since 1991, with a particular escalation in the period since 2003, and continuing high annual growth rates throughout the period of the global downturn from 2008.⁵⁴ The IMF records Ethiopia's real average annual growth over the last decade as 8.4% (2001–2010), which is comparable with the rates achieved by BRIC countries.⁵⁵ In 2008, GDP composition by sector was as follows: Agriculture 45.9%; Industry 12.1% and Services 41.2% while life expectancy at birth was 55.41 years.⁵⁶

Perhaps the first sign that the regime's neoliberal conception was different, unique and not in keeping with the traditional 'Western neoliberalism' was provided when the EPRDF's economic transition program was criticised by the World Bank as being half hearted. The privatisation program in particular was criticised as slow and lacklustre and excluded important sectors (notably banks, telecoms, power and water distribution and air transport) either from foreign or from private investment.⁵⁷ The key point for this thesis however is not just that the above important sectors were excluded. Rather, it is that they were replaced and in their place emerged new social forces such as party-owned companies under the umbrella conglomerate Endowment Fund for the Rehabilitation of Tigray (EFFORT). EFFORT now 'owns almost all the major industries in Ethiopia including Banking, Construction, Agribusiness, Mining, Communication, Insurance and other pillars of the economy that are vital to the well-being of the country.'⁵⁸ The identity of the new capitalist forces that replaced or excluded the traditional capitalist institutions gives a big hint as to the form of neoliberalism that the EPRDF sought to foster. They were linked to the state.

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

Some of the largest EPRDF companies or their affiliates are as follows: agriculture, Hiwot Agricultural Mechanisation, Zeleke Agricultural Mechanisation, Tesfa Livestock, and Rahwa Goat and Sheep Export; in finance and trade, Wegagen Bank, Africa Insurance, Guna Trading House, Ambassel Trading House, Dinsho Plc, Wondo Trading, and Dedebit Credit and Savings Institution; in industry and mining, Meskerem Investment,

Ezana Mining, Sheba Tannery, Almeda Textiles and Garment, Addis Pharmaceuticals, Mesfin Industrial Engineering, Beruh Chemical, and Dashen Brewery; in construction, Addis Construction, Sur Construction, and Mesebo Building Materials; in transport, Trans-Ethiopia, Blue Nile Transport, and Express Transit; and in services, Mega-Net Corporation and Experience Ethiopia Travel.⁵⁹

The liberalisation of the economy thus displaced the little traditional private capital that existed prior to 1991, replacing it with emergent, new capitalist forces, both private and state-owned. However, as can be seen from Abegaz's work, it is party-linked businesses that emerged as the major beneficiaries. This analysis is supported by Klein who notes that 'the TPLF/EPRDF business empire is said to control nearly a third of the private sector at the moment. Hence the best beneficiary of the free market economy is the TPLF.'⁶⁰ As will be elaborated in the next chapter, this was not by a coincidence. Rather, it was part of an elaborate process of the emergence of an Ethiopian neoliberalism, underpinned by what the study describes as party-oriented capitalism.

The EPRDF also continued with its political liberalisation and decentralisation program by focusing 'on the capacitation and expansion of demographically defined local districts or "*meredas*", the third tier of government.'⁶¹ However, they are co-opted into the party through a sophisticated recruitment drive. Today the social base of the elite includes the many peasant farmers, youth cooperative members, school and university students and graduates who have been recruited into the party. Party cadres form an important core of the federal and regional service with an increasing number of political opponents at every level of government.⁶² In the last few years the EPRDF has also won a degree of support in the commercial sector (albeit a minority), with significant private donations to the party, a significant feature of the 2010 election campaign.

The EPRDF government has achieved a high degree of centralisation of rent management and allocation, retaining control of a large proportion of available sources of rents and economic levers.⁶³ These include the large SOE sector, endowment-owned businesses and substantial regional development organisations, as well as tight regulation of financial institutions, including for micro-credit, and expansion of the tax base.⁶⁴ This would be crucial in facilitating Chinese investment later on. According to Abegaz, 'such firms in effect create two distinct private sectors: one that is politically connected, and another that is not.'⁶⁵ The former can exploit

political connections (through party cadres in the bureaucracy) to practice unfair competition for government business and to engage in rent-seeking in the form of tailored state subsidies or protection and insider privatisation.⁶⁶ Even though they belonged to the EPRDF party as officials, they were still difficult to identify. They are said to be registered in the name of individuals, NGOs or regional governments.⁶⁷ Their partnership with private players, both local and international, created a complex alliance between the state and new social forces with links to state institutions.

Whilst this may not be the exact state-led capitalism that has defined the growth, expansion and indeed internationalisation of the Chinese economy in the past two decades, it resembles something like it. There is a strong indication that this can be viewed as a southern neoliberalism. In much of the global south, the market agenda seems rather to have reorganised state elites, and re-structured, sometimes to the point of crisis, social arrangements between the state and the wider population.⁶⁸ As explicit talk of Leninism has faded over the years, other ideas about the developmental state and its economic successes in Southeast Asia have come to the fore.⁶⁹ The inherently non-liberal conception of a broadly encompassing role for the party, with mass membership of the population, and cooperatives and mass associations alongside a powerful developmental state, has persisted and been reinvented as the EPRDF's terminology, and ultimate socialist aspiration, has changed.⁷⁰ Inevitably, this has led to the creation of new social forces in the form of rent seekers who have close links with the state, formally and informally.

Meanwhile, the EPRDF did not limit its liberalisation changes to opening up for local, private capital internally only. Many significant changes were introduced, and in terms of the investment framework, the investment code was revised four times in as many years and presently allows greater private sector participation, including in public utilities where the state enjoys a *de facto* monopoly.⁷¹ The effects were already clear within the first seven years. The total FDI inflows into Ethiopia have increased continuously from US\$ 135 million in 2000 up to US\$ 545 million in 2004. Since then up to 2007 the yearly FDI inflows have varied between US\$ 545 million and US\$ 265 million.⁷²

It is important to put the market economy reform instituted by the EPRDF into perspective. Although it advocated for the dismantling of the socialist system and ushered in a market economy based on liberalism and the primacy of market forces, its development strategy was not anchored on full-blown capitalism but on what could be referred to as a

developmental state with neoliberal characteristics. Neoliberalism, as Brenner *et al.*⁷³ have argued, takes diverse and variegated forms including in the global south. To show the unique nature of the Ethiopian neoliberalism, even after all the hype about liberal reform, Vaughan and Gebremichael have found that the system in Ethiopia is a

much wider centralised and ideologically driven strategy of managed economic development pursued by the ruling party. This strategy is assertively led by the state, and also encompasses the activities of SOEs, public and private banks and micro-credit institutions, FDI, co-operatives, farmers' and youth associations, and regional developmental bodies.⁷⁴

Further, 'economic performance in Ethiopia is highly correlated with conflict and the political processes that accompany it.'⁷⁵ The EPRDF elite fundamentally restructured the Ethiopian state, redefined Ethiopia's relation with independent Eritrea and co-opted the economy by bringing it largely under its own control.⁷⁶ The state is playing a prominent role in the economy and hopes to continue doing so until the free market matures, and until such time, the state is poised to maintain control of the commanding heights of the economy.

Liberalisation and Capitalist Land Reform: The Changing Role of the State

Ethiopia's new neoliberalism also extended to the rural economy although the transition to a more market-based, liberal policy regime on land did not happen immediately but progressed gradually. This was because such changes had the potential to hurt some social forces at a time when the EPRDF needed the support of as many of them as possible to consolidate its power first. An example is the peasant class which, though opposed to the previous regime's nationalisation of land, would not countenance a radical shift towards a capitalist system that would invite foreign private players which would threaten their land ownership. For example, owing to the land redistribution policy and its subsequent negative effects, the peasants of Gojjam began to voice their protest against local officials.⁷⁷ However, the changes that were subsequently introduced changed the political economy of land in Ethiopia. Whereas the Dergue had embarked on a socialist path of nationalising agricultural land, the EPRDF subjected this key resource to market forces. This thesis maintains that just like with ethnicity and the economy, the liberalisation and capitalist land reform

instituted by the EPRDF was in keeping with an Ethiopian neoliberalism that would still leave the state with overarching control over the sector.

During the first decade of EPRDF rule, government policy was very much focused on smallholders and peasants. The investment in agricultural lands in Ethiopia in the late 1990s and 2000s started with domestic investors, both private and ruling party-affiliated people, who bought land for commercial agriculture for export.⁷⁸ It is from the 2000s that a shift is apparent towards embracing foreign, large-scale private investors into the agricultural sector. A number of legal instruments were enacted to formalise the accommodation of foreign private capital's access to land and water in Ethiopia. The main legal basis for investments in Ethiopia is Proclamation 280/2002 (and amendments 375/2003). They state the incentive to attract foreign investment in order to promote investments in order to promote export industries and technology transfer and thereby increase foreign exchange earnings.⁷⁹ The critical point to note is that the pursuit of neoliberalism was not just an economic strategy but a state project that entrenched certain social forces including state officials, local business elites and later on international corporate actors within the state. Clearly, politically connected entrepreneurs emerged as a new social force out of the liberalisation and marketisation of land in Ethiopia.

It should be noted that from a regional perspective, land deals involving national governments and private, international capital have become so pervasive in Africa over the past few decades.⁸⁰ Concerns over the leasing of, or selling of, large areas of land to transnational corporations (TNCs) and external governments by national governments are growing. It is estimated that 2.4 million hectares in Africa have already been appropriated this way.⁸¹ The lowest prices are in Africa, where, says the World Bank, at least 35 million hectares of land has been bought or leased.⁸² Changes in the Ethiopian government's land policy started to favour large-scale investments in the early 2000s and the policy sees them as a main pillar of agriculture production.⁸³ For a country where 80% of the population rely on the land for a livelihood, this meant far-reaching implications. In a food-insecure country such as Ethiopia, where several million people rely on food aid, the idea of offering fertile land to outsiders has raised concerns.⁸⁴ The capitalist transformation around land has thus seen an influx of foreign investors wishing to exploit the land resource in Ethiopia, affecting power and social structures. The presence of international capital has linked various fractions of foreign capital with other local social forces such as the well-networked party-owned companies grouped under EFFORT and SOEs.

In Ethiopia, demand for agricultural land by foreign and domestic investors has soared in the last decade.⁸⁵ The state has embarked on a crusade to modernise agriculture by effectively suppressing smallholder, peasant farming in favour of more sophisticated, mechanised agriculture, hence the influx of foreign capital in the agricultural sector. In order to attract foreign capital into Ethiopia's agricultural sector, the government introduced massive incentives including tax breaks besides offering the land at very cheap world prices in the first place.⁸⁶ The new situation prompted the introduction of investment licences to regulate the agricultural sector. According to Baumgartner, if investment licences are grouped according to their European share we obtain three groups: (1) fully Ethiopian, (2) Ethiopian share (joint investment with foreign) and (3) fully foreign.⁸⁷ The internationalisation of land acquisitions and land deals in Ethiopia thus led to the creation of new transnational alliances with domestic investors entering into deals and partnerships with foreign investors.

The Ethiopian government says 36 countries including India, China, Pakistan and Saudi Arabia have leased farm land there.⁸⁸ One of the most affected regions affected by this opening up of land to foreign investors is the Ethiopian region of Gambella. According to Vidal, sparsely populated Gambella is at the centre of the global rush for cheap land, precipitated by the oil price rise in 2007/2008, when many countries wracked by food riots encouraged their farmers to invest abroad to grow food. Gambella has offered investors 1.1 million hectares, nearly a quarter of its best farmland, and 896 companies have come to the region in the last three years.⁸⁹ At the same time, the state was also involved in the sector as a player. Ethiopia is probably the African country with the greatest state involvement in the agricultural sector, through the developmental state; it also has the highest level of state investment.⁹⁰ This created new social forces with links to the state like bureaucratic party-linked cadres as well as party-linked capitalists and civil society.

The temptation to view the actions of the EPRDF on land reform as having been conceived neatly by the state outside of the contribution or at least influence of no other social forces is tempting but it must be resisted. It is misleading to view the EPRDF as having absolutely conceived and delivered a market economy, and especially with regards to agriculture, a land reform package with such far-reaching capitalist transformations without influence. According to Berhe, land reform seems to have been

‘opportunistic and varied’, even occasionally a competitive response to the activities of the leftist Ethiopian People’s Revolutionary Party.⁹¹ The EPRDF introduced these reforms in part because other political parties were proposing to the peasants’ alternative, attractive land reform arrangements. The far-reaching land reform program was thus both a reaction to and a product of the pressure felt by the EPRDF from such rival parties such as the TPLF which was promising a more broad-based and secure land redistribution program. The key point however that is politically connected entrepreneurs emerged as a new social force out of the liberalisation and marketisation of land in Ethiopia.

4.3 LIBERALISATION, THE EMERGENCE OF NEW SOCIAL FORCES AND THE ENTRY OF CHINESE CAPITAL

The reform period is important for many reasons. For this book, the critical point to note is the variety of neoliberalism that came out of the reform era which saw the state emerging with the central role in the economy. Within this globalisation matrix, the state is being (re)assigned roles in order to facilitate capital’s designs. Put differently, Ethiopia becomes a transnational state (TNS) ‘regarded as a guarantor of capital accumulation at the global level’.⁹² The second and interrelated point is that because of this mode of neoliberalism, opportunities were created for the emergence of new forms of capitalist players. Some of the key social forces to emerge include private businesspersons, transnational companies, civil society, party-linked business cadres as well as state-owned entities—all linked to the state. These players are some of the major capitalist players now pivotal to the Ethiopian economy. Crucially, the state has sought to co-opt them in one way or another. In this brief section, the thesis discusses how the ‘developmental state’ has devised mechanisms to co-opt or at least silence some of these social forces. This development is key as, in the next chapter, it will be demonstrated how Chinese capitalism strengthened such new forces within these institutions with important implications for state-society relations in Ethiopia.

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

The uneven development of neo-liberalization results, on the one hand, from the continuous collision between contextually specific, constantly evolving neo-liberalization projects and inherited politico-institutional arrangements, whether at global, national or local scales. At the same time, through this collision, neo-liberalization processes rework inherited forms of regulatory and spatial organization, including those of state institutions themselves, to produce new forms of geo-institutional differentiation.⁹³

The liberalisation of the political space in pursuit of the new state project from 1991 ushered in a new era for civic actors. Trade unions, peasant cooperatives, youth and student organisations, professional associations, the non-government media, NGOs and advocacy groups soon sprouted.⁹⁴ When the Dergue collapsed in 1991, civil society groups and NGOs emerging from the wreckage left behind were weak, disorganised and without either significant resources or constituent bases.⁹⁵ However, despite opening up political space for them, the state attempts to subjugate much of the civil society such that most of it is linked together within the state institutions.

On 30 March 2005, the Government of Ethiopia expelled three internationally esteemed United States non-governmental organisations—the International Republican Institute (IRI), the National Democratic Institute (NDI) and the International Foundation for Electoral Systems (IFES)—that were attempting to train civil society organisations so that they would promote a democratic practice that would help the general election process of 2005.⁹⁶ For those that have maintained independence, the EPRDF has enacted legal and extra-legal measures that force civil society to avoid issues that deal with democratic governance and human rights violations. According to Clark, the EPRDF's known tactic is to plant undercover agents in the organisation with the purpose of creating splinter groups in the ranks and then supporting factions favourable to its policies and cracking down on groups opposed to it.⁹⁷ For example, the chair of the Confederation of Ethiopian Trade Unions (CETU), Dawi Ibrahim, has been forced to flee to the Netherlands where he has asked for a political asylum to escape unremitting government surveillance on his private life and open-ended persecution and hostile measures directed against him by the state security police.⁹⁸ The government has gone on to create its own NGOs affiliated to it and 'in other cases, parallel organizations such as those of the Ethiopian Teachers Association (ETA) and the Ethiopian Journalists Association (EJA) were created.'⁹⁹ Such civil society

organisations with links to the state emerged as some of the new social forces and, as will be discussed, were strengthened by Chinese capital which by extension has strengthened the EPRDF regime.

Notwithstanding widespread criticism inside Ethiopia, if one were to entertain the thought that the idea of devolution or decentralisation was conceived with the best of intentions, then it still faced another uphill battle right from the onset. Constitution-making under the EPRDF has little in common with the bargaining, trade-offs and compromises that usually typify such processes; rather it reflects the weakness of the country's democratic institutions, the political objectives of the governing party and its position of dominance within a state where serious opposition had been crushed or marginalised.¹⁰⁰ Put differently, the internal capacities of the Ethiopian state have not been strong enough to institutionally sustain a more devolved yet democratic dispensation. Ethiopian democracy is not perfect. However, despite the hurdles that the liberalisation of the economy and politics has encountered, the key point to note is that the gradual opening up of the economy is linked to the emergence of new social forces within the state.

With the aid of these three case studies, the chapter has elaborated how the EPRDF committed itself to implementing radical reforms to transform the state from socialism to some form of neoliberalism. This new state project was envisaged to reverse poverty by opening up the economy to foreign capital alongside the liberalisation and democratisation of the state. The incoming EPRDF-led Transitional Government of Ethiopia (TGE) embarked on a range of reform measures in three areas: democratisation, decentralisation and economic liberalisation.¹⁰¹ We take particular interest in the fact that this neoliberal and capitalist transformation was the key in enhancing the political processes and social coalitions that would facilitate and cushion Chinese investment in Ethiopia. In other words, these reforms prepared the ground for the subsequent political and institutional changes that were triggered by Chinese investments. These institutional structures shaped the character, whilst the opportunities shaped the impact of Chinese investment. This period is about a capitalist transformation and sets the stage for the discussion of Chinese investment and its drivers in the next chapter.

With regard to this liberalisation and the economic benefits it delivered in Ethiopia, this book takes particular interest in the role of Chinese capital. Among the transnational investors is Chinese capital whose scope and involvement in the Ethiopian economy has expanded ever since 1995.

As soon as the EPRDF ascended to power in 1991 and began the process of opening up the economy, it set Ethiopia on a platform of strong engagement with China. This was effectively kick-started by the then Prime Minister Meles Zenawi's first official 'visit to China in 1995. The visit was reciprocated by the president of China who visited Ethiopia in 1997. Other high-level visits were also exchanged. Exchange of high-level visits consolidated the momentum.'¹⁰² As part of its global engagement, Chinese capital (both state owned and private) is a core player in the Ethiopian economy today. At the same time, Ethiopia has a very important political and diplomatic relationship with China steeped in both bilateralism and multilateralism.

Owing to the neoliberal reform agenda, the country has become one of the highest beneficiaries of foreign, especially Chinese capital in Africa in the last decade. While traditional donors such as the World Bank (IDA), the United States and European donors still provide the bulk of development assistance to Ethiopia, 'new' partners—first and foremost China, but also India or the Global Fund—have brought new sources of financing and alternative ideas on political and economic development for the Ethiopian government.¹⁰³ The task then in the next chapter is to analyse the specific players in Ethiopia facilitating these Chinese investments. According to Bieler and Morton, 'capital is not simply represented as an autonomous force beyond the power of the state but is embodied by classes or fractions of classes *within* the very constitution of the state.'¹⁰⁴ Also, with the afore-discussed hegemony of the Tigrayan elite, the question arises if Chinese capital is facilitated by them as conduits for its internationalisation or whether global capital knows no tribe or ethnicity but simply remains linked by fractions of capital in Beijing and Addis Ababa.

4.4 CONCLUSION

This chapter has showed the important transition from a centralised, command economy to market neoliberalism that took place after 1991. This was both an economic and a political transformation. It is emphasised that the form that this neoliberalism took was shaped by the specific political context of Ethiopia. The chapter draws the connection between state transformation, new social formations and the link between state and society or formal and informal power via state institutions. The opening of the political and economic space in 1991 created many opportunities for both domestic and international players. Since a developmental state approach had been proclaimed, the state became heavily involved in the economy in

various ways. The key here is to see the way these new social forces emerged out of this distinctive process of neoliberalisation and worked through old (party oriented) and new political institutions. Such local forces would be key in the coming discussions focusing on how Chinese capital as an external variable linked with these internal fractions and the effect this had on state-society relations. To summarise, the reform process ushered in an Ethiopian neoliberalism that had as some of its key features, state control, co-optation and domination. With such internal conditions, Chinese capital was able to establish entry points into the Ethiopian economy, penetrating to the extent of establishing networks with specific social forces linked to the state. The chapter has made the analysis of (Ethiopian) neoliberalism and state transformation (especially the role of the state) the key aspects setting the stage for the next discussion on the institutional drivers of Chinese investment in Ethiopia.

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The Drivers of Chinese Investment in Ethiopia Since 1995: Institution, Economics and Politics

5.1 INTRODUCTION

The previous chapter outlined how the new EPRDF government instituted its reform agenda soon after taking over from the socialist Dergue in 1991. One of the key reforms undertaken was the opening up of the economy to foreign capital. A significant outcome of this was the entry of Chinese capital into the Ethiopian economy beginning in 1995 and the dawn of serious Chinese–Ethiopian investment relations. This took place in the context of the internationalisation of Chinese capital which was then only beginning. According to Bryan, ‘a process of internationalisation is generally understood as a growth of trade between nations, or investment by one nation in another.’¹ In order to outline the nature, extent and patterns of Chinese investment in Ethiopia, the chapter examines the three key drivers of Chinese investment in Ethiopia. Broadly, these are institutional, economic and political. Because this expanding cooperation is the result of the internationalisation of Chinese capital, its manifestation through globalisation with Chinese characteristics and the centrality of Ethiopia to China’s overall expansion into Africa is also discussed. The chapter’s key argument is that there has developed mutual accommodation between Ethiopian neoliberalism and the EPRDF regime on the one hand, and the Chinese mode of international engagement, driven by its own distinctive ‘statist capitalist’ transformation, on the other.

The chapter is divided into two broad sections. The first section traces the historical background behind China–Africa cooperation, including how specific episodes like the Cold War and its politics have influenced the nature of this relationship over time and space. It also provides an understanding of China’s distinctive path of capitalist development as defined by statist capitalism. The chapter will then identify specific drivers of Chinese investment in Africa. These include SOEs, special economic zones (SEZs), private capital and political as well as economic instruments of China’s distinctive mode of international engagement. These drivers are all enhanced by certain bilateral and multilateral institutions. By the end of the chapter, the nature, extent and patterns of Chinese investment in Ethiopia should be clear. This analysis is guided by the understanding that the specific form that neoliberalism took in Ethiopia, and the state transformation that has ensued, involved a key role for the state in reinforcing and facilitating this investment. The next chapter will then focus on how this Chinese investment is linked to new modalities of state intervention in Ethiopia, especially how this is strengthening the Ethiopian state institutions.

Ethiopia has had important foreign economic relations with many countries but it is hard to find one that has been more profound and consequential for its contemporary economic terrain than the decision in the early 1990s to intensify cooperation with China. This coincided with the very period when China, pursuing a new policy towards Africa, was implementing its ‘Go Out’ strategy.² The ‘rise’³ of China itself over the past 10–20 years is arguably one of the most significant economic stories in the world in the twenty-first century. Yin-Wong Cheung *et al.* observed that ‘China’s overseas investment activity has reached a level that could challenge international investment norms and affect international relations.’⁴ China has become by far Africa’s biggest trading partner, exchanging about \$160 billion worth of goods a year.⁵ According to Hunter, China’s growth, power and influence are being felt everywhere especially through the projection of its ‘soft power.’⁶ Through involvement in global governance and the spread of its ‘soft power’, for instance, via corporate activity (whether state or privately owned) and international migration, China is a prominent global actor and is arguably the key driver in what may in the longer term emerge as a wider Asian-influenced form of globalisation: a Global Asian Era.⁷ As Chinese expansion goes global, in sub-Saharan Africa, it is leaving distinctive marks.

As far back as 2005, Zafar noted that ‘over the last decade, China has built a network of trade, aid, and investment links with close to 50 African countries, and there has been a rush to buy up concessions to Africa’s natural resources.’⁸ In the first ten months of 2005, Chinese–African trade grew by 39% to \$32.17 billion, and as a result China overtook the United Kingdom as Africa’s third most important trading partner in 2005 (after the US and France).⁹ In 2010, it was reported, according to statistics of the Chinese Ministry of Commerce, that China’s FDI in Africa had increased yearly by an average of 46% over the last decade.¹⁰ However, China–Africa cooperation is part of a longer history and it is instructive to trace and summarise its genesis and development. This is important because the rhetoric of the historical relationship that continues to be articulated by the two sides today, such as ‘win-win’ and ‘mutual benefit’, provides good context notwithstanding the evolving nature of these ties.

5.2 EVOLVING CHINA–AFRICA RELATIONS: FROM IDEOLOGICAL SOLIDARITY TO CHINA’S PRAGMATIC ENGAGEMENT

Economic relations between China and Africa have a very long history and can be traced back to the first Han emperors of the Second Century BC. The best example is the Chinese navigator, Zheng He, who reached the coast of Africa four times, disembarking in Somalia and Kenya, in the early fifteenth century.¹¹ Despite these very early ties between Africa and Asia, it must be noted that it was only in the mid-twentieth century that they began to take a distinct and important turn. The increased speed of these relations is a consequence, in part, of the connections forged during the anti-colonial struggles of the 1950s and the revolutionary period of Chinese foreign policy from 1950 to the early 1970s.¹² China’s first official contacts with Africa occurred during the Bandung Conference of Nonaligned Nations in April 1955 and the attendance of Chinese leaders at this conference was testimony to China’s new identification as a member of the Third World.¹³ In locating China’s historical ties with Africa, it is also important to highlight that China has always ideologically offered an alternative worldview to that provided by the West politically, socially or economically. For example, communism and socialism have at various times formed the basis of Chinese economic and social organisation and these have been adopted by several African countries with varying degrees

of success. For the better part of the last century, China was arguably the world centre for communism and socialism. Maoism in particular resonated throughout the Third World.¹⁴ That said, the nature of China–Africa relations have not remained static but have evolved over time and they can be explained in phases.

According to Mathews, China–Africa relations can broadly be divided into three distinct phases. The first was the fifteenth-century mercantile expansion of China associated with the Ming Dynasty, which saw China ‘discover’ much of Africa as far as south as Mozambique nearly 100 years before the first arrival of the Europeans.¹⁵ Then came the Cold War era during which two distinct phases of Chinese engagement with Africa are identifiable. The first was the Maoist era when China’s Africa policy was marked by mainly ideological and strategic considerations.¹⁶ From its own point of view, China was far more interested in launching a “soft power” campaign in Africa in the Maoist era, against both Western imperialism/colonialism and Soviet revisionism at the time. China saw itself as a member, and even the leader, of Third World struggles, trying to undermine western and Soviet influence and to isolate Taiwan on the world stage.¹⁷ Owing to Cold War politics, many pre-independent African states in the twentieth century were inspired by the Chinese model and aspired to follow suit. According to Taylor, Beijing constructed a theoretical position that implicitly posited the developing world and China together and inferred an antagonistic relationship with the two superpowers¹⁸ (US and then USSR). To that end, the Chinese nation made enormous financial contribution (considering China was still a basket-case Third World economy) and human sacrifices just to make an ideological point.

China provided various forms of support to African liberation war movements that were fighting imperialism in the crucial decolonisation period of the 1950s to 1980s, most of whom are still ruling parties today. To illustrate this point, a few examples may suffice. Zimbabwe, then Southern Rhodesia, received ‘military assistance, which saw China sending military hardware to guerrillas’ in the Zimbabwe African National Liberation Army (ZANLA), the military wing of Zimbabwe African National Union (ZANU). The second form of support was the extensive military training that was given to ZANLA guerrillas.¹⁹ Even today, Zimbabwe’s President Robert Mugabe considers himself a ‘Maoist.’²⁰ China ‘supported the National Front for the Liberation of Angola (FNLA) and National Union for the Total Independence of Angola (UNITA).’²¹ China–Africa relations during the greater part of the Cold War therefore were largely political

because during this period, China sought ideological support and influence in Africa. During this period, China also expanded its involvement in Africa to counter the influences of the United States and the Soviet Union. In the 1960s, China lacked the resources of the Cold War superpowers, but it still invested significant energies in support of independent Africa.²² Besides assisting African countries in their struggles for independence, China was also carving out its own spheres of influence in the African region. However, China's policy towards the region was to change with the ascension to power of Deng Xiaoping in December 1978.

This second phase in the Cold War period therefore started with Deng Xiaoping's economic modernisation policies. Almost immediately, Deng virtually brought to an end China's remaining practical support for revolutionary movements abroad and significantly reduced China's aid to Third World countries.²³ Deng remodelled China's foreign policy to align it with national interest in a changing world. China's foreign policy now stressed the development of friendly relations with other nations without regard to their social systems or ideological orientation.²⁴ Consequently, it was in 1979 that a significant change in China–Africa relations took root. According to Taylor, with Beijing fixated on its economic development programme under Deng Xiaoping, Africa was seen as largely irrelevant to the increasingly commercial nature of the PRC's external relations.²⁵ Yet China's policy towards Africa today is complex and calculated to be in keeping with China's strategic interests. In sum, the relationship has thus evolved from a mainly political one to an economic one.

From the foregoing, the 'Beijing Consensus' must be understood as China's second 'soft power' campaign. More importantly, it should be noted that the lessons of the Maoist era are today playing a key role in shaping the form and content of China's contemporary foreign policy strategy towards Africa. China's attitude towards Africa turned pragmatic as 'China no longer wanted to assist Africa unconditionally and in order to develop economically, it could not assist Africa with costly aid programmes.'²⁶ Chinese penetration in Africa and Ethiopia today is therefore not just a natural outflow of a neoliberal Sino-capitalism—the debate in China about how to deal with Africa (states and societies) is also informed by the lessons learned from the approaches of the Maoist era, warts and all.

Chinese foreign economic policy has therefore developed and evolved over time. However, this reform era which started in the late 1970s as a process of 'Opening Up' to the outside world, as well as 'Bringing In'

foreign investment and expertise²⁷ is the genesis of an assertive Chinese foreign policy not only in Africa, but across the globe. According to Friedberg, ‘the official campaign launched in 2002 to encourage Chinese firms to invest overseas has an air of improvisation, if not desperation, and is an odd blend of shop-worn party sloganeering (“Go Out!”), and 21st century state-directed capitalism.’²⁸ China’s economic dealings with most African countries are today based on a cool evaluation of their perceived economic potential.²⁹

At the same time the ‘Go Out’ strategy was being rolled out, a deliberate home-grown type of capitalism that had a central role for the state in the economy was developing in China. In all the radical reforms that he introduced, Deng insisted China remain a socialist nation with central control.³⁰ What ensued was a huge ideological shift from socialist modes of production to a distinct neoliberalism in China’s political economy. As Hameiri and Jones have noted, ‘since the reform era began in 1978, the Chinese state has experienced considerable disaggregation, the divestment of power and control to semi- and fully private actors, and the devolution of authority and resources to subnational agencies.’³¹ China’s economic transformation is linked to the changes that occurred in its international orientation, especially its economic engagement with the world. With this background, the key point for this study is that China’s social, economic and political history and its state-led development would mesh with patterns of capitalist transformation to create a distinctive pattern or neoliberal development in Ethiopia. Indeed, it is this distinctiveness, encapsulated in what scholars like Breslin³² have termed ‘capitalism with Chinese Characteristics’, or ‘globalisation with Chinese characteristics’ like Henderson with Appelbaum and So,³³ or simply, ‘Chinese characteristics’ like Callahan,³⁴ that would shape its engagement with Ethiopia.

Today, China’s relations with sub-Saharan Africa are multifaceted and much of this activity is concentrated in a handful of African countries and in the extractive industries, such as oil and mining, but increasingly, businesses from China are also pursuing strategies in Africa that are about far more than natural resources.³⁵ As Africa’s second most significant trading partner in aggregate terms and provider of large loan packages in exchange for provisions for infrastructure, as well as an increasingly important investor in financial services, China is easily the largest of the emerging powers operating in Africa today.³⁶ As recently as 2013, the Chinese President was in Tanzania and stressed:

Let me make it clear to you, my dear friends, that in the new environment, China-Africa relations have become more important with greater common interests, instead of less important with fewer common interests. Let me assure you that China will intensify, not weaken, its efforts to expand relations with Africa.³⁷

A cursory glance at the manner in which China–Ethiopia political and economic relations has gained pace over the past two decades gives an impression that the momentum will only continue.³⁸ Africa expects to benefit from technology transfer, access to loans, development assistance as well as diplomatic support, for example, in the UN Security Council where China wields veto power. China requires the African market as well as investment opportunities for its expanding domestic economy.³⁹ The China–Africa relationship is therefore expected to grow and there are strong indications that China’s interest in Africa is long term.

The resource-rich countries of Angola, Sudan, Nigeria and Zambia, as well as the more politically strategic countries of South Africa, Ethiopia and Egypt, are priority countries in China’s broader African engagement.⁴⁰ Interestingly though, Ethiopia still stands out in China’s Africa policy even when it is not endowed with mineral resources. Ethiopia does not produce raw materials critical to China and it does not even have direct access to the sea.⁴¹ However, between 2003 and 2013, the yearly volume of bilateral trade between China and Ethiopia increased by more than 13 times. China has become the biggest foreign investor and the largest trading partner of Ethiopia.⁴² According to Gamora and Mathews, ‘Ethiopia has become a reflection of China’s wider ambitions in Africa and the changes it portends for the region.’⁴³ A poor, landlocked nation of 80 million people, ‘Ethiopia lacks the vast natural resources that have drawn China’s interest in other countries. But it has something else Beijing craves: geopolitical clout in the region. Ethiopia is the source of the Blue Nile, the river that slakes Egypt’s thirst. It is the meeting ground between largely Muslim North Africa and the Christian south.’⁴⁴ Even though China has long had a presence in Ethiopia, the scale and intensity of current relations are unprecedented. Before getting into detail on the activities of Chinese capital in Ethiopia, we examine the key aspects of the distinctive nature of Chinese capitalism first.

5.3 THE DISTINCTIVE NATURE OF CHINESE CAPITALISM

China has moved from a state-planned and state-owned economy towards state regulation of a hybrid economic system with the existence of a private economic sphere that remains very close to the state system that nurtured it.⁴⁵ The current massive trade and investment engagements are a direct result of this liberalisation drive which essentially encouraged Chinese companies to become multinationals. According to Renard, the Chinese development model is the result of the interaction between a restrictive political system, which developed internally, and economic actors largely dependent on that system.⁴⁶ This crucial transition in China's domestic economic policy ushered in a raft of changes on its foreign policy, underpinned by what has now been termed Sino-capitalism. McNally has defined Sino-capitalism as a 'capitalist system that is already global in reach but one that differs from Anglo-American capitalism in important respects. For example, Sino-capitalism relies on informal business networks rather than on legal codes and transparent rules.'⁴⁷ With China's expansion and influence across the globe, this distinct form of neoliberalism has become internationalised in what is now manifesting as globalisation with Chinese characteristics. Thus, whilst globalisation with Chinese characteristics is an international phenomenon, it is rooted in the domestic political economy of China itself. It is a complex cross section of local, provincial, sub-national, state and non-state owned elements of capital and their investments and activities outside China ultimately centre around these fractions of capital and transnational elements alike.

The international economic activities of China cannot, however, be viewed outside the wider discussion of globalisation in general. As late as 1999, Brenner noted that the current wave of globalisation in general (was) leading to (i) the transcendence of the state-centric configuration of capitalist territorial organisation that prevailed throughout much of the twentieth century and (ii) the production of new configurations of territoriality on both sub- and supra-national geographical scales.⁴⁸ According to Mittelman:

the manifestations of globalisation include the spatial reorganisation of production, the interpenetration of industries across borders, the spread of financial markets, the diffusion of identical consumer goods to distant countries, massive transfers of population – mainly within the South – as well as from the South and the East to the West – resultant conflicts between immigrant and established communities in formerly tight knit neighbourhoods, and an emerging worldwide (though not universal) preference for democracy.⁴⁹

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

Glassman has defined internationalisation of the state as 'a process in which the state apparatus becomes increasingly oriented towards facilitating capital accumulation for the most internationalized investors, regardless of their nationality.'⁵⁰ Gonzalez-Vicente has offered some insights into such characteristics including that, 'in search for domestic and international competitiveness, most Chinese SOEs underwent a restructuring that transformed them into entities that are now more similar to other major transnational companies, adding that moreover, they became less controllable by the Chinese central government, while remaining strategic branches of the state.'⁵¹ There are many features that distinguish Chinese capital from other capitalisms. One of the most important of them is the role of the Chinese state in the internationalisation of Chinese capital. Therefore, the first feature of the internationalisation of Chinese capital the thesis discusses is the centrality of SOEs.

The state and its various agencies are at the centre of Chinese capitalism. According to Gonzalez, 'central government strategy is hence a key driver in these processes, through which particular branches of the state become dissociated from centralized power and are profoundly reconfigured in new international arrangements.'⁵² While SOEs from other countries have had limited roles in overseas investment in the past or contemporary periods, the difference with China is the scale of SOE involvement and the extent to which this may imply a concern with political-strategic issues as well as commercial ones.⁵³ Chinese SOEs are playing the most active role in offshore investments. There is therefore heavy state involvement in the economy both at home and abroad; 'mediation of marketing through state bureaucracies; supporting private players in offshore investment activities; and the participation of the sub-national state and capital in economic activities against the backdrop of political support.'⁵⁴ China's constraints on the overseas operation of its state-run firms, as well as its enabling mechanism, are more direct and formally regulated.⁵⁵ Through this internationalisation, China is exhibiting and indeed spreading this distinctive capitalist trait. The influence of this mode of capitalism, at least some of its features, is spreading and reaching sub-Saharan Africa's shores. This is linked to the specific neoliberalism that has taken root in Ethiopia and should now be part of the analysis of the state-society complex within the Ethiopian state.

In this sense, China is not offering a socialist model but a distinctive brand of neoliberalism and global integration that stands apart from the neoliberal system of the Washington Consensus that has for long been imposed on African countries. China's distinct capitalism is raising interest in Africa especially given the failure of the Washington Consensus to lift the continent out of poverty.⁵⁶ At the same time, the Chinese government has also been actively promoting its own brand of economic development and reform model to African countries, encouraging government counterparts in several countries to visit China and learn from their experience.⁵⁷ Unlike the Western investments, which have overtones of various forms of conditionality, such as the formation of free trade, building private companies or loosening of government regulations, the Chinese investments in Africa's infrastructure rejuvenation and the various types of venture investment projects are claimed to be based on flexible soft loans and are tailored to lift the overall economic performance of the borrowing and assistance-getting African countries.⁵⁸ From being a poor, backward economy and a politico-military annex to the Soviet project, China is now regularly talked about in its own right as already being one of the engines of the world economy and as a great power that might soon reach superpower standing.⁵⁹

According to Alden and Davies, a typical Chinese multinational company (MNC) has a business model heavily reliant upon political support, receives financial backing from the state and is involved in mining and energy industries.⁶⁰ The success of Chinese firms in these areas is explained by the political ties their government created with the government of Ethiopia, low initial bidding price, the self-financing options (sometimes referred to as 'vendor financing') that they give to the Ethiopian government owing to the support they get from the Chinese government, as well as the relatively lower level of skilled Ethiopian personnel (in terms of negotiation, technical and managerial skill).⁶¹ With this understanding, Chinese investment in Ethiopia ties together economic and political interests through formal and informal institutional mechanisms.

As Desta has argued, China's efforts to encourage African governments to fashion their economic systems after its own are an important indication of the soft power that China hopes to ultimately project in Africa.⁶² According to Mohan and Power, 'because both "belong to the developing world", it is further asserted that they face common enemies and a shared perspective on major international issues.'⁶³ Chinese expansion into Africa is thus becoming very popular with the political leadership in Ethiopia.

Alden quotes a top official in Ethiopia's Ministry of Foreign Affairs remarking that, 'Never in modern history has a nation successfully made such a determined and massive effort as China has in achieving progress within such a short span of time. Ethiopia has been following this remarkable achievement with great interest and admiration.'⁶⁴ This is quite revealing. China's growth therefore, which cannot be separated from its own distinct mode of liberalism, is an inspiration to struggling African economies.⁶⁵ Ethiopia is one country that is not only economically benefiting from China's rise, but also inspired by the Chinese economic model.

By carving out its own variant of neoliberalism, the Chinese example confirms Brenner, Peck and Theodore's argument that neoliberalism is not a fixed mode but a model capable of assuming different forms depending on the circumstances, context and local conditions.⁶⁶ Neoliberalism is understood variously as 'a bundle of (favoured) policies, as a tendential process of institutional transformation, as an emergent form of subjectivity, as a reflection of realigned hegemonic interests, or as some combination of these factors latter.'⁶⁷ This chapter sets the stage for advancing the argument that, in its interaction with local social forces in Ethiopia, Chinese neoliberalism in particular and internationalisation of Chinese state capital in general has produced or at least reinforced Ethiopian neoliberalism. The key to this thesis' explanation of the Chinese relationship with Ethiopia is the changes in the 'inside out' approach that it has adopted; that is the way the changes in the state and the broader processes of neoliberalism reinforced key dimensions of China's internationalisation strategy. This is having ramifications for state-society relations in Ethiopia.

5.4 CHINESE CAPITAL IN ETHIOPIA: KEY DRIVERS AND THEIR MODE OF ENGAGEMENT

Ethiopia's contemporary economic, diplomatic and political relations with China can be traced back to the first five years of the EPRDF as this new coalition government revived interaction with China soon after it took power.⁶⁸ During this period, an intensive debate about Ethiopia's foreign policy was triggered by concerns that the country's wishes did not always tally with Western powers' designs. Russia and China were identified as Ethiopian diplomats were subsequently dispatched to Beijing to cultivate prospects for a new engagement, expressing desire to 'learn' from China's market-led socialist ideology. This culminated in Prime Minister Meles Zenawi's first official visit to China in 1995.⁶⁹ The period between 1996

and 2005 is the consolidation of China–Ethiopia relations and the tone was set when China reciprocated Prime Minister Zenawi’s visit with President Jiang Zemin visiting Ethiopia in May 1996.⁷⁰

There is something distinctive about China’s interest in Ethiopia within its broader involvement in Africa. Although the resource-rich countries of Angola, Sudan, Nigeria and Zambia are the main targets of Chinese investment, ‘the more politically strategic countries of South Africa, Ethiopia and Egypt are priority countries in China’s broader African engagement.’⁷¹ China is now Ethiopia’s biggest trading partner and one of its largest foreign investors. Adem asserts that the Ethiopian government is (perceived as) a friend of Beijing in a special way. The study advances that China’s diplomatic relationship with Ethiopia is related to its neoliberal transformation. Not much different from Western powers, the Chinese government sees Ethiopia as an important strategic ally in the Horn of Africa.⁷² For China, Ethiopia is a potentially large market and an important investment destination.⁷³ Addis Ababa is Africa’s diplomatic capital and by hosting the AU, Ethiopia bears considerable intrinsic and real influence on the continental body’s decisions.⁷⁴ The Chinese also seem to use their investments in Addis Ababa as a showcase to other African countries. This is usually done by publicly owned firms or big firms that get support from the Chinese government.⁷⁵ Ethiopia is thus seen as the gateway to Africa by Chinese state and private capital which ultimately seeks continent-wide investment opportunities in its internationalisation drive.

Broken down, the Chinese actors in Ethiopia, like in much of Africa, are ‘central-level SOEs, provincial governments and private companies.’⁷⁶ Given its own unique economic and political history characterised by socialism as well as heavy state involvement in the economy, China has reorganised the relationship between institutions in the reform era. The formal relationship between party, state and economy has been established by changes to the organisational principles and structures of the Chinese state, ideational change reflected in reforms to the party and state constitution, and by China’s insertion into the capitalist global economy.⁷⁷ According to Zafar, the Chinese model of investment in essence brings economic growth objectives and foreign policy together guiding trade and invest decisions in Africa along with “no strings attached” financial and technical assistance.⁷⁸ Chinese capital is winning most of the bids to invest in Ethiopia owing to an elaborate and deliberate strategy that also involves the influence of the Chinese central government.⁷⁹ To pursue its activities in Ethiopia, Chinese capital has been spurred by a variety of key drivers. Firstly, we consider the institutional drivers behind Chinese investment in Ethiopia.

To fund its internationalisation activities, the Chinese government does so through a number of institutions. However, long before the current heightened relationship, ‘the establishment of a Joint Ethiopia China Commission (JECC) in 1988 had introduced a bilateral framework for economic, technological and cultural cooperation between the two countries.’⁸⁰ Its major task was to review and assess the bilateral relations every two years and recommend measures that would contribute to their further consolidation.⁸¹ Also in 1996, ‘the Sino-Ethiopian Agreement for trade, economic and technical cooperation’ also came into place.⁸² Building on such foundations, the main institution today is the Chinese Export-Import (EXIM) Bank which was founded in 1994 and is wholly owned by the state and operates under the central government.⁸³ It is a government policy bank that is exclusively managed by the State Council. It is the third largest export credit agency (ECA) in the world and has been a vital cog in the rapid expansion of Chinese global trade and investment.⁸⁴

Together with the China Development Bank (CDB) and the China Agriculture Development Bank (CADB), the EXIM Bank is ‘tasked to promote exports and foreign investment. Its export credits focus on infrastructure (roads, power plants, oil and gas pipelines, telecommunications and water projects); its investment loans target the energy, mining, telecommunication, industrial and water projects.’⁸⁵ Chinese development assistance to Ethiopia remains characterised by this twin track framework—bilateral (China–Ethiopia) and regional (China–Africa, through the Forum for China–Africa Cooperation Forum (FOCAC)).⁸⁶ In short, Ethiopia has both a multilateral and a bilateral level of engagement with China and both are supposed to thrive either individually or in tandem.

The most important institutions in the coordination, facilitation and implementation of Chinese investment in Ethiopia are the respective embassies and consular offices between the two countries. They have become very crucial, particularly in Ethiopia in processing and facilitating high-level visits of business diplomacy between China and Ethiopia. Through them, China has sent experts to Ethiopia, and continues to do so, to train Ethiopian development agents. In different regions, Chinese experts have exchanged knowledge and set up an agricultural demonstration and training centre, which they hope will serve other countries in Africa as well.⁸⁷ The opportunity offered by China’s capital in Ethiopia has inspired Ethiopia’s current economic blueprint, the Growth and Transformation Plan (GTP). It is an ambitious plan that targets the transformation of Ethiopia via massive infrastructural projects like road networks, rail networks and hydroelectric as well as manufacturing capacity.

In interviews, officials in the Ministries of Foreign Affairs and Industry, Finance and Economic Development openly admit that although Ethiopia may not be definitely drawing its maximum benefit yet from its engagement with Chinese capital due to the simple reason that Ethiopia is still a developing country and therefore ‘still learning’, this relationship is changing Ethiopia.⁸⁸ It is acknowledged that the question of who will gain or lose from this relationship going forward depends squarely on human capital, with Ethiopia clearly in desperate need to close the gap of low-level business diplomacy, negotiation acumen and knowledge which has been exposed when the Chinese investors renegotiate contracts for example.⁸⁹ In response, the government, and at times working with their Chinese counterparts, is offering scholarships to gifted students for further study in China whilst others are being sent to Russia so as to boost Ethiopia’s human capital capability.⁹⁰ This clearly shows that far from doubting the Chinese neoliberalism model they have adapted, the Ethiopian authorities firmly believe in it and only desire to see it expand.

The story of key drivers for China–Ethiopia relations is incomplete without highlighting the role of former Ethiopian Prime Minister, the late Meles Zenawi regarded by Chinese leaders as ‘an effective expositor, and even defender, of China as a model and partner for Africa.’⁹¹ For the purposes of this study, the thesis considers him as an institution due to the immense influence he wielded over the state. In both his personal capacity as well as Ethiopian Head of State, Zenawi played a crucially leading role as an advocate of Chinese activities in Africa, hailing it as a golden opportunity for Africa to derive unprecedented benefits. He once asserted that ‘the Chinese interest in Ethiopia has been nothing short of a godsend’⁹² and that ‘Chinese entrepreneurs could play a leading role in the construction, infrastructure and natural resources development endeavours of Ethiopia by diverting their capitals and introducing the easily adaptable Chinese technology.’⁹³ With the possible exception of Zimbabwean President Robert Mugabe, it is difficult to find any other African head of state (living or late) who has played as critical an advocacy role for the Chinese model of development and its relevance to the African condition so publicly and forcefully as the late Ethiopian Prime Minister.

Adem is blunt when observing that ‘at often times, however, it has even seemed as if Meles Zenawi has taken upon himself the role not only of China’s spokesperson in Africa, but also of Africa’s spokesperson in the world.’⁹⁴ This continued right up to his death in 2012. His successor Hailemariam Desalegn has not swayed from this path. Recently, in the

build up to the 2015 China–Africa Summit, he reiterated that ‘Africa has been growing rapidly in the last decade or so, and China has contributed a lot.’⁹⁵ This thinking attests to the continuation of the Zenawi legacy in Ethiopia towards China. In the final analysis, despite virtually all of African countries sharing cordial relations with China, Ethiopia’s case is outstanding.

The late Prime Minister’s attitude towards China was expressed many times but one can select some of his most simple but powerful assertions about China to fully make the point. At the Forum on China–Africa Cooperation 2006 summit, he declared that ‘China is not looting Africa’⁹⁶ at a time when China’s intentions in Africa were widely viewed as predatory. Meles Zenawi also declared that ‘Chinese transformation disproved the pessimistic attitude that “if you are poor once, you are likely to be poor forever.”’⁹⁷ His commitment to the expansion and cultivation of closer ties with China was unrelenting. His eulogizing of Sino-African relations was duly acknowledged by Beijing and ‘reciprocated by the President of China, who visited Ethiopia in 1997.’⁹⁸ At a time when the world was extremely sceptical and circumspect about China’s global expansion, Zenawi was unapologetic and consistently worked tirelessly and passionately in nurturing the China–Africa relationship. However, Zenawi’s EPRDF party had a lot to gain from an expanded relationship with China. Not only were the lucrative joint ventures with Chinese capital, especially SOEs, readily engineered for Ethiopian SOEs, they also benefitted party-linked enterprises. This relational association has had significant consequences of financially propping up the EPRDF and the entrenchment of its power within the state. This is adequately elaborated in the next chapter. At this juncture, the study examines the economic driving motivations at the centre of Chinese economic relations.

The economic basis of China–Ethiopia relations is rooted in the interdependence relationship between the two countries. The simplest way to put it would be that China wants something from Ethiopia and vice versa. Ethiopia has untapped immense investment opportunities in agriculture, livestock, agro-processing, manufacturing, construction, real estate and tourism among others.⁹⁹ Ethiopia’s five-year GTP 2010–2015, which was approved by the Ethiopian Parliament in November 2010 and is currently in its fifth year, is driving Ethiopia’s demand for and openness to foreign investment.¹⁰⁰ China’s FDI in Ethiopia reached **\$58.5 million in 2010**, from practically zero in 2004, according to a World Bank Survey published in 2012.¹⁰¹ This is within the overall context that ‘Ethiopia is marching to

be the third FDI destination in Africa.¹⁰² On top of this, China was the largest import and export trading partner of the East-African country in 2011.¹⁰³ In 2010, 348 Chinese private and state-run manufacturers were operating in Ethiopia.¹⁰⁴ As of the end of December 2013, there were 701 licenced Chinese projects/companies in Ethiopia, a massive presence in Addis Ababa.¹⁰⁵ As an expanding economy, Chinese capital seeks new investment opportunities offshore. As a developing country, Ethiopia endeavours to attract FDI into an economy that must deal with poverty, unemployment and low productivity.

Especially after the African country held controversial elections in 2005 that were roundly criticised by Western donors¹⁰⁶ (and of course not by China), bilateral relations between Ethiopia and China have expanded. From 2006, the expansion of China–Ethiopia relations has grown exponentially to the extent that China is now Ethiopia’s major trading partner and the two-way bilateral trade that stood at \$100 million in 2002 rose to \$562 million in 2006.¹⁰⁷ In a revealing statement, Ethiopia’s trade minister recently emphasised that ‘China has become our most reliable partner.’¹⁰⁸ One agreement in 2006 with three Chinese companies is valued at \$1.5 billion in commercial suppliers’ credit at Libor (interbank lending rate) plus 1.5% to develop cellular and 3G services across Ethiopia.¹⁰⁹ Chinese engagement in Ethiopia has also been in the form of aid and loans. Most recently, a \$208 million loan with China’s EXIM Bank and the state-owned Commercial Bank of Ethiopia (CBE) will be used to finance the expansion of a cement factory and a new power generator.¹¹⁰ China has become involved in nearly every aspect of Ethiopia’s economy.

The bulk of Chinese companies investing in Ethiopia have a huge presence in the agricultural, manufacturing, service and infrastructural/construction sectors. Initially, Chinese enterprises in Ethiopia mainly invested in project contracting, light industry, textile manufacture and the catering industry, but in recent years they have become involved in industries such as iron and steel, cement, glass manufacturing, automobile assembly, construction of industrial parks, business consulting and real estate development.¹¹¹ In particular, China has significant presence in Ethiopia’s telecommunications, road construction and electricity sectors. These are described as ‘quasi-investment’ and not direct investment by Geda and Meskel as most of these infrastructural projects are being carried out by the government but with Chinese financing.¹¹² For example, the Chinese government has offered Ethio Telecom a credit (vendor financing) to the tune of US\$1.5 billion and this offer is conditional on ZTE doing the job

without bidding.¹¹³ As far as infrastructure is concerned, Thakur contends that much as it helps Ethiopia develop, this links closely to another of China's objectives in Ethiopia, that is, to achieve better access to Ethiopia's consumer market.¹¹⁴

There is a growing observation among many observers of Chinese investment activity in Africa that given the intensity of the cooperation, if current trends continue, Ethiopia may be the 'China of Africa' due to the similarities in conditions based on where China was and where it is now.¹¹⁵ For example, Ethiopia's shoe industry is attracting investors from across the world including big names in the sector such as Huajian of China and George shoes of Taiwan.¹¹⁶ Chinese investment in Ethiopia will go a long way in making Ethiopia a regional manufacturing hub both for the local and for the export market. 'Ethiopia is exactly like China 30 years ago,' said Zhang, 55, who quit the military in 1982 to make shoes from his home in Jiangxi province with three sewing machines and now supplies such brands as Nine West and Guess?. 'The poor transportation infrastructure, lots of jobless people.'¹¹⁷ The country has enormous potential and no other industry brings out this fact more than the shoe industry in Ethiopia. With approximately 35 million cattle, 39 million sheep and goats, 8.6 million equine and one million camels, Ethiopia is first in Africa and ninth in the world for its livestock population. The country annually produces 2.7 million hides, 8.1 million sheepskins and 7.5 million goat skins.¹¹⁸ The similarities are striking including the fact that like China, Ethiopia is highly populated and its potential to maximise on its huge population both as a market and as a form of labour is being pursued with enormous vigour.

A number of scholars including McFerson,¹¹⁹ Onimode¹²⁰ and Arrighi¹²¹ have advanced the argument that the economic challenges that Africa has faced are due to largely less beneficial relations with its foreign investors that were interested in the extractive sector,¹²² as opposed to manufacturing finished products. It seems Chinese companies are changing the script in Ethiopia. The majority of Chinese firms are concentrated in the manufacturing sector (over 60%), which is different from what happened in other African countries where Chinese FDI is pretty much resource seeking.¹²³ Instead, in Ethiopia, they are mainly involved in manufacturing machinery, steel, chemicals, pharmaceuticals, glass and paper.¹²⁴ As a result, in terms of capital, the two largest Chinese investments in Ethiopia are cement factories; the largest one, with a capital of \$358 million, is Sino-Saudi Joint Investment Cements PLC. With a capital of \$268 million, the second largest

Chinese company is C. H. Clinker Manufacturer PLC.¹²⁵ By hosting a growing Chinese-driven manufacturing sector, the hope is that Ethiopia's own hitherto moribund and extremely underdeveloped manufacturing capacity will be spurred through skills and technology transfer.¹²⁶ Prime Minister Desalegn believes that China is 'supporting Ethiopia's great vision to become Africa's manufacturing powerhouse.'¹²⁷

The Ethiopian government is extremely supportive of Chinese capital even though, by virtue of its political and financial clout, it is displacing indigenous Ethiopian investors. There are also issues around 'the displacement of locally manufactured goods by cheaper Chinese goods in the short term (resulting in a loss of market shares for Ethiopians who were engaged in the production and sale of similar commodities) and about the impact of cheap Chinese manufactured goods in potentially debilitating Ethiopia's development in the long term (because of the comparative advantages Chinese manufacturers enjoy).'¹²⁸ The net effect is that given this free reign, Chinese 'investment entities themselves have become increasingly diversified and a large number of large and medium-sized state-owned enterprises and large-scale joint stock enterprises have entered Ethiopia, taking the place of those individual and private small and medium enterprises.'¹²⁹ Currently, some of the giant Chinese enterprises that invest in Ethiopia are ZTE (formerly Zhongxing Telecommunication Equipment) Corporation, China Sinohydro Corporation, China Wanbao Engineering Company, China Ghezouba Water Conservancy and Hydropower Engineering Corporation, China Road and Bridge Corporation, China Railway Engineering Corporation, China National Aero Technology Import and Export Corporation, Zhongcheng Group, CGC Overseas Construction Company and Huawei.¹³⁰ A cursory glance shows that all these companies are focused on construction and infrastructural development. This takes us to the next section which details how construction and infrastructural development have become one of the key aspects of Chinese capital in Ethiopia.

Perhaps, no other sector epitomises Chinese capital's presence in Ethiopia than the construction/infrastructure sector. China's visibility in the construction sector is incredible. In 2009, all new construction and 66.6% of rehabilitation, upgrading and maintenance of roads in Ethiopia were being done by Chinese companies.¹³¹ However, while Chinese companies dominate in the actual building and rehabilitation of Ethiopia's infrastructure, the major sources of finance for the projects were still the World Bank, European Commission, African Development Bank, OPEC

Fund and Arab Bank for Economic Development.¹³² One of the most remarkable aspects of the city of Addis Ababa today is the amount of construction taking place across the sprawling urban metropolis.¹³³ Because of Chinese investments in Ethiopia's infrastructure, Addis Ababa currently resembles a huge construction site comprising roads, railway, real estate and the expansion of the Addis Ababa Bole International Airport.

Still on infrastructure, Chinese capital is actively involved in the updating and expansion of power plants and the electrification of rural towns, with three major Chinese companies (namely, Wamboo, TTPC and CGCC) actively engaged in recent years along Tis-Abay, Tekeze and Fincha Rivers.¹³⁴ Ethiopia is in negotiations to finalise a deal with a Chinese firm Dongfang Electric Corporation to construct a 120 megawatt (MW) wind farm in Ayisha near the Djibouti Border.¹³⁵ This would be the sixteenth electrical power generator in Ethiopia but the third and largest electrical power project under its 'green' technology drive. This project is also part of the government's long-term plan to ultimately make Ethiopia achieve 10,000 MW capacity up from the current 2200 MW.¹³⁶ The Chinese and Ethiopian governments also are investing in hydroelectric plants—including what will be Africa's largest, the domestically funded Grand Ethiopian Renaissance Dam on the Blue Nile—that should increase Ethiopia's power supply fivefold by 2020.¹³⁷ A key aspect of Chinese investment in Ethiopia however is the prevalence of state-owned enterprises in virtually all of the mega infrastructural projects.

In the case of overseas investment from mainland China, the role of the state in driving the processes is even more crucial. The lavishing of diplomatic attention, coupled with support for prestige projects and development assistance (low-interest and outright grants) in potential recipient countries by the Chinese government, is a prominent feature of the MNCs' overall bidding process.¹³⁸ The bulk of mega Chinese projects in Ethiopia therefore are being done by Chinese SOEs. The Addis Ababa ring road was built partly with Chinese funding, with the China Road and Bridge Corporation (CRBC) being the main contractor and China pledged \$12.7 million to build the Gotera intersection flyover bridge in Addis Ababa, 54% of whose construction was completed by May 2008.¹³⁹ China's EXIM Bank provided \$500 million in loans to Ethiopia, and so far, loan agreements have been signed for 11 projects, including road and bridge construction.¹⁴⁰ Ethiopia follows a similar tightly controlled, state-heavy economic model and this has shaped China's distinctive mode of engagement with Ethiopia. The linkages are

such that Chinese SOEs award business opportunities to state-linked forces in Ethiopia and vice versa through joint ventures.

Joint venture between Chinese firms and local state- and ruling party-linked Ethiopian investors is a chief characteristic of China–Ethiopia investment relations. Narrowly defined, a joint venture occurs when two or more firms pool a portion of their resources within a common legal organisation.¹⁴¹ Conceptually, a joint venture is a selection among alternative modes by which two or more firms can transact.¹⁴² Most recently, there has been a rise of joint China–Ethiopian firms, especially in the construction industry. For example, CRBC collaborated with local Ethiopian investors and formed the Road and Bridge Construction Company (RBC) in 2003. The RBC has well over 23 road, flyover and bridge projects throughout Ethiopia, with a budget of well over \$500 million and 1500 employees.¹⁴³

Also, the Chinese firm Norinco collaborated with Lalibela Construction Company to form the Norinco–Lalibela Engineering and Construction Share Company (Nori-La) in 2004, which is undertaking eight road projects in Addis Ababa and the Oromia region, investing \$41 million and employing 500 workers. Gezouba Group Corporation is undertaking a large rehabilitation project worth \$49.2 million along the Shire–Adi–Abune road in Tigray.¹⁴⁴ Both the Chinese investor and the Ethiopian regime (via a state- or party-linked joint investor) benefit from the state-to-state relations under whom Chinese businesses operate: the political cover provides them security and special access.¹⁴⁵ Chinese capital is hardly constrained by most of the investment laws as this is a state-sanctioned arrangement.

Chinese capital and the Ethiopian regime mutually reinforce each other in the maze of mega projects such as dams, roads and other high-value infrastructure. For example, one major cooperative project was the construction, beginning in 2002, of the 300 MW Tekeze hydroelectric power project, a \$224 million project which is considered to be the largest joint Sino-African venture, built by the China National Water Resources and Hydropower Engineering Corporation, the Gezhouba Group and the state-run Ethiopian Electric Power Corporation. China's EXIM Bank has provided \$50 million (with an interest rate of 1.75% per annum) as part of the total project contribution.¹⁴⁶ The largest commercial bank in Ethiopia (CBE) has inked a deal with the China State Construction Engineering Corporation (CSCEC) to build its headquarters in Addis Ababa. The building is said to be the tallest structure in East Africa once completed.¹⁴⁷ Another major Information and Communications and

Technology (ICT) infrastructure project was undertaken by the Zhong Xing Telecommunications Equipment Company Limited (ZTE), China's major telecommunications company, with financial support from the EXIM Bank. The project, which costs \$822 million, was aimed at upgrading Ethiopia's telecommunications system over the period 2006–2009.¹⁴⁸ At the same time, in its internationalisation drive, China is credited with introducing the phenomenon of industrial parks in Ethiopia.

China's increasing direct investment in manufacturing in Ethiopia is therefore also being driven through industrial parks or SEZs. Following then Prime Minister Zenawi's November 2006 visit, an 'agreement was concluded between China and Ethiopia in 2008 aimed at creating an industrial zone, or "special economic zone," in the outskirts of Addis Ababa.'¹⁴⁹ This approach was formally initiated in 2006 when China committed to establish five zones across Africa, and later in 2007, committed to establish a further five zones.¹⁵⁰ It is therefore one of the first six Chinese SEZs established in Africa under the FOCAC framework to date.¹⁵¹ The Jiangsu Eastern Industrial Park or Eastern Industrial Zone (EIZ) was wholly established by the Chinese as a Free Trade Zone and touted as a career in transferring Chinese industry, a base of overseas processing trade and an important bridge for Chinese enterprises entering to the market of Africa, Middle East, Europe and America.

The Ethiopian government oversaw the construction of the EIZ but soon after its completion, left everything in the hands of the Chinese investors.¹⁵² The Eastern Industrial Zone is 100% Chinese owned, principally driven by the Qiyuan Group¹⁵³ (steel) plus two small companies, whilst Zhangjiagang Free Trade Zone was brought in as a technical partner. In contrast to common practice, where the host government is responsible for infrastructure leading to the SEZ, the Qiyuan Group has been asked to develop infrastructure, such as power transmission lines, water supply and wastewater treatment to and from the EIZ with a 30% reimbursement of the costs by the Ethiopian Government.¹⁵⁴ The Park is seen as a part of the Sustainable Development and Poverty Reduction Program (SDPRP) of the Ethiopian Government and one of the most important projects in the plan of its industrial development.

Given that internationalisation of capital or the state itself is a part, or a form, of the power of the spread of capital across time and space, Dannenberg *et al.* pose a very important question in asking if Chinese SEZs in Africa are a new species of globalisation. They conclude by setting at least three research themes for political and economic geographers:

(1) emergence of transnational governance and institutions in enclave spaces, (2) investment motives and location choice factors of Chinese actors in Africa and (3) implications for development and power relations.¹⁵⁵ This thesis attempts to shed some light on some of these questions in latter chapters. However, we now consider the last driver of the expansion of Chinese capital in Ethiopia: the political aspect.

Despite the economic incentive, China–Ethiopia relations are also driven by some political considerations. In terms of the current engagements, one of the initial political factors that facilitated ties between the two countries is that Ethiopia’s post 1991 international foreign policy postures came at a time when Beijing was reeling under the Western criticisms of its human rights record such as those in reference to the 1989 Tiananmen Massacre.¹⁵⁶ The two countries share many commonalities in terms of governance models. Ideologically, and in practice, the regimes in China and Ethiopia are highly centralised and restrictive of political opposition activity. Both have negative human rights records¹⁵⁷ and because China adheres to the principle of non-intervention in sovereign states, there is room for much more common ground with the EPRDF.

The two countries also back each other in international forums as well as on crucial domestic issues that have potential international consequences. For example, in 2006, the Ethiopian Parliament passed a resolution in support of China’s Anti-Secession Law, and in 2007, Ethiopia joined other African countries in preventing a resolution in the UN Human Rights Commission that censored China’s human rights practices.¹⁵⁸

In 2008, Prime Minister Meles said Tibet is an internal affair and external powers have no right to interfere. He added that “Ethiopia strongly opposes any external force’s attempts to destroy China’s national unity and create hatred among Chinese nationalities.” China’s ambassador to Ethiopia praised Addis Ababa’s “strong support” for China’s position on Taiwan and Tibet. For its part, China never criticizes Ethiopia’s human rights policies or comments publicly on internal conflicts.¹⁵⁹

The relationship between the Ethiopian regime and the Chinese regime expressed through Chinese capital is thus mutually reinforcing. This special relationship between the two countries underpinned by ideological similarities has therefore contributed to Chinese capital’s growing internationalisation in Ethiopia.

As indicated earlier, when the EPRDF government took over, Ethiopia embarked on a liberalisation drive, undoing the socialism that the previous Mengistu regime had pursued for over two decades. This coincidence led to an enmeshment of systems and institutions that became mutually reinforcing in both regimes' favour. Since China was also on a neoliberal path, albeit a distinctive one, it easily established a relationship with Ethiopia's own neoliberal agenda. Foreign Minister Dr. Tedros Adhanom at a recent development partners' meeting in Addis Ababa all but confirmed how China's version of liberalisation has resonated with the Ethiopian government, 'We believe in big government. Ownership of the country should not be left to the market because there are market failures. The government should not be like a night watchman ... Our investment not only enhances development and makes the economy competent but also improves the social services.'¹⁶⁰

5.5 CONCLUSION

The key argument of this chapter is that the mutual accommodation between Ethiopian neoliberalism and the regime and Chinese mode of international engagement is driven by both countries' own distinctive paths of 'statist capitalist' transformation. This chapter has traced the journey which China–Ethiopia relations have travelled. China's liberalisation policies as well as its distinct globalisation from the 1990s resulted in the internationalisation of Chinese state and private capital. The current mammoth investment by Chinese firms in Ethiopia is a direct result of this. Not only is it changing the physical and economic development of Ethiopia, but it is also diverse as the investment entities themselves including joint venture arrangements between local and foreign capital. Chinese investments in Ethiopia are anchored around economic, diplomatic and political links which are nurtured through close cooperation between the two governments. In the chapter, it has been explained how China's distinctive capitalist transformation—its 'statist neoliberalism'—has been internationalised. This internationalisation has shaped its distinctive mode of engagement with Africa and Ethiopia in particular. With this background, the next chapter discusses and analyses the strategic linkages and alliances that have emerged and the emergence of new social forces in the Ethiopian state.

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Chinese Investment and New Modalities of State Intervention in Ethiopia

6.1 INTRODUCTION

This book has applied the ‘second image reversed’ framework to study the nature of Chinese investment in Ethiopia and how it is internalised within new modalities of state intervention in Ethiopia. It is argued that through various institutions, ideological synergies and economic policy, the Ethiopian state is reinforcing Chinese globalisation strategies through developing institutions and social coalitions that underpin an Ethiopian neoliberalism. These processes, the thesis has argued, illustrate the intertwined nature of Chinese and Ethiopian neoliberalisms. One important consequence of this internalisation is that it has blurred the distinction between the political and economic arenas of the Ethiopian state. The overriding observation is that Chinese investment is strengthening the Ethiopian state institutions by exporting, through various forms of capital, an ideology of public governance and economic organisation that buttresses regime interests of the EPRDF. The chapter shows that the similarities between China and Ethiopia are now even more striking with both countries now sharing a common model of state capitalism shaping state-society relations and governance in similar ways.

The key task in this chapter is to identify the specific political spaces within the state where these political contests play out in Ethiopia’s political economy. In this chapter, therefore, the impact of Chinese investment on state-owned enterprises (SOEs) and the regime interests of the EPRDF

are examined. In addition, the chapter examines how some aspects of public administration have evolved. In the final analysis, this chapter shows that just as the Western neoliberal framework was exported to Africa through such institutions as the IMF and World Bank, and reinforced Western economic interests,¹ the export of China's distinct neoliberalism is reinforcing Chinese globalisation whilst bolstering and buttressing the Ethiopian ruling party's interests within the Ethiopian state.

There is great admiration by the EPRDF regime for the Beijing Consensus or the 'China model'²—China's indigenous model of economic development without political liberalisation. The literature on the Chinese and East Asian models has emphasised the role that economic growth has played not only in improving the material well-being of these countries' citizens, but also in providing the current government with the legitimacy and mandate necessary for the long-term retention of power.³ The model justifies authoritarian rule by basing regime legitimacy on its capacity to deliver economic prosperity. However, the key argument advanced by the book is the way these external imperatives are located in Ethiopia's 'internal processes within the state.'⁴ As a result, certain kinds of interests and power are being reinforced, reproduced or created by Chinese investment in Ethiopia. As this section shows, this is playing out in a number of ways including in ideologies of public governance and the roles of SOEs. Also critical are the party-owned businesses which are both formally and informally managed through party cadres that mesh smoothly with Chinese investment in Ethiopia.

6.2 STATE ENTERPRISES, REGIME INTERESTS AND CHINESE INVESTMENT

It is important to highlight that even though the focus is on SOEs, this does not in any way trivialise the role of Chinese private capital which is also actively involved in the Ethiopian economy. Private companies accounted for nearly half of China's outbound investment in 2011. In that year, 'China's outbound direct investment in the nonfinancial sector reached \$68.58 billion, among which around 45 percent was from non-State-owned enterprises.'⁵ Shi Ziming, commercial counsellor at the Department of Outward Investment and Economic Cooperation of the Ministry of Commerce, [said](#) recently: 'Private enterprises will definitely play a more and more important role in the process of the nation's outbound direct investment activities. They will probably surpass state-owned enterprises as the

major force of China's investment wave.⁶ Therefore, despite the prominent role of Chinese SOEs in Ethiopia, the activities of private, Chinese capital are also part of the analysis.

In the last five years, the boom in Ethiopian-Chinese economic relations has been felt in many areas across the economy. However, the major ones are road construction, the supply of manufactured goods from China, telecommunications development, the installation of big electric power stations by Chinese companies and investments in the manufacturing sector.⁷ China is now Ethiopia's biggest trading partner, with the African country hosting more Chinese diplomats than any other country in Africa.⁸ Despite maintaining relations with many countries, Ethiopia has carved out a very special linkage with China to the extent that the two countries now share a lot in common, politically and economically. Ethiopia, it must be emphasised, did not necessarily copy the Chinese model. Rather, a set of circumstances combined to lead the country onto a path that has resulted in affinities with China.

An important point to note is that from the 1990s, Ethiopia was moving in the direction of opening up its economy through market-oriented economic policy. Despite some early warning signs, what was not immediately clear was what the government's role in the economy would be under this new ideological dispensation. Although the IMF and World Bank were actively encouraging developing countries to 'open up' their economies through structural adjustment, Ethiopia pursued a different version of neoliberal economic development under the stewardship of Prime Minister Meles Zenawi. According to Kaberuka, 'while the late PM accepted the importance of markets in allocating resources, he rejected market fundamentalism outright. While he asserted the central role for the State, he rejected a predatory, parasitic state controlled by rent seekers.'⁹ As economic and political relations with China grew, Ethiopia abandoned its initial 'revolutionary democracy' model for a 'developmental state' model.

At the same time, despite its endeavour to attract more and more FDI, Ethiopia appears to be reluctant to give up state control of the economy for a full-blown market-oriented neoliberalism. As a result, the boundary between the private sector and the state is now often so blurred. According to Feyissa, the EPRDF actually pursues 'a non-liberal, state-driven path to capitalist development.'¹⁰ New investment proclamations have been published and amended, and privatisation of state enterprises is ongoing.¹¹ As explained below, due to the influence of international capital from China,

the development agenda is giving the private sector an increasingly important role. However, the key point to note is that the government remains the central player, as much of the core ‘private’ capital can be traced back, or linked, to the state and the ruling EPRDF party in particular.

Ethiopia sees China’s distinct neoliberalism or form of economic governance as an ideal model to emulate. This has been given lifeblood by what the Ethiopian leadership regards as the failure of the Washington Consensus. With this in mind, the man who would lead Ethiopia into a revolutionary relationship with China, Meles Zenawi, thus wrote of ‘Dead Ends and New Beginnings’¹² in 2006. The objective was to stress and explain that old economic models (like the Washington Consensus) had already been tried throughout Africa and were failing in part because ‘the neoliberal doctrine had come against the walls of its internal contradictions.’¹³ In his view, such doctrines would lead Ethiopia to a ‘dead end,’ hence the need for ‘new beginnings’ to be imagined.

According to So, one of the key feature of Chinese neoliberalism is a weakened capitalist class that is also dependent on the state.

Instead the private sector has numerous links with the state sector in terms of interlocking personnel and ownership. Many collective enterprises are owned and run by capitalists, while many private enterprises are spin-off state properties owned and run by state managers and their kin. This fusion makes it difficult to distinguish what is owned by the state, by the collective, and by the capitalists in the private sector because the boundary of property relations is often blurred.¹⁴

China’s growing weight in international relations and strengthened contact with the Ethiopian government and party officials further increases the attractiveness of China as a role model.¹⁵ Among other things, this is a model that focuses on a strong centralised government and political party (similar to Ethiopia’s EPRDF) that is strongly involved in economic development and growth—‘authoritarian development’ as part of the ‘Beijing Consensus.’¹⁶ Even the IMF, which advocates for an extremely limited role for the government in the economy in favour of the private sector and market forces, has admitted that ‘Ethiopia’s public sector-led development strategy has delivered robust growth and rising living standards.’¹⁷ In part this transformation is ideological in that it feeds into a domestic political project developed by the ruling EPRDF party.

To shed more light on the ideological basis of China-Ethiopia relations, we can consider the way in which political, economic and social engagements have bound together the two countries. The Ethiopian state now has close intellectual links with China's Communists and often sends officials to their party school in Beijing.¹⁸ There, Ethiopians imbibe the gospel of industrialisation overseen by a strong state that exerts tight control over an ethnically diverse population with a history of strife.¹⁹ The close coordination between aid, trade and investment reflects the interplay between Ethiopian development priorities and Chinese political, economic and foreign policy objectives, all of which it strives to achieve through its aid and investment policies in Africa.²⁰ This relationship has formed the backdrop to the transformation of economic strategy which has resulted in Ethiopia's public investment being driven mostly by the state. As a result, for instance, two-thirds of Ethiopia's 8.5% GDP growth in 2011–2012 was due to public investment, according to the World Bank.²¹ The multilateral institution also notes that Ethiopia's public investment rate is the third highest in the world, while private investment rate is the sixth lowest.²² Hence, ideological engagements and synergies form a crucial component of the internationalisation of the Chinese variant of neoliberalism in Ethiopia.

China achieved its historic growth through a state-driven capitalism with an important role given to SOEs, and Ethiopia has adopted the same approach whilst maintaining some elements of distinctiveness. In Ethiopia, corporate governance of SOEs is structured and monitored by a board of directors composed of senior government officials and politically affiliated individuals.²³ There is state monopoly or state dominance in sectors such as telecommunications, power, banking, insurance, air transport, shipping and sugar. Ruling party-affiliated endowment companies have a strong presence in the ground transport, fertiliser and textile sectors. Both SOEs and endowment companies dominate the cement sector.²⁴ The small formal private sector economy is dominated by Govbus (government-owned enterprises), Parbus (party-owned enterprises) and Polbus (politically connected private enterprises).²⁵ The emerging capitalist economy in Ethiopia is thus embedded within these new forms of political relationships, and these relationships play out within the state. For example, the EPRDF party machinery has grown from strength to strength as a result of its access to financial opportunities. As a result, opposition political parties in Ethiopia are too financially inferior to meaningfully challenge the EPRDF on the political stage.²⁶ The EPRDF has even gone on to easily co-opt several opposition parties using its financial strength.

To facilitate this new ideological dispensation, new modalities of state intervention have been introduced including by way of institutional drivers. Such new institutions include the Ethiopian Investment Agency (EIA). According to the Food and Agriculture Organisation, the EIA is the principal government organ responsible for promoting and coordinating investment in Ethiopia in both the pre- and post-investment phases. About a year ago, the agency, which used to be under the Ministry of Industry, began reporting straight to Prime Minister Hailemariam Desalegn and was renamed the Ethiopian Investment Commission (EIC).²⁷ It also reviews investment transactions for compliance with FDI requirements and restrictions. Along with the Privatization and Public Enterprises Supervising Agency, the EIA oversees the process of economic liberalisation and the gradual shift to private ownership.²⁸ The liberalisation reform agenda therefore demanded or required institutional drivers in Ethiopia. The state now assigns roles to specific institutions thereby devolving some of its functions.

The investment relationship with Chinese international capital has seen the Ethiopian state adopting measures through the EIC that would make it easy for Chinese capital to not only invest in Ethiopia, but expand as well. This has played out in various ways within the state. For example, indigenous or locally owned private companies have complained of favourable treatment of the SOEs in the governmental tender process. As the public sector is heavily involved in the economic development, this translates into a sizeable portion of the open tenders on the market.²⁹ The creation of the EIA confirms the changing nature of the state as new modalities of this reform agenda work to produce an Ethiopian liberalism that strengthens state institutions.

In addition, the Economy and Business Directorate of Ministry of Foreign Affairs (MoFA), in collaboration with Ethiopian Missions in Brazil and China and the EIC promote collaboration mainly in terms of identifying sources of FDI.³⁰ This involves the selection of appropriate investors, analysing data on assistance, loans and technical cooperation agreements, providing information on five government priorities and identifying partners to finance priority areas as appropriate, and investigating development assistance experience and trends of bilateral and multilateral foreign assistance.³¹ This has—in line with the second image reversed argument—strengthened the role of government agents and bureaucrats. Ato Redwan Hussien, EPRDF Secretariat Head and a member of the EPRDF executive committee, reiterated that the EPRDF and Ethiopian

government attached importance to their ties with China and Communist Party of China (CPC), saying his party and country wanted to learn from China about poverty alleviation and national development.³² The rhetoric ostensibly suggests a willingness on the part of the Ethiopian state to draw lessons from its Chinese counterpart.

Within the complex of the institutionalisation of Ethiopia's neoliberalism, much of Chinese investment in Ethiopia is negotiated and delivered through core executive institutions. As a result, the closer an entrepreneur is linked to the regime, the more chances of benefitting from investment deals that accrue.³³ Due to the emphasis on strengthened collaboration with China, the Ministry of Finance and Economic Development (MoFED) has an independent office dealing only with China, which is called the Ethio-China Development Cooperation Office.³⁴ As Lin and Farrell have argued, 'when entering African markets, Chinese Privately Owned Enterprises (CPOEs) are likely to be driven by economic rationality, whereas Chinese State Owned Enterprises (CSOEs) are likely to be driven by the domestic and geopolitical agenda of the Chinese government above and beyond economic motivation.'³⁵ Crucially, this has strengthened and increased the political power of Ethiopian SOEs. Most joint venture opportunities that arise from Chinese investment, especially its state-owned multinationals, are snapped up by players linked to the EPRDF regime.

The Ethiopian government thus links its SOEs as well as party-linked businesses for joint venture deals with Chinese state capital. This is happening in ways that demonstrate how the internationalisation of state capital reinforces the economic and political position of Ethiopian state capital. SOEs have considerable advantages over private firms, particularly in the realm of Ethiopia's regulatory and bureaucratic environment, including ease of access to credit and speedier customs clearance.³⁶ This in turn is crucial to the political foundation of the regime. These deals are made possible by subcontracting since major investments in the country are those owned by some of China's biggest SOEs, such as Zhong Xing Telecom Corporation (ZTE) (responsible for the development and expansion of the mobile network in Ethiopia)³⁷; the Jiangsu Changfa Group (which signed an agreement with the government of Ethiopia to invest in assembling agricultural machinery equipment in the Eastern Industrial Zone³⁸); Zhongyuan Petroleum Exploration Bureau, a subsidiary company of China Petroleum and Chemical Corporation (Sinopec) (exploration for oil deposits); and Sino-Saudi Joint Investment Cements PLC and

C. H. Clinker Manufacturer PLC (the two cement factories which are the two largest Chinese investments in Ethiopia in terms of capital).³⁹ Another example is the China-Africa Development Fund (CADFund) office in Addis Ababa which has looked into the possibility of doing a joint venture with a Chinese company to invest in one of the ten sugar plantation and factory complexes planned by the Ethiopian government.⁴⁰

Chinese capital links with local fractions of capital that are linked to the state such as party-owned businesses, and this economic relationship solidifies the regime's political strength. In the Ethiopian economy, the formal sector is dominated by state enterprises (with dominant presence in finance, domestic air route and telecom), party-owned companies and a handful of multinationals (Saudi, Indian, Chinese and Turkish).⁴¹ More funding or more investment from China through its various investment or funding vehicles, either multilateral or bilateral, is easily a boost to the regime given its domination of the various key economic sectors. The governing EPRDF coalition of political parties runs a coterie of businesses in Ethiopia through its company vehicle known as Endowment Fund for the Rehabilitation of Tigray (EFFORT) set up in 1991 from the sales of hardware and ammunition at the end of the civil war. EFFORT, an endowment fund under Tigrayan People's Liberation Front (TPLF), owns more than 60 companies.

EFFORT owns almost all the major industries in Ethiopia including Banking, Construction, Agribusiness, Mining, Communication, Insurance and other pillars of the economy that are vital to the well-being of the country.⁴² Secrecy, however, shrouds the operations of EFFORT companies and this makes it difficult to know the exact details and give faces to the exact players involved. As Bonsa asserts, 'there is little information about EFFORT that is available for the general public ... But Ethiopians know that the same groups of people who occupy government positions are also owners of the companies under EFFORT.'⁴³ The regime is also linked to Mohammed International Development Research and Organisation Companies (MIDROC).

MIDROC Ethiopia is a private investment company with about 70 group and affiliate companies that are engaged in multifaceted business sectors across the country.⁴⁴ It is owned by Ethiopian-born Saudi business tycoon Sheik Mohammed Al Amoudi. In the words of Bonsa, MIDROC has been used by the EPRDF as a 'joker card' in mutually advantageous ways. According to the United Nations Conference on Trade and Development (UNCTAD), 60% of the overall FDI approved in Ethiopia

was related to MIDROC.⁴⁵ And as of late, another unlikely business monopoly has emerged in the form of the military establishment, the same military whose top leadership is either loyal to or under the indirect control of TPLF. METeC, a company run by the national army, is having an elaborate business interest from production of computers and flat screen TVs to heavy metals, car assembly and hotels. Once again, there is no or little information available to the public on the exact nature of METeC's business empire.⁴⁶

In an interview with Geda, an expert on the political economy of China-Ethiopia relations, with regard to a question of the priority linkages between the state and Chinese investors, he opined that 'Government only wants financing of its major projects and these are directed by the military guys ruling the state with the result that such decisions are not based on economics.'⁴⁷ The government is thus perceived as taking advantage of China's state-focused approach to investments to ensure some narrow, significant party projects get to be done in the guise of hosting FDI for the benefit of the Ethiopian people. Critics of the regime contend that EFFORT epitomises that 'unholy marriage between business and politics in a way not seen before in Ethiopian history.'⁴⁸ As Bonsa notes, the overlap between the operations of domestic oligopolistic companies and their foreign counterparts is so much that it is difficult to know where one ends and the other begins.⁴⁹ The blurring of the boundary between economic and political agencies within the state has never been more apparent because China-Ethiopian investment relations are bound within undefined political, social and economic boundaries.

The EPRDF as a party and government has methodically used its close relationship with Chinese political and economic elites in ensuring that in the process of economic cooperation courtesy of the internationalisation of Chinese capital, the regime is simultaneously strengthened. In 2015, the ruling EPRDF and its allies won every single parliamentary seat in the May elections, including the one seat held by an opposition politician following the 2010 poll.⁵⁰ Having been in power since 1991, the EPRDF has thus just entrenched its 24-year stranglehold on the Ethiopian political scene but this time even more emphatically. It was 'the CCP, which advised the EPRDF in its drive to recruit five million new members between 2005 and 2010 and has developed deep party-to-party ties.'⁵¹ The cumulative effect has been the regime's steady consolidation of political power, and recent events confirm that. The 2015 electoral sweep is a historic first since the first national election in 1995 following the adoption of the current

constitution. Such a landslide electoral sweep by the EPRDF coalition is reminiscent of the one-party state of its CCP counterpart in China.

Through the window of opportunity availed by Chinese capital, the EPRDF is carving out business opportunities for itself especially through party cadres as its proxies. Several analysts including Xu and Fields have argued that whilst the Kuomintang (KMT) is the richest party in the world, the EPRDF is Africa's richest party with a net peak wealth of US \$1.0–1.5 billion between 1991 and 2010.⁵² Since 1995, the TPLF has been using the parastatals under EFFORT as a 'cash cow' to accumulate immense amounts of wealth to pursue its ethnically motivated political and economic domination of Ethiopia.⁵³ The regime's reach is found in almost every facet of the Ethiopian economy. The government is engaged in various businesses ranging from production of consumer goods such as cigarettes, sugar and beer production to assembling of motor vehicles.⁵⁴ According to Mulugeta, the TPLF economic empire has monopolised the private sector of the Ethiopian economy to the extent never seen anywhere in the African continent.⁵⁵ This could probably explain why when Li Changchun, a member of the Standing Committee of the Political Bureau of the CPC Central Committee, was giving vote of thanks after meeting a EPRDF delegation in 2011, he 'hailed the steady development of Sino-Ethiopian relations over the years, citing active cooperation in the areas of politics, trade, culture and public health, and close coordination in international affairs.'⁵⁶ The distinction between the economic and the political has become difficult to identify.

There is a clear case to be made that the expansion of Chinese capital and Chinese-led investments has benefitted the local working population with massive employment opportunities especially the urban unskilled in Ethiopia. In the leather industry, for example, 'formal Chinese firms employed almost 3 million workers while Ethiopia's formal firms employed a mere 7600 workers'⁵⁷ as of 2012. However, despite this positive outcome for the general population, the real benefits will continue, in the words of Geda, to be concentrated in the 'big tent.'⁵⁸ China's preference for top-down bilateral dealings with the EPRDF—instead of engaging with wider society, its non-conditioned 'non-interference' approach to aid and development assistance, and the non-transparent behind-closed-door nature of policy-making and business arrangements in Ethiopia in general—opened the door to accusations of collusion with the ruling regime and its cadres.⁵⁹ A pivotal implication of this is that it has concentrated influence in the EPRDF regime and 'insulated' key decision-making powers and centres from civil society.

The key point from the thesis' second image reversed analogy is that these internal configurations of Ethiopian capital—including capital linked to the dominant party—are matched by a set of external diplomatic institutions. The business arrangements are facilitated through various institutions and arenas of diplomacy that have now been created in direct response to the country's need for FDI in general, and the special relationship with China in particular. A good example would be the newly created Business Diplomacy department in the MoFA. Its mission is to 'facilitate an effective and efficient flow of information between the Ministry, Ethiopian missions abroad and relevant national bodies, to centralize process and disseminate economic and business information in a consistent and sustainable way.'⁶⁰ Officials interviewed in the MoFA (Asia and Oceanic Affairs Department) emphasised the importance of 'shared national priorities' and the importance attached to exchange visits for the facilitation of business diplomacy.⁶¹

China is providing the largest number of investments in Ethiopia, although by value, the biggest investors are Turkey and India. The country is also seeing investment from Europe and the US.⁶² The thesis did not set out to do a comparative assessment; it is worth looking at how non-Chinese capital also plays a role in reinforcing the EPRDF regime. Unlike Chinese capital, there is very little evidence that other foreign capital directly collaborates with the ruling party to entrench its rule. Rather, what comes out clearly is that Western countries' policy (especially the US and the EU) towards Ethiopia is to desist from criticising the East African country as a bulwark in its fight against terrorism. United States policy is also influenced by Ethiopia's perceived status as the most stable country in the Horn of Africa and by its cooperation in Washington's 'global war on terror.'⁶³ This has led them to turn a blind eye on political repression in Ethiopia prompting Human Rights Watch (HRW) to declare that 'aid underwrites repression in Ethiopia.'⁶⁴ Ethiopia receives around US \$3 billion in long-term development aid each year (second only to Indonesia); this is more than a third of the country's total annual budget.⁶⁵

6.3 INTERNATIONALISATION OF CHINESE CAPITAL AND ETHIOPIAN STATE: SOME CASE STUDIES

The distinct nature of Chinese capital and globalisation with Chinese characteristics is reflected in several ways. This section has selected four case studies as examples to illustrate the key argument about the interlocking relationship between the international strategies of Chinese capital and the

political and economic foundations of the EPRDF regime. The selected case studies have been carefully chosen as they are sectors where Chinese capital is dominant. These include the leather sector, agriculture, infrastructure as well as special economic zones.

Leather and Shoe Industry

Chinese capital is gaining a foothold in some of Ethiopia's most important, sensitive and therefore decisive economic sectors. The leather and shoe industry is one of the traditionally most important and strategic sub-sectors in Ethiopia's economy. Ethiopia is first in Africa and ninth in the world for its livestock population.⁶⁶ The influx and expansion of Chinese capital and especially its relative advantage has seen it winning more contracts and business opportunities through political and financial backing from Beijing and the Ethiopian government's readiness to accommodate it. China-Africa Overseas Leather Products S.C., under the umbrella of a joint Chinese venture, XinXiang Kudroda and Mingliang Leather Co. Ltd. and CADFund, inaugurated a US \$27 million factory in Ethiopia in 2010.⁶⁷ The sheer size of these transnational firms, as well as their technological and financial clout, in and of itself raises immediate questions especially on whether this sets the government on a collision course with local small businesses in particular or local, private capital in general as a social force with a lot to lose from such international competition.

However, despite the heavy presence of Chinese capital in the shoe and leather sector, the government has avoided confrontation with the local traders who could have a very significant voice with political consequences in this highly sensitive economic sector. Instead, the government argues the economic narrative that Ethiopian firms involved in the leather sector are benefitting from exposure to tough competition from Chinese capital that has invaded the sector and they have the government to thank. Just as China's '*Go Out*' strategy was designed, among other factors, to expose Chinese companies to global competition so as to strengthen them, these giant Chinese companies are said to have the same impact on Ethiopia's middle-sized companies. This is in line with Gebre-Egziabher's argument that competition does not always displace competitors, but as classical economics tell us, competition can enhance the productivity of those firms exposed to a competitive environment.⁶⁸ Instead of displacing local entrepreneurs, the Ethiopian government advances the rhetoric that the internationalisation of Chinese capital is

contributing to much needed technology transfer resulting in local companies learning a lot about product quality as well as design.

The Huajian Group could exemplify this very clearly. The Chinese company commenced operations in Ethiopia in 2012 and employs 3500 workers who produce 2 million pairs of shoes annually.⁶⁹ Helen Hai, the vice president of the Huajian Group, makes it clear that she does not intend for this new industrial hub to compete with local businesses. Rather, she wants it to help give the local economy a boost and foster entrepreneurial spirit in Ethiopia through the idea of ‘skill transfer,’ because ‘when local producers grow, the whole market is growing.’⁷⁰ According to the deputy communication director at the Ministry of Industry of Ethiopia, today Ethiopia’s shoes products are exported to different countries including China. Other destinations include the United States, England, China, Italy, Germany, Kenya, Uganda and Tanzania.⁷¹ This has insulated the EPRDF from attacks or criticism from the small to medium enterprise (SME) interests in the leather sector and consequently safeguarded its political position. The EPRDF thus facilitates Chinese capital’s access to the leather market and at the same time takes the credit for bringing in labour-intensive manufactures into the country which helps to address the unemployment crisis. The influx of Chinese capital in the leather and shoe industry has thus provided more ammunition to the investment and development rhetoric that the government is orchestrating.

3.2. Agriculture: Liberalisation with State Control

Approximately 85% of Ethiopia’s 90 million people work in agriculture.⁷² Since coming to power, the EPRDF’s development strategy has been based on the argument that since the overwhelming majority of the population depends primarily on agriculture, development requires rapid agricultural growth. To achieve this, since 1993 the government has adhered to a strategy of ‘Agricultural Development Led Industrialisation’ (ADLI).⁷³ The key aspect of ADLI is that the state will maintain control of land ownership and the guarantee of usufruct rights for smallholders. Despite allowing for large-scale agricultural investment from Chinese capital, the government has also only allowed this to happen to the extent that it does not threaten smallholder agriculture. The thinking behind this approach is twofold: to defend and promote the smallholder sector as a fulfilment of the economic blueprint, the Growth and Transformation Plan (GTP), and secondly, as a political bulwark given the crucial role of smallholder farmers

as a majority section of the population. In Ethiopia, increased investment is not merely the result of increased demand. Because of state ownership, investors cannot access land through market transactions; instead the government manages and promotes investment, selecting investors and investments in line with the objectives set out in the agricultural development strategy.⁷⁴ Although international investors possess more financial and technological clout, it is important to note that in terms of numbers local producers outnumber international capital.

The Ethiopian economy remains heavily reliant on agriculture. According to the EIA, the sector accounted for about 43% of the GDP in 2008/2009 and 86% of foreign currency earnings.⁷⁵ Several agricultural products are key in the sector, but the sesame seed (popular with the Chinese market as a snack which can be eaten at any mealtime) is now Ethiopia's second most exported commodity after coffee. However, the growth of the sesame production is a complex result not only of its huge market in China, but also of an intricate arrangement between the Ethiopian state and local farmers. This has seen the reorganisation of the sector with the sesame traders getting a role by influencing the economic arrangement with China. At the same time, the sesame producers remain highly dependent on the government for political support in securing the huge and lucrative Chinese market. In January 2015, the China Development Bank (CDB) provided a [US \\$25 million loan](#) to finance agricultural enterprises.⁷⁶ The sesame is being used to finance and service these loans facilitated through Chinese capital. Foreign currency earned by selling sesame is passed over to the state-owned Commercial Bank of Ethiopia and used to secure and repay loans provided by China.⁷⁷

It is to the Gambella region that most of the major international agricultural investments are flocking. In other areas such as Benishangul-Gumuz, where people rely on shifting cultivation in which land is abandoned after being used for about five to eight years to regain fertility, the state has hitherto had difficulty collecting taxes and organising extension services. The question is how does agricultural investment affect the ability and desire of the state to construct the administrative apparatus required to effectively administer its territory and exert its authority?⁷⁸ It is clear that the new government's thrust of attracting foreign investors onto the land is benefitting local administrations in the federal state as they collect land use fees. These *weredas* had for the most part been largely dependent on federal subsidies. Furthermore, the recentralisation of authority over the allocation of investment land by the federal government not only constitutes an assertion of

power by the federal government over regional administrations, but also indicates that this is a process driven primarily by the federal government.⁷⁹ International capital has thus led to a situation where there is rescaling of the state where the federal government is now much more involved in the governance of land and property allocation. Power is being rearranged and shared with social forces such as local investors, international capital as well as peasants but with the state retaining control.

Although Indian and Israeli capital dominates foreign agricultural investment in Ethiopia, Chinese capital is involved extensively in the Aksum region. Other Chinese engagements in agriculture involve CDB and China Export-Import Bank (Exim Bank), both of which provide commercial development finance and export credits.⁸⁰ However, although the legal framework surrounding land prohibits foreign capital from owning land as it all belongs to the state, there are indications that the arrangement, once again, neatly meshes simultaneously with Chinese investment and EPRDF regime interests. China, a growing nation of more than 1.3 billion people that is concerned about its ability to feed its own population today and into the future, is buying up Ethiopian-grown cabbage, carrots, onions and other crops to ship back home.⁸¹ Likewise, the EPRDF has an interest in ensuring a market for local Ethiopian farmers in line with the government's agricultural plan to modernise agriculture under the Agricultural Development Led Industrialisation (ADLI). This pacifies a large constituency that makes up the single most important numerical political factor in peasant, small-scale farmers. At the same time, Chinese capital's involvement in the agricultural sector also comprises specific construction of road and communication networks to and from agricultural areas. This contributes to the food security of China from abroad. In all this, the state has still maintained its overriding objective of controlling land politics despite 'liberalising' the land economy. The agricultural sector is the backbone of Ethiopian economy and therefore of vital importance to the survival of the EPRDF regime.

3.3. Chinese Investment in Ethiopian Infrastructure: Mutual Accommodation, Shared Benefits

There should be a special reason as to why it is Chinese capital, more than any other source of foreign capital, that is dominating all the most important and lucrative investment sectors in Ethiopia. Construction and infrastructural development is probably the key sector in Ethiopia today. For example,

In September 2015, the Addis government opened the \$475 million metro rail project in Addis Ababa, and announced the joint construction of a pipeline from Djibouti at a cost of \$1.5 billion. The submission for financial advisory service is set to be tendered in 2016. In 2014, it awarded road contracts worth \$320 million.⁸²

In all these, Chinese companies have become a dominant force, building highways and bridges, power stations, mobile phone networks, schools and pharmaceutical plants. More recently, they have begun exploring for oil and building at least one Ethiopian military installation.⁸³ The study observes that these are also the very investment areas that Chinese firms are seeking, without which they would have nowhere to thrive. Seeking an escape from the pressure cooker of domestic competition and surplus production, China's private firms find some relief overseas in Africa's large markets and relatively less intense market competition from local firms.⁸⁴ China is thus creating its own opportunities in Ethiopia and the Ethiopian state is playing a facilitatory role to make this happen.

Ethiopia has been known for an infrastructural crisis that includes informal urban settlements, congestion, poor road and bridge networks, and water and sanitation challenges.⁸⁵ This could have offered its own domestic private sector massive, lucrative opportunities in clinching huge joint venture investment deals with Chinese capital that is heavily involved in varied projects including housing, roads, bridges and other vital rural and urban infrastructure. Instead, the infrastructural gap has only opened another revenue source for the regime's aligned companies (private) and parastatals that are working with Chinese capital in the construction sector. This has important repercussions for state-society relations in the Ethiopian state with the distinction between government/public versus the private sectors no longer clear. Mainly through its SOEs, the Ethiopian government has engaged with Chinese capital in rehabilitating the sorry infrastructure with the domestic 'private sector' virtually frozen out.

The awarding of contracts to Chinese investors for infrastructural projects is directly linked to the strong political relationship between the Chinese government and its Ethiopian counterpart. Today, China's influence in Ethiopia is overwhelming. Interestingly, the World Bank through its lead economist and programme leader at the World Bank Ethiopia office Lars Christian Moller has thrown its weight behind this approach in Ethiopia, stating that:

As a big government following developmental state path, we intervene aggressively in development of infrastructure, road, railway, power generations and sugar. We waited for decades for the private sector to invest in these sectors but they didn't come.⁸⁶

Chinese firms in Ethiopia dominate both rural and urban road construction. In 2011 alone, there were about ten Chinese firms engaged in the construction of roads throughout the country, representing about 60% of the total. Four of the firms dominated the field with nearly 70% of the Chinese engagement in the sector.⁸⁷ Lately, Beijing has begun winning projects that have geopolitical relevance, such as Ethiopia's Takazee Dam—a massive, US \$300 million hydropower station that is rising on the headwaters of the Blue Nile River.⁸⁸ China has built sub-Sahara's first modern tramway in Addis Ababa, Ethiopia. The two line, 34-kilometre (21 mile) system was built by the China Railway Engineering Corporation (CREC). The project cost US \$475 million, 85% of which has been covered by China Exim Bank.⁸⁹ The Ethiopian government, more than the private sector, is playing a central role in facilitating the operations and engagements of Chinese investment in Ethiopia.

The Ethiopian government is taking a cue from the Chinese distinct capitalist model where the state plays a central role in the key sectors of the economy. The public authorities must therefore keep control of 'the so-called commanding heights of the economy.'⁹⁰ The government is therefore crowding out the private sector which has no link with regime elites in the construction boom. This has weakened the local private sector as an economic and political force in Ethiopia as its failure or exclusion has robbed it of an opportunity to amass substantial financial and political capital.

There have been numerous authors as well as media commentary that has suggested that China imposes its will on African countries as a 'new form of imperialism.'⁹¹ The major criticism against African government's engagement with China is that China imposes its own will on them. However, evidence from this study suggests that such notions be dismissed. In its commercial arrangements with China, Ethiopia is accorded what Geda described as enough 'policy space.'⁹² This means Ethiopia is allowed to design its own policy in relation to how it wishes to engage with Chinese capital from investment deals based on mutual advantage. This is also corroborated by state officials who in interviews stressed that 'there is non-interference and no imposition.'⁹³ As we have shown, these

external imperatives are played out within internal contests inside the state. In interviews with Ministry of Foreign Affairs officials in Addis Ababa, the researcher enquired if Ethiopia was getting what it deserved from its touted relationship with China: ‘The main challenge is that Ethiopia is still a developing country and therefore still learning hence minimum benefits, for now’⁹⁴ was the main response. However, this is being addressed in various ways. The ruling parties from the two countries (the CCP and the EPRDF), legislature and government meet regularly in formal exchange visits and other areas of bilateral technical cooperation.⁹⁵ It is via these fora that the government of Ethiopia is being influenced, rather than forced, by China to take certain positions in its economic decision-making that are ultimately attractive to Chinese investment.

A good example to illustrate how these relationships are internalised within the Ethiopian state is the 2011 stance by China to ‘propose’ a ‘three-point proposal to boost ties with Ethiopia.’⁹⁶ A closer examination of just one of these proposals reveals that Chinese capital suggests, promotes and exploits economic policy and direction in Ethiopia to suit its own globalisation interests.

Wu Bangguo, chairman of the Standing Committee of China’s National People’s Congress (NPC), also proposed the two nations focus on three key projects that he believed would be vital to foster the bilateral cooperation, referring to an agriculture technology demonstration centre, an all-packed economic and trade project including the construction of hydropower stations and the establishment of an oriental industrial zone to attract investment from Chinese companies.⁹⁷

According to the EIA, the areas with the most promising potential for investment are agriculture, agro-processing, textiles and garment, leather and leather products, tourism, mining and hydropower.⁹⁸ These are investment areas in which Chinese companies have an interest in and have comparative advantage over their competitors and indeed are now heavily involved in.

That the Ethiopian government, more than the Chinese themselves, is the one at the forefront of promoting Chinese investment in the country must be emphasised because it goes to the heart of the thesis’ main argument. This lobbying can be attributed to the massive diplomatic and business exchanges taking place between the two countries as alluded to above. As with any other government policy, criticism of, or resistance to, investment is considered a political challenge to the EPRDF.⁹⁹ Senior officials

and diplomats on both sides have visited each other, often inviting business leaders on promotional tours and conferences they organise in Chinese and African cities.¹⁰⁰ In the same interviews and enquiries, key informants maintained that whilst the Chinese seemed quite adept and unrelenting on what they wanted from their relationship with Ethiopia, the same could not be said from an Ethiopian perspective.

Another way in which this is playing out, and partly in response to Ethiopia's inadequate human capital vis-à-vis its engagement with China, is through the offering of scholarships. The Chinese government is providing many scholarships to young, talented Ethiopians to study in China including studying the Chinese language. The Ethiopian regime takes this initiative seriously as it gears to ensure renewal of the same politico-economic ideology practiced in China and closely related to Ethiopian neoliberalism. As for the older generation, just like in China, the process of sending the old guards of EPRDF to semi-retirement has begun with the second generation of the party leaders beginning their carefully staged and choreographed entrance into the limelight of political power.¹⁰¹ The exchanges and capacity building are also expanding in the economic sphere. For example, as part of the Chinese program to send 100 senior agricultural experts to Africa, Ethiopia hosted two Chinese experts between 2009 and 2010. The experts focused on horticulture, fruit and vegetables and wrote two training manuals.¹⁰² There is thus a focus on education with particular reference to business diplomacy borne out of Ethiopia's realisation of its inability to draw maximum advantage from its relationship with China. This has become a breeding ground for the regime to produce party-oriented bureaucrats for the future of the regime and the perpetuation of its economic ideology.

The internationalisation of Chinese capital in Ethiopia and its effect on local politics thus alerts us to the fact that Chinese capital has distinct interests in shaping forms of governance. Chinese capital ensures an enabling environment to operate in African countries that it seeks to operate in. This is especially so given the harsh investment climate associated with most African economies.¹⁰³ Despite their satisfaction with stability and consistency in Ethiopia's political economy, an abundant and trainable labour force, adequate guarantees and protections, including wide domestic, regional and international market opportunity¹⁰⁴ (factors that were instrumental in drawing them to the country in the first place), both Chinese private and state capital has found ways to get the best operating environment possible in the process impacting state transformation in Ethiopia.

One of the areas that Chinese capital has sought to have addressed is the complexity as well as the amount of time needed to get business transactions done due to red tape in Ethiopia. Due to their representations however, there have been positive results. The Chairman of the Chinese Business Association recently commented that ‘the government is making efforts to accommodate investors’ needs’¹⁰⁵ showing how much traction they have brought to bear on the state. Chinese capital plays an advocacy role within the Ethiopian state in trying to shape guarantees for its investment. Once in Ethiopia, Chinese capital tends to establish local links and has shown its ability to independently engage with local fractions of capital and other social forces without necessarily relying on the Chinese government in Beijing. This view is elaborated by Gu, who explained that ‘as these enterprises have moved to Africa, they have resulted in the creation of a Chinese support infrastructure such as business associations, community groups, as well as expanding embassy and consular facilities.’¹⁰⁶ According to Shen, the Chinese Business Association’s 150 voluntary members, mostly manufacturers, met once a month, to discuss common issues, such as taxation, labour management, customs procedures and so on.¹⁰⁷ The Association communicated regularly with relevant ministries and government agencies on behalf of its members. Ministers of Finance, Industry and Transportation have come to meet with the members to hear their complaints and discuss their suggestions. Statements like ‘the government has shown that it is serious about us’¹⁰⁸ coming from the Association’s Chairman are indicative of Chinese capital’s embeddedness in economic governance in Ethiopia.

The influence on domestic economic policy in Ethiopia is therefore now being shaped in part by international Chinese capital, confirming the second image reversed perspective. This emphasises Chinese capital’s distinctive modes of international engagement. China’s distinctive capitalist transformation, specifically its ‘statist neoliberalism,’ has been internationalised and this explains its unique mode of engagement with Ethiopia. In particular, it requires an environment that facilitates its distinctive political component particularly in the case of Chinese state capital. Chinese authorities therefore are making Ethiopia conducive for Chinese international capital and there is evidence that this message is getting across to their Ethiopian counterparts. La Yifan (the Chinese ambassador in Ethiopia) told the (EPRDF) ruling elite—behind firmly closed doors—that it must discard the isolationism of the past and open up an economy in which the flow of money and information is still restricted.¹⁰⁹ The distinctive nature

of China's capitalist transformation creates and necessitates a particular distinctive pathway of internationalisation.

In line with the neoliberal agenda, state institutions have been undergoing drastic reform in Ethiopia. Since 2008, all public institutions in Ethiopia had gone through the so-called Business-Process-Reengineering (BPR) through which they are meant to reconsider the way they operate to ensure improved public services. The key methodology in the BPR process was benchmarking best practices and most of the public institutions have been benchmarking a number of countries in the South, mainly China, India, Thailand and Brazil. By making countries in the South, primarily China, the benchmark for remodelling state institutions, the internationalisation of Chinese capital is enhanced. Secondly, precisely because state institutions in China are heavily controlled by the ruling party, this essentially makes such institutional reform in Ethiopia an exercise in the strengthening of the EPRDF's grip on the state.

6.4 MODELS OF PUBLIC ADMINISTRATION AND THE ETHIOPIAN STATE: IDEOLOGICAL AFFINITIES WITH CHINESE NEOLIBERALISM

The new modalities of state intervention that are now emerging are resulting in the blurring of the distinction between economic (through state enterprises) and political arenas (key regime interests) of the Ethiopian state. This is itself a characteristic of the configuration of Ethiopian and Chinese neoliberalism. The EPRDF regime does not see any contradiction between this blurring of the economic and political and its rhetoric on transparency and democratisation. This is despite the fact that when it came to power in 1991, it had clearly articulated the need for and 'embarked on a range of reform measures in three areas: democratisation, decentralisation and economic liberalisation.'¹¹⁰ The interdependence of economy and polity is such that the state plays a vitally important role at all levels in removing structural impediments to development and building necessary infrastructures for manufacturing industry, commerce and trade. The mixed pattern is certainly not a socialist planned economy, nor is it a Western capitalist system.¹¹¹ As a result, some commentators in Ethiopia are questioning the direction which state transformation is taking: 'Are we moving away from "the social-political contract" towards Chinese style of governance?'¹¹² Ever since economic engagement with China intensified

from 2005, Ethiopia's political leaders from Meles Zenawi to Hailemariam Desalegn have steadily realigned Ethiopia's governance model with the (Chinese) developmental state paradigm.

One arena in which governance is reflecting an enmeshment of Chinese and Ethiopian neoliberalisms is the treatment of the media sector in Ethiopia. Here, in line with China's CCP ideology on media censorship, there is overwhelming evidence that attempts are being made to coerce the media into being an instrument of the 'developmental state.' To begin with, it is well established that, despite media 'freedom' in China, 'the opacity of Chinese media regulations allows authorities to crack down on news stories by claiming that they expose state secrets and endanger the country.'¹¹³ China thus ranks 176 among 180 countries on the 2014 Reporters without Borders index of Press Freedom.¹¹⁴ Similarly, despite constitutional guarantees of press freedom in Ethiopia, the 2005 criminal code contains many provisions that limit this right, including restrictions on 'obscene' communication, criminal defamation and criticism of public officials.¹¹⁵ This is a direct consequence of Ethiopia realigning itself with the Chinese governance model in line with the EPRDF's aspirations of a similarly developmental state in Ethiopia, 'whereby the government controls, manages and regulates the economy.'¹¹⁶ Ever since this realignment, Ethiopia has redefined the role of the media, forcing it through various institutional and legislative tools either to be a mouthpiece of the government or to desist from criticising it, or both.

To illustrate the above, there are many reported incidents of the Ethiopian government's unrelenting crackdown on the private media. However, a couple of prominent examples may suffice. Two Ethiopian journalists, freelancers Zelalem Kibret and Edom Kassaye, were beaten and imprisoned in late April 2014 for more than a year for their blog posts criticising the government.¹¹⁷ They were arrested together with bloggers Mahlet Fantahun, Abel Wabella, Atnaf Berhane, Befekadu Hailu and Natnail Feleke. All were **charged** with incitement and terrorism, according to news reports.¹¹⁸ In December, Asfaw Berhanu, a journalist with the *Reporter* newspaper, was convicted of 'spreading false rumours' and sentenced to two years and nine months in prison for a story he wrote about the dismissal of three state government officials that later proved to be untrue.¹¹⁹ Observing this trend in the treatment of the media and contributing to the debate on Chinese influence in Ethiopia, Lemam has remarked:

Yet we hear that what EPRDF envisages as a role of the media is to serve as an ‘agent of developmental state’. Abandoning its other critical roles the media is required to be *limatawi* – reporting merely the developmental achievements of EPRDF. The journalists are nicknamed *limatawi gazetegna* reporting only developmental news.¹²⁰

Paradoxically, Ethiopia does not only constitutionally provide for media plurality, but is also a multi-party democracy. The fact that constitutionalism is being ignored in pursuit of the ‘developmental state’ attests to China’s growing influence in Ethiopia. It is impacting on state-society relations and betrays a Chinese-induced ideological shift in the East African country that has been transmitted through Chinese capital and its underlying political ideology.

In pursuit of the developmental state, civil society in Ethiopia has also not been spared. In 2009, the country adopted the [Charities and Societies Proclamation 621/2009](#), which prohibits foreign NGOs from working on issues related to human rights, democratic governance or conflict resolution.¹²¹ Ethiopia now has the most journalists in exile of any country in the world other than Iran, according to Committee to Protect Journalists’ statistics and HRW research.¹²² The crackdown on the media should be viewed through the lenses of the shifting nature of constitutional development and political economy in Ethiopia. The changing modalities of state intervention are intertwined with Ethiopia’s economic and political relations with China.

6.5 CONCLUSION

This chapter has analysed the extent to which Chinese investment has immersed itself in the political economy of the Ethiopian state. The overriding observation is that China has exported, through various forms of capital, an ideology of public governance and economic organisation that meshes with Chinese investment and the regime interests of the EPRDF. In the process, certain kinds of interests and power are being reinforced, reproduced or created by Chinese investment relations. State-society relations are therefore being impacted within the Ethiopian state due to the blurring of the lines between economic and political agencies within the state again reinforcing Chinese globalisation strategies and Ethiopian neo-liberalism. The similarities between China and Ethiopia are now striking

and this is due to the fact that both countries now share common ideology and rhetoric of state-society relations and governance that reflects the way Chinese globalisation has interacted with and reinforced forms of Ethiopian neoliberalism. Most importantly, it has strengthened state institutions, and in the next chapter, the thesis examines how some state-society relations have been impacted as a consequence of this.

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The Impact of Chinese Investment in Ethiopia: Party Capitalism and the Informalisation of Institutions

7.1 INTRODUCTION

This chapter focuses on the patterns of political power in Ethiopia that have come about as a result of the impact on state-society relations of Chinese investment in Ethiopia since the coming to power of the EPRDF in the early 1990s. Such impact is a direct result of the new modalities of state intervention in Ethiopia discussed in the previous chapter. The book has so far highlighted Ethiopia's increasing engagement with Chinese investment and particularly the role of the internationalization of Chinese capital. This internationalization has been felt—in line with the overriding framework—in its internalization in the organization of social forces and the power they exercise within state institutions. In this chapter, we locate some key centres of authority, power and institutionalisation within the state in relation to how they have been impacted by Chinese capital. In this respect, two key interrelated processes are identified: the entrenchment of party-oriented capitalism as well as the informalisation of institutions in Ethiopia. I define party-oriented capitalism as an economic system where the (ruling) party, oriented to capital and endowed with multiple vehicles of investment, both publicly known and unknown, is heavily involved in the major sectors of the economy as a player, enforcer and regulator within a politico-economic system in which government and party have fused, duplicating in all major state institutions but with the party overall in command.

This chapter is organised into two sections. The first analyses the role of the ruling party as a key part of the changing institutions, closely examining the role of the EPRDF regime in Ethiopia as a key economic force within the state. The EPRDF has become crucial as the gatekeeper, enforcer and defender of Chinese investment in Ethiopia. This is evidenced in many ways, including state preferential treatment towards Chinese capital. The specific aim is to show not only how this has strengthened the party, but also how this is contributing to an entrenched party-oriented capitalism as a neoliberal model in Ethiopia. The second aspect of this process in the changing state-society complex is the informalisation of institutions. This is the focus of the second section. The key argument of the chapter then is that as forms of capitalism, Chinese and Ethiopian neoliberalisms are merging in Ethiopia. In other words, Chinese neoliberalism is shaping a mode of engagement which meshes with party-oriented capitalism in Ethiopia amid indications that the political interests of the EPRDF party are well served by Chinese investment and vice versa. This is resulting in new informal arrangements that operate outside the formal state institutions. In short, Chinese investment is reinforcing a system of party capitalism and creating and sustaining informalisation of politics and institutions in Ethiopia. It is also important to note that these two aspects are interrelated.

7.2 CHINESE CAPITAL AND THE REINFORCEMENT AND ENTRENCHMENT OF PARTY-ORIENTED CAPITALISM IN ETHIOPIA

The EPRDF has ruled Ethiopia without a break since it deposed the Dergue regime in 1991. Throughout its 25 years at the helm of Ethiopian politics, the party has consistently faced spirited competition from rival political parties who see it as nothing but an elitist, tribal-centred and oppressive regime.¹ Although the party has officially kept its hegemony through winning periodic elections, the electoral victories have often been controversial due to allegations of fraud and manipulation of the system.² This book deliberately avoids getting entangled in the merits or demerits of the EPRDF's political legitimacy or lack thereof in Ethiopia. Rather, it advances the argument that this strong and entrenched role of the party and indeed its continued stay in power now has a global dimension given the role of Chinese capital. Further, it is an example of the

relevance of Gourevitch's second image reversed perspective which should now be applied to better understand contemporary Ethiopia political economy analysis.

It has been established that upon ascending to power in the early 1990s, the new EPRDF government opened up the economy to investors from all over the world. Crucially, and for the purposes of this book, Chinese investment became an important component of this investor class. Two decades later, China is Ethiopia's most important foreign economic partner³ and with much to show for it especially in terms of economic growth. At the same time, Chinese capital, both in its formal and informal links with the state, has played a crucial role in reinforcing and entrenching the EPRDF's sustained stay in power, including its approach to governance. Chinese capital is meshing with some social forces linked to the EPRDF regime and this is reinforcing Ethiopia's distinctive party-oriented capitalism. Further, on the basis of this international dimension to Ethiopian domestic politics, the book disagrees with the notion that the new patronage is a product of primordial cultural processes steeped in Ethiopian 'authoritarian tradition'⁴ alone. Rather, it should now be viewed more as a condition that is constantly changed and reinforced by the evolving dynamics of foreign forces and domestic politics such as Ethiopian and Chinese economic and political links.

By locating party capitalism in the context of broader changes in the global and national political economy, the book views the party-oriented capitalism that is emerging in Ethiopia as a distinct form of state-led capitalism. As a political party, the EPRDF owns, controls and is linked to a significant number of some of the most lucrative and essential businesses in the Ethiopian economy. Whilst some of them are owned publicly in the name of the party, it is believed that many more are held in trust of the party by discreet, party-linked cadres.⁵ The distinction between the party, state and government continues to blur. Management and shareholding in the companies controlled by the different holding bodies are carefully handled through the intermediary of high officials of the central government and the Tigray national state, all members of the TPLF.⁶ The government is engaged in various businesses ranging from production of consumer goods such as cigarettes, sugar and beer production to assembling of motor vehicles.⁷ This type of capitalism is therefore taking root in Ethiopia where the party, through its wide array of companies and portfolio of investments, makes it the key economic player.

The chief mechanism through which the EPRDF is involved with Chinese capital is through the former's party-owned businesses. A party-owned enterprise is a politically embedded, profit-seeking and rent-seeking firm wholly owned (or with a controlling interest) by a dominant party.⁸ The EPRDF is probably now the single biggest economic player in the country and it is now well known that the EPRDF runs a huge business conglomerate at the moment. These routinely receive preferential treatment be it in licensing, credit facilities and so on. Some are said to benefit from direct and indirect state subsidies. No other political or ethnic groupings are allowed to create and operate similar enterprises.⁹ It has huge fertilizer distribution, transportation, car assembly and other very lucrative businesses across Ethiopia.¹⁰ It achieves this through the party apparatus but also by co-opting other influential social forces for overall state control.

According to Abegaz, there are four large umbrella party-owned businesses—holding endowments in Ethiopia today. The four constitute the heart of the EPRDF conglomerates which also include for-profit entities owned or co-owned by allied regional elites and politically connected associations—aptly called para-NGOs, namely, the Endowment Fund for the Rehabilitation of Tigray (EFFORT or Tirit) owned by the TPLF (Tigray), Endeavour (Tiret) of ANDM (Amhara), Tumsa Endowment (formerly Dinsho) controlled by OPDO (Oromiya) and Wondo Group controlled by SEPDM (Southern).¹¹ There is therefore a new capitalist class emerging that is linked to the party apparatus including 'overtly non-governmental, charitable and self-help organisations.'¹² In most cases as this study discovered, party-owned businesses get the advantage of working with the Chinese investments.¹³ The TPLF owns business enterprises that have an authorised capital of over birr 3.5 billion (E320 million). The major ones include Mesebo Building Materials Manufacturing SC, Almeda Textiles Manufacturing SC, Sur Construction Co., Trans Ethiopia SC, Addis Pharmaceutical Production SC, Sheba Tannery Factory and Mesfin Engineering.¹⁴

There are strategically positioned regime and party bureaucrats and expert 'pro-China'¹⁵ officials who play key facilitatory roles in the implementation of Chinese projects in the country. They promote Chinese investment at both policy and political level. According to Gellaw, most of them are architects of EFFORT, the TPLF-controlled business conglomerate that is widely accused of symbolizing apartheid-like crony capitalism in Ethiopia.¹⁶ A good example is Arkebe Equabay, a former Addis Ababa

Mayor and current advisor to the Ethiopian Prime Minister.¹⁷ EFFORT, for example, has five major divisions each of which is headed by a senior party cadre: Industry by Abadi Zemo, Mining by Tedros Hagos, Finance and Trade by Sebhat Nega, Construction and Transport by Arkebe Uqbay and Agriculture by Tsegaye Taiyallew.¹⁸ This educated, capitalist class acts as a technocratic elite that advises the Ethiopian political leadership on how Chinese investment can benefit the EPRDF regime.

With Chinese investment in the country becoming extremely important, the EPRDF machinery, through its closely knit factions, has become the gatekeeper and the orchestrator-in-chief in the arrangement, facilitation and implementation of Chinese-linked projects in Ethiopia.¹⁹ The EPRDF has two channels: the party which duplicates all major state institutions and positions (the commissar system of the USSR) on the one hand and the government channel on the other.²⁰ The study noted that the two are now ‘fused’ with the former in command. The party’s control structures extend all the way to the urban neighbourhood and the rural hamlet—quite unprecedented for an officially non-communist state. Critics of the government argue that there virtually is no distinction here between party and government.²¹ In other words, the party attracts, promotes and protects Chinese investment in a very calculated way. At the same time, however, it should be emphasized that this Chinese investment in Ethiopia is differentiated.

There are broadly two classes of Chinese investors and contractors in Ethiopia: state-linked enterprises and private enterprises. Both state-owned and private enterprises benefit from the state-to-state relations under which Chinese businesses operate. The political cover provides them security and special access.²² According to data from the Ethiopian government, Chinese private operational investments to Ethiopia remained at \$16.2 billion from 1992 to 2015, a figure that is much bigger than any other foreign investments in the country.²³ By ownership, however, they can be subdivided further. As of December 2015, the ownership type of Chinese firms in Ethiopia stood as follows: 69% Chinese private, Chinese-Ethiopian Private Joint venture (15%), State-owned (13%) and ‘others’ stands at 3%.²⁴ Whilst the Chinese-Ethiopian private joint venture category can be said to be the clearest example of the government’s partnership with China’s international capital, this cannot and should not mask the government’s (through the agency of the party) other forms of engagement with Chinese capital especially through networks of informal arrangements.

Networks, especially informal ones, are an informal institution that have epitomised Chinese capital in Ethiopia. According to the Chinese Ministry of Commerce, FDI from China to Ethiopia increased from virtually zero in 2004 to an annual amount of US\$58.5 million in 2010 (US\$74 million in 2009).²⁵ Behind these figures is a growing and vibrant Chinese business community represented by the Chinese Chamber of Commerce in Addis Ababa.²⁶ In 2013, the First Chinese Goods, Technology and Services Expo (Africa) hosted by the Ministry of Commerce and organized by Foreign Trade Development Bureau was held successfully in Addis Ababa.²⁷ This expo highlighted the extent to which networks and informal networking have become crucial as external and internal fractions of capital combine forces in Ethiopia. Due to such kinds of networks, Ethiopian neoliberalism is merging with Chinese investment via party apparatus in new informal arrangements that operate outside the formal state institutions.

The networks can also be found in the numerous platforms that have been created to enhance such linkages. Keeping with the example above, from the (Africa) China Commodities, Technology, and Services Expo held in Addis Ababa in December 2013, interesting observations can be made. On the sidelines of this expo, the China-Ethiopia Industrial and Commercial Cooperation Forum, China-Ethiopia Electronic Power and Energy Cooperation Forum, China-Ethiopia Agricultural Cooperation Forum and China-Ethiopia Cooperation Achievements Exhibition were also held.²⁸ Over 150 Chinese companies came from cities like Beijing, Shanghai, Jiangsu, Guangdong, Zhejiang, Hunan and Shandong to showcase their products and services. The expo hoped to promote bilateral exchanges and cooperation between Chinese and African enterprises while at the same time providing assistance to Chinese enterprises so that they can better know and explore African markets.²⁹ Some of these companies have already invested in Ethiopia.

The informal links that are being established are happening both internally and externally. One way this is manifesting is through new party alliances. Chinese and Ethiopian officials often visit each other's countries during state ceremonies and other celebrations. They often claim that this is due to the rapid state-to-state and party-to-party relationship that is in progress. China has sent experts to Ethiopia, and will continue to do so, to train Ethiopian development agents.³⁰ In different regions, Chinese experts have exchanged knowledge and set up an agricultural demonstration and training centre, which they hope will serve other countries in

Africa as well.³¹ The Ethiopian government seems very comfortable in having a development partner that is willing to do business with it without interfering in its internal affairs. However, Gonzalez alerts us to the fact that ‘non-interference should be understood as a semi-formal institution governing the PRC’s external engagements. It has features of informality, in that it is contingently applied and remains a social convention and legitimising discourse more than a written law.’³² In practice therefore, Chinese non-interference is interference by other means.

The internal-external link is best exemplified by the political economy of sesame in Ethiopia. Because sesame is grown in Ethiopia’s remote regions of Gambella and Benishangul Gumuz, its production for export is also a facilitation mechanism for the EPRDF to centralize state power and exercise authority over minority groups in areas where it previously had limited influence.³³ The Oakland Institute, a progressive California-based think tank, maintains that Ethiopian state control of sesame production is ‘associated with the likely further marginalization/disempowerment of the indigenous people.’³⁴ In this way, Ethiopia’s relations with China play to the regime’s ongoing state-building and centrist domestic political agenda.³⁵ Sesame is very popular in China, and China today is the world’s largest net importer of Ethiopian sesame. Foreign currency earned through the sales is appropriated by Ethiopia’s state-owned Commercial Bank and used to fund Chinese projects in what effectively amounts to a revolving credit facility.³⁶ In such cases, Chinese capital in Ethiopia operates with little government restrictions, and its industrial or labour transgressions are easily insulated by political protection. This is reinforced by the fact that one of the distinctive aspects of Chinese capital in Ethiopia is that Chinese investors completely fund their projects, bringing in their own professional labour whilst Ethiopia provides only unskilled labour.³⁷ This explains why the Ethiopian government does not possess veto power on projects funded by its Chinese partners.

Although Chinese capital is not the major visible foreign entity involved in the land acquisitions that are taking place in Ethiopia, it is increasingly becoming involved. Recent evidence suggests that a Chinese company is posed to sign a 25,000 ha concession to produce sugarcane in the Gambella region.³⁸ This modest involvement is enough to include it in the state-society processes taking place in the agricultural sector. Renowned political economist and expert on Ethiopian affairs Berhanu Abegaz explained in detail in an interview how foreign capital in the agricultural sector has affected state-society relations:

Two-thirds of the Ethiopian peasantry (90% in the North, 60% in the Centre, and 30% in the South) was landed until 1975. There was no feudalism in Ethiopia but landlordism (in the Centre and South). The ruling class simply siphoned off the surplus in form of tributes and taxes and enriched itself by accumulating official appointments (titles) since accumulation of land was not possible. So, rural elites enjoyed a modest economic advantage over the landed smallholder (mostly armed) and they enjoyed high legitimacy. The virtual elimination of rural elites and the conversion of the landed and the landless peasantry into state tenants is what is facilitating the hyper-centralization of the state and the political disempowerment of the peasantry today.³⁹

What is important to note is that, in the end, both parties' (the EPRDF and Chinese capital) interests are served. For the EPRDF party, the presence of Chinese investment has given it political leverage to its government, providing the investment and development rhetoric it is orchestrating at the moment. The investments have also helped lift millions out of poverty, helping the party to hold onto power.⁴⁰ This distinct form of Chinese capital therefore fits well with the regime's interests as it demonstrates how the internationalisation of Chinese capital reinforces the economic and political position of the EPRDF, which is crucial to the political fortunes of the party.

The study also took interest in understanding why, despite well-known negative factors surrounding the investment climate in Ethiopia, there is an expansion of Chinese investment in the country. For instance, the World Bank and some scholars cite customs and trade regulations, tax rates, administration and finance as just some of the major obstacles affecting formal institutions in the Ethiopian business climate.⁴¹ Surprisingly, such concerns have, interestingly, not slowed down but instead expanded Chinese investments. In an interview, an Ethiopian journalist opined that one explanation for this is that 'most Chinese investors have a special exemption from these rules because most of them have a written agreement with the foreign Ministry of Ethiopia.'⁴² While there are no conclusive reports of credit preference for these entities, there are indications that they receive incentives such as priority foreign exchange allocation, preferences in government tenders and marketing assistance.⁴³ Meanwhile, local businesses still have to follow all laws, especially export laws and tax laws.

Local business owners as well as foreign investors complain of the lack of a level playing field when it comes to state-owned and party-owned businesses.⁴⁴ This is corroborated by a local small business entrepreneur who states in an interview that:

The Chinese are considered as ‘the first citizen’. For instance, since their cargo container doesn’t have to pass through stringent security, sometimes they bring in cheap goods, for example mobile phones even though the company is officially licenced to bring in only construction materials.⁴⁵

Even though these claims were difficult to verify, the sentiments were uniformly shared by local, small-business community. It is also alleged that even during border security checks, the Ethiopian citizen has to be physically searched while the Chinese are subjected to little or no checks at all.⁴⁶

The capitalist order developing in Ethiopia—its internal social and economic relations—is embedded within new forms of political relationships between Ethiopia and China. Moreover, this pattern of party capitalism gives rise to new patterns of authoritarian politics and we note that forms of authoritarian politics are emerging in conjunction with party capitalism. Under a party-oriented capitalism, the power and influence of the party increases to the extent that this becomes hegemonic. By being at the centre of all economic activity as well as influencing the distribution and allocation of economic benefits, the EPRDF has become increasingly authoritarian.⁴⁷ This should be understood as a direct or added consequence of the party-oriented capitalism model of neoliberalism instituted in Ethiopia. Just like its CCP counterpart, the EPRDF is carving out a neoliberalism where authoritarian politics and increasing centralisation thrive alongside party capitalism.

Freedom House, an international NGO which attempts to quantify repression by measuring political rights and civil liberties in states throughout the world, confirms that ‘Ethiopia’s scores since 1991 have indicated a persistent lack of respect for civil and political rights.’⁴⁸ Critics of the government say ‘the EPRDF is at the centre of an authoritarian regime that tries to assert its leadership through the various democratic-looking institutions that it has set up. The Human Rights Council, the Ombudsman Office, and the Anti-Corruption Commission are all examples of such institutions.’⁴⁹ Chinese investment is directly linked to increasing political repression in Ethiopia and in most cases this repression benefits both the Ethiopian regime (by suppressing citizens’ right to exercise dissent) and the Chinese capital (investment opportunity in the ‘repression industry’). To highlight how Chinese technology is being used to pursue Ethiopian political authoritarianism whilst benefitting Chinese capital, the study considered the situation of government-media relations.

According to Rizzardi, dictators seeking sophisticated tools of repression need look no further than China, the authoritarian telecommunications

hardware store.⁵⁰ Chinese investors are providing the Ethiopian government, through its state-owned telecommunications monopoly Ethio-Telecom,⁵¹ with media infrastructure to jam frequencies and internet of independent media critical of the EPRDF government. The Ethiopian regime is working with Chinese capital in technical cooperation investment areas to achieve domestic political goals with far-reaching effects on state-society relations. Human Rights Watch notes that websites of opposition parties, independent media sites, blogs and several international media outlets are routinely blocked by government censors. Radio and television stations are routinely jammed.⁵² Chinese companies like Huawei are said to be supplying the Ethiopian government with software for censorship and surveillance. Reed adds that ‘in Ethiopia, Chinese technical assistance to monitor Ethiopian citizens online was confirmed in June 2012 when the government openly held an “Internet Management” media workshop with support from the Chinese Communist Party.’⁵³ It can therefore be concluded that although the Ethiopian regime lacks the technological tools to aid its authoritarian rule but that handicap is adequately addressed by its political and economic relationship with Chinese capital.

Still on the media, another poignant example of targeted attacks was the Ethiopian Satellite Television Service (ESAT), an independent satellite television, radio and online news media outlet run by members of the Ethiopian diaspora but critical of the government. In the space of two hours on 20 December 2013, an attacker made three separate attempts to target two ESAT employees with sophisticated computer spyware, designed to steal files and passwords, and intercept Skype calls and instant messages.⁵⁴ Most of the technologies used to monitor telecom activity in Ethiopia have been provided by the Chinese telecom giant ZTE, which has been in the country since at least 2000 and was its exclusive supplier of telecom equipment from 2006 to 2009.⁵⁵ Chinese capital, like state-owned multinational giants such as ZTE that have internationalised are thriving in African countries as they are getting lucrative investment opportunities to build telecommunication systems, networks and technology. In Ethiopia, their activities are intertwined and embedded in shared values of neoliberalism and the ideology of the developmental state.

In the final analysis, as a result of the close party-to-party relations and China’s persistent support to the Ethiopian economy, the EPRDF as a party gives top priority in the arrangement, facilitation and implementation of Chinese projects in Ethiopia. Government institutions in Ethiopia are dominated and worked as if they are political party institutions. Corporate

governance of state-owned enterprises is structured and monitored by a board of directors composed of senior government officials and politically affiliated individuals.⁵⁶ Therefore, whatever government institutions do is automatically an extension of the ruling party's hegemony. The government, however, as shown below, also stands to benefit from this relationship as well. Among the many benefits is that it has helped the party solve the challenge of raising a lot of money for very large projects; carries little or no political conditionalities; and, if growth results, can provide a modicum of legitimacy in the absence of broad-based political representation.⁵⁷ Chinese investment, by focusing on long-term financing of industrial investment and the building of infrastructure, strengthens EPRDF in many ways.

7.3 CHINESE CAPITAL IN ETHIOPIA: CREATION AND REINFORCEMENT OF INFORMAL INSTITUTIONS IN ETHIOPIA

Institutional dynamics in any state play an important role in influencing how decisions are made as well as how power is exercised. In Africa, probably more than elsewhere, institutions cannot be separated from the political economy of the region.⁵⁸ While formal institutions would normatively be the most ideal due to their predictability and structured orientation, in Africa, it is the way that formal and informal institutions interact that offers more insights into how society operates. At the same time, one of the advances of this thesis is that whilst acknowledging the role of institutions, it also encompasses social forces—and certainly the new social forces—that underlie these institutions. This section identifies and discusses how some key, specific enduring and new institutions specific to Ethiopia's political economy have been affected as a result of Chinese capital within the state. From the thesis' view, the informal institutions to be discussed hereunder should be viewed more through the lenses of wider patterns of global capitalism and not as a pre-modern framework.

According to Helmke and Levitsky, informal institutions can either be reactive or spontaneous. 'Reactive informal institutions are established in direct response to incentives created by the formal rules,' whilst 'spontaneous informal institutions emerge independently of (and frequently pre-date) formal institutional structures.'⁵⁹ Among these are social structures and social networks, customs, rules and interactions, cultural norms, ethnicity and patrimonialism. Given the enormous volume and extent of

Chinese capital in Ethiopia, the thesis hypothesised that on the one hand, existing institutional structures are severely tested and subsequently reinforced. On the other hand, if found to be weak, inefficient or unsuitable, new ones are created. Still thinking with Helmke and Levitsky, but now also incorporating Gourevitch's second image reversed, they may also just simply emerge out of interaction between domestic and international forces as they creatively respond to formal institutional insufficiency. This has taken place in Ethiopia.

It is instructive to first point out that, according to Wang, Chinese business networks are based on intensely personal connections and depend very much on the bonds between particular individuals.⁶⁰ On the basis of this assertion, if the internationalisation of Chinese capital is exporting globalisation with Chinese characteristics, it would be interesting to examine how this characteristic has been exported to Ethiopia. The basis of the chapter's argument is that Chinese capital and its globalisation is distinct and this shapes its forms of engagement in Ethiopia. Ethiopia is a typical Third World country where institutional development (formal) has been a challenge due to several factors including a long history of conflict, dictatorship and general economic malaise. With this background, the study elaborates on how Chinese capitalism is now embedded in Ethiopian neoliberalism and how this is reinforcing, or even creating new, informal institutions.

A 2012 World Bank survey noted the weakness of six formal institutions in Ethiopia. These were trade regulation and customs clearance efficiency, perceived foreign exchange rate risks, tax administration inconsistency and inefficiency, labour education impeding productivity and skill transfer, insufficient local access to finance and government regulation.⁶¹ The study also particularly points out how Chinese FDI in Ethiopia is constrained by inefficient Ethiopian bureaucracy, companies spending valuable company time dealing with government officials and their regulation, where the government is taking over 30% of senior Chinese management time.⁶² Despite the perceived obstacles, Ethiopia is an attractive business destination for Chinese enterprises and even though some Chinese investors have shut shop, even many more are increasingly setting up business in Ethiopia.

However, given the weakness associated with the weak formal institutions highlighted above, the resultant low efficiency in resolving problems as well as lack of coordination among different government agencies across all levels results in even higher transaction costs. Institutional (formal)

failure is a reality that Chinese capital deals with on a regular basis in Ethiopia. For example, Chinese car assembler Lifan Motors has learned this the hard way which has necessitated the need for it to use informal institutions. Mark Ma, deputy general manager at Lifan, told *Fortune* magazine that, 'The rules change regularly, and you do not get the same answer from different authority officials when you visit their offices.'⁶³ Along with many other Chinese companies that were surveyed, 'laws that were being applied retroactively; administrative limitations of the complaint hearing system; lack of access to legal receipts and the unpredictable timetable of government auditing'⁶⁴ were the main complaints. This is a clear failure of formal institutions to deal with the demands of enabling a conducive, predictable operating environment for international capital.

The World Bank conducted a 95-question survey on 71 Chinese companies investing in Ethiopia and used the data of all but two to make recommendations.⁶⁵ To highlight the importance of informal institutions, most of these companies first heard of the investment climate in Ethiopia through the Chinese social network already established there. Families, relatives and friends who are already established in Ethiopia provide information and bring in additional FDI.⁶⁶ As a result, nearly all of the Chinese companies surveyed are from three provinces, Zhejiang, Liaoning and Fujian.⁶⁷ Inadequate education and lack of training of Ethiopian workers, especially those in the manufacturing and construction sectors, impede management communication and skill transfer (English is the working language in most cases). In order to fill in the gap of inadequate education of local workers, Chinese firms usually hire Chinese lead workers with 10–12 years' education and provided on-site trainings for Ethiopian employees.⁶⁸ This ensures the creation and regeneration of skilled Ethiopians whose ideological orientation is shaped along the Chinese way of doing business. This is closely related to the emerging Ethiopian neo-liberalism variant.

Chinese capital has reinforced the Ethiopian government's control over the economy, supporting the argument that globalisation does not necessarily erode the power of the state. This relates to Brenner's argument on the re-territorialisation of the state in contemporary globalisation. Brenner argued that 'crucially, this re-scaling of territoriality does not entail the state's erosion but rather its re-territorialisation onto both sub- and supra-national scales.'⁶⁹ In Ethiopia, Chinese globalisation is actually reinforcing the state even though it empowers the state to exercise some of its power through informal institutions.

As a form of informal institutionalism, corruption in all its forms is prevalent in much of Africa.⁷⁰ Current academic research assesses corruption as the prominent mechanism of informal influence.⁷¹ The question for this thesis is how has Chinese capital influenced some forms of corruption in Ethiopia? According to a policy analyst who closely watches Chinese investment in Ethiopia, ‘The investors deal with high government officials to get their business done and for influence. They also manage to collaborate with local officials for the execution of their works. This is the case in many of the road projects that they are carrying out at the moment.’⁷² In a report on 100 multinational corporations in emerging markets, Transparency International, an anti-corruption organization, shows that Chinese multinationals perform poorly. ‘Results show that companies from China lag behind in every dimension with an overall score of 20 percent (2 out of a maximum of 10),’ the report said. ‘Considering their growing influence in markets around the world, this poor performance is of concern.’⁷³ This is why it is important to consider Chinese capital and its arrangements in Ethiopia.

According to the Ethiopian Revenues and Customs Authority Investigation Directorate database from 2008 to 2012, around 20 Chinese investors have been sued in court by the Authority because of contraband, tax evasion, trade fraud, capital flight, money laundering and illegal transfer of wild animal skin.⁷⁴ There is therefore a case to be made that Chinese capital and its mode of liberalism either breeds the informal institution of corruption in Ethiopia or feeds into it. Where it meets stringent formal rules in the complex of bureaucracy in Ethiopia, Chinese capital’s relationship with the EPRDF through party-party links risks being labelled as corrupt since corruption is also a matter of perception.⁷⁵ It is thus apparent that Chinese liberalism is meshing with the domestic informal institution of corruption and that this is finding mutual accommodation. This corruption, I argue, is merely symptomatic of wider process of informalisation of politics that is driven by the structural relationship between Chinese investment and the ruling party in Ethiopia.

Even though there is a thin line between corruption and networking given the close party-party relations between the EPRDF and the CCP, the distinct nature of Chinese capital, including the fact that it does not insist on strict pre-conditions like zero corruption, in and of itself reinforces corruption as an informal institution in Ethiopia. The construction sector is a case in point. According to Mariam, ‘the Ethiopian “government” is not only the single dominant construction client but also the

singular policy maker and regulator of the construction sector.⁷⁶ Chinese firms are engaged highly in Ethiopia infrastructural development including road, telecommunication, power and railway projects.⁷⁷ According to a World Bank report, ‘many stakeholders are concerned about the possibility of a connection between the dominant role of Chinese contractors in the road sector and high-level links between the Ethiopian and Chinese governments’ and the ‘lack of effective competition, with Chinese contractors dominating the international market and a limited set of domestic contractors dominating the national market.’⁷⁸

For example, the largest commercial bank in Ethiopia, Commercial Bank of Ethiopia (CBE), has inked a deal with the China State Construction Engineering Corporation (CSCEC) to build its headquarters in Addis Ababa. The building is said to be the tallest structure in East Africa once completed.⁷⁹ Mariam adds that the Ethiopian government ‘controls the price of construction materials, access to finance, and access to equipment. It controls professional and company registrations. It maintains high-level, bilateral infrastructure deals with China and lacks independent performance audits.’⁸⁰ Mariam insists that the type of corruption in the Ethiopian construction sector covers the whole gamut including the policymaking and budgetary process, project selection, tender specifications, procurement outcomes, contract negotiations and renegotiations and payments.⁸¹ The judiciary and anti-corruption commission are also systematically dependent or subject to executive intervention.⁸² Worsening corruption is therefore a likely, if not inevitable, consequence in Ethiopia given the involvement of huge capital with wide discretionary power of government officials in a country with no or limited freedom of expression.

In response to a question on where most of the perception of Chinese capital corruption in Ethiopia lies, a senior government official stated that ‘Chinese private investors, in comparison with Chinese state capital, reflecting their lack of international experience in corporate social responsibility, tend to be associated with higher levels of fraud and bribery than state-owned capital.’⁸³ Earlier it was discussed how Chinese companies also provide the Ethiopian government with advanced technological tools to suppress political opponents’ digital communication in Ethiopia. By aiding dictatorship, corruption is nurtured, and where some of the corruption happens between Chinese capital and Ethiopian government officials, interests of both parties are served in this mutually beneficial relationship. As an effect of the informalisation of institutions, the thesis argues that corruption has been reinforced either directly or indirectly

by Chinese capital in Ethiopia. To that end, corruption in Ethiopia needs to be seen in the context of the wider process of enmeshment of Chinese capital, Ethiopian party capitalism and informal networks.

Policy networks are a form of informal institution that can be included in the analysis of the impact of Chinese capital in Ethiopia. By definition, policy networks can be understood as a set of relationships between heterogeneous and interdependent actors who work in the same policy subsystem on the basis of a particular governance structure, consisting of formal and informal rules and forms and ways of interpreting and implementing them.⁸⁴ As individual Chinese companies intensify investment in Ethiopia's several economic sectors, especially construction, energy, finance and aviation, they are opening their own lines of communication and arenas of cooperation with individual domestic institutions in specific areas of investment. For example, the Ethiopian Roads Authority engages with Chinese road construction companies and sets up the project parameters; the China Development Bank and the Export-Import Banks, for example, also work with individual Chinese companies for funding of certain projects in Ethiopia, for example, the China Railway Engineering Corporation (CREC) carried out the \$475 m Addis Ababa railway project through a loan from the latter.⁸⁵ This sets up new, separate platforms of negotiation, structures and mechanisms of cooperation in what increasingly becomes an informal setting which would otherwise be the preserve of the central government.

From this perspective, this leads to a process of informalisation which, according to Rinke and Schneekener, describes 'not a political style but a qualitative change in the institutional framework in which the business of world politics is conducted.'⁸⁶ In the above example, whereas the EIA would be the one entity that Chinese investors would need to liaise with, individual Chinese investors instead deal directly with companies. Some of the reasons include the fact that Chinese investors are not keen on bureaucratic bottlenecks, and once they sign a contract today, they expect to be on site the following morning.⁸⁷ To facilitate Chinese investment in Ethiopia, some of the crucial decision-making process takes place outside formal institutions. Because of the deep seated enmeshment of Chinese and Ethiopian economic and political ideologies, the Ethiopian government seems keen to ensure that Chinese capital gets the investment opportunities ahead of most foreign bidders. However, it is constrained from guaranteeing such outcomes if bidding is done formally since non-Chinese

investors can propose more competitive bids. This is where Chinese capital is meshing with local forces especially the ruling EPRDF party through informal arrangements entered into at party-party level.

To exemplify this point, the Chinese global telecom corporation ZTE beat out Western competitors in 2006 for a major telecom project by offering \$1.5 billion in low-interest financing, funded by Chinese state-run banks.⁸⁸ A World Bank investigation found that the Ethiopian government appeared to ignore its own procurement rules requiring competitive bidding when it awarded the contract, which gave ZTE a monopoly on supplying telecom equipment for several years.⁸⁹ This may probably be explained in terms of the informal networking that takes place between the two governments, often behind the scenes. In explaining such informal networking, a policy analyst in Addis Ababa explained how the arrangements sometimes work:

The State (EPRDF) higher officials will be invited to China and have a private meeting ... and they will discuss how they can establish a private business which could cooperate with the Chinese companies or with which private company they can work with. Most of these private companies are owned by either the higher official or by the family.⁹⁰

Owners and controllers of Chinese capital make use of various networks, connections and links with top government officials as a political and social muscle to crowd out domestic firms and other foreign competition. In some instances, the authorities in Ethiopia may prefer to deal with the Chinese than domestic firms in order to remain unnoticed in whatever they are doing.⁹¹ Invariably, Chinese firms that won big contracts are seen remaining in Ethiopia by opening offices and local subsidiaries of their company in the course of their first project in Ethiopia.⁹² The networking has also extended into philanthropy, with local and external fractions of capital engaging in some community and humanitarian projects. The Chinese government, through a Chinese humanitarian organization, the Red Cross Society of China (RCSC), has picked Ethiopia as a model country to expand its presence in the humanitarian sector in the continent in addition to the already cemented relations in areas of trade and investment.⁹³

Due to several issues connected to Chinese investors such as business practice and environmental concerns, there have been a lot of complaints

against Chinese investors including from citizens in general and locals employed by Chinese capital. Besides language barriers, there is a world of cultural difference and work ethic between Chinese investors and the locals they employ as labour.⁹⁴ This has led to disputes. In a study on one Chinese construction project in Ethiopia, Mo *et al.* found out that ‘Ethiopian people traditionally value freedom, dynamism and individual creativity. The Ethiopians found their Chinese partners place more emphasis on trust, discipline and teamwork, as shaped by the thousand-year-long Confucius doctrine.’⁹⁵ Geda and Meskel have summarized some of the major reasons behind the complaints against Chinese investors in Ethiopia. Some of the complaints are related to:

1) the quality of the construction undertaking itself; 2) the remuneration to the local labour which is far below the standard expected from such construction work; 3) the high employment opportunities for local unskilled labour that may be expected as one of the benefits whenever there are such big construction projects are rare from Chinese construction projects; and 4) equipment and machinery for construction purpose are imported free of import duties and tariffs owing to the incentive scheme the government set out to develop infrastructure. Chinese capital uses this opportunity to import technically outdated equipment which after the projects in Ethiopia are completed, invariably does not give significant service. Finally, (5) regarding the Chinese projects, it is reported that the standard of the Chinese labour (and also products) is by far below the international standard (for example, in terms of sanitation, and water supply facilities).⁹⁶

All these are complaints that formal institutions should typically be expected to not only prevent from happening in the first place, but deal with when they happen according to specific laws and regulations. Instead, alternative institutions have emerged to fill the gap created by relevant formal institutions. To maintain perspective, we discuss an example of an informal institution that has emerged to play a monitoring role in direct response to the cultural clashes and lack of transparency involving Chinese capital in the construction sector despite the presence of formal arrangements already in place.

A non-state initiative, the Construction Sector Transparency Initiative (CoST) was established and seeks to improve transparency and accountability in publicly financed construction projects through the public disclosure of information in a form that is accessible to a range of

stakeholders.⁹⁷ This will however coexist with existing official/formal arrangements. This has even also received state support. The Ethiopian Government has committed to CoST beyond the pilot with its inclusion in the National Growth and Transformation Plan and the Roads Sector Development Plan.⁹⁸ The Ethiopian MSG is now aiming to institutionalise CoST by supporting the Public Procurement and Property Administration Agency website to facilitate the disclosure process and scale-up disclosure of project information from the procuring entities which participated in the pilot.⁹⁹ This is an example of an informal arrangement operating outside the state that has been created as a dispute resolution mechanism arising out of the questions surrounding Chinese capital in the construction sector. This falls neatly into Seyoum's argument that informal institutions also facilitate dispute resolution or contract enforcement through incentive structures such as loss of reputation or exclusion from business associations.¹⁰⁰ 'This is part of the changing state-society changes taking place in Ethiopia for CoST now not only focuses on Chinese projects but monitors all construction projects in the country.

7.4 CONCLUSION

This chapter has drawn the nexus between the internal (social forces) and the external (Chinese capital) to show the changing nature of the state as well as the impact on state-society relations. The case is made that the changing nature of significant aspects of the state is a result of the distinctive nature of Chinese capital in Ethiopia. The evidence for this can be traced from the previous chapter where Chinese capital was linked to the strengthening of state institutions. This chapter followed on from that by showing the effect of this on state-society relations. It did this by discussing two broad outcomes: the emergence of a party-oriented liberalism as well as the informalisation of institutions that are taking place in Ethiopia. Party-oriented capitalism is now not only a part of, but central to, the broader changes in Ethiopia's political economy. The chapter has also shown that old informal institutions as well as emerging ones are affecting and being affected by Chinese capital as an outcome of its distinctive forms of political and economic engagement.

NOTES

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Conclusions: Summary of Main Findings and Some Suggestions for Future Research

Driven primarily by the Chinese state, the internationalisation of Chinese capital is one of the most important international political economy developments of the last decade. The analysis of the same, especially its varied ramifications around the world is also now featuring prominently in scholarly literature. Although China has long had very close ties with Africa, the current relationship is significant in that it happens in the context of China having assumed a new-found global prominence underpinned and driven by phenomenal economic growth and by the links of its corporate entities to the capitalist global economy. Moreover, this relationship is developing at time when China has clearly carved out a distinct, home-grown neoliberalism different from Western neoliberalism or the ‘Washington Consensus.’ The fundamental variations between Chinese and Western neoliberalisms can be seen through institutional differences, the guiding principles they follow and the role of the government in economic activities. However, the analysis of the China-Africa relationship has tended to be narrowly confined to the broad binary of whether Chinese investment is good or bad for Africa. Whilst it is important to know if China is a ‘good’ or ‘bad’ partner, this binary unfortunately stands in the way of a focus on some important issues linked to the internationalisation of Chinese capital in Africa. By identifying the impact of Chinese capital on state-society relations in Ethiopia as one such research gap, this book has offered an alternative to this binary as its main contribution.

8.1 AN ALTERNATIVE: BEYOND A BINARY ANALYSIS OF CHINA-AFRICA RELATIONS

The analysis challenges this conventional binary view which is often framed on whether China is the new imperialist power plundering Africa's resources or China is Africa's 'all-weather friend.' There has been growing debate in the international relations literature on the impact of rising powers and particularly China on the global order. Much of this literature is concerned with the impact of China on the rules and institutions that govern the global order. Many scholars have explained that China's interests and actions in Africa are guided by several interests including but not limited to extractive resource diplomacy,¹ political and soft power,² the developmental or the internationalisation of the Chinese state abroad³ and China's 'Going global'⁴ strategy, among others. Taken together, no matter how diverse these views are, they have a common denominator: which is a suggestion that China imposes itself on African countries. There are scholars such as Lee who have advanced such a view and have concluded that China's growing presence in Africa represents 'the twenty-first Century Scramble for Africa.' Lee asks: 'While the Chinese are actively involved in developing the continent, what is the cost to Africa? Given the way the Chinese do business in Africa, it can be argued that the face of China's scramble is also one of naked imperialism.'⁵ This is the first of the binary analysis of China-Africa relations.

Not everyone though views China as pursuing predatory tendencies in Africa by virtue of its new-found economic and political power. On the other side of the conventional 'China in Africa' lens is the second view. Here, China is hailed as an alternative model of economic development ushering in a model of economics and politics more suited to African needs and dreams. According to Konings, for example, who is representative of this view, China and Africa are building a strategic relationship and 'what is particularly attractive for many African rulers is the alternative development paradigm propagated by China: non-interference in state sovereignty, freedom from western hegemony, and an absence of any conditions in giving aid (with the exception of the 'One-China' principle).'⁶ Clearly, in this binary analysis, one is a pessimistic scenario and the other quite an optimistic one. By focusing on debating whether China is the 'new imperialist' or 'Africa's saviour,' scholarship on China-Africa relations has missed out on some very key issues that can only be brought out by frameworks that avoid state-centricity but encompass the role of social

forces in the dynamics of state-society relations complex. This book is squarely drawn into this literature and, taking the Ethiopian case study as an example, sheds light on the pressing theoretical and empirical topic to argue that viewing China in Africa as such is problematic. From the foregoing, after identifying that a wrong problematic was standing in the way of an important question, the study proposed an 'inside-out' model in search of a formula where domestic and external relations are mutually constituted.

It is important to emphasise how this approach was conceptualised and deployed as well as how its application has been used to interpret the results. Firstly, this binary problematic belies a belief in the state-centric model of the relationship between Africa and China which is driven solely by Chinese interests whether predatory or beneficent. Secondly, it assumes a state-centric model of geopolitical rivalry based on Eurocentric models of interstate rivalry. One of the crucial arguments advanced in the book is that these are answers to the wrong question or set of problems. The analysis thus sought to challenge the conventional approach to the impact of China on Africa. It went on to identify those theoretical frameworks that accommodate social forces in their analysis of internal processes of transformations within states as well as approaches that can theorise the impact of international sources on domestic politics.

The first leg on which the proposed 'inside-out' perspective rests on is Migdal *et al.*'s state-society framework. As the study 'eschew(s) a 'state-versus society' perspective that rests on a view of power as a zero-sum conflict between the state and society,⁷ Migdal's state-society perspective is used to highlight the limits of this state centrality. Political struggles occur within and between apparatuses of the state, so that to posit the state as a unified set of institutions precludes it being seen as a terrain in which political struggle occurs.⁸ Whilst the state-society framework allows an analysis of the vital internal contestations, alliances and compromises within the Ethiopian state, there remains a need to theorise the external force (Chinese capital) which is now internalised with the various social forces and processes organised within the Ethiopian state. Gourevitch's 'second image' approach has been used for this purpose and to complete the proposed 'inside-out' approach.

In considering the linkages between internal and external players and their influence on domestic politics, Gourevitch asks the crucial question relevant to this thesis: 'Can we find general arguments which posit systematic relationships between such forces and certain configurations of regime

type and coalition pattern?⁹ This thesis has tried to address this question by elaborating on the alliances Chinese capital has formed with internal forces in Ethiopia. This model advances the argument that there is a relationship between the external and the internal that needs to be better conceptualised. The state is not unquestioningly taken as a distinct institutional category or thing in itself, but conceived as a form of social relations through which capitalism is expressed.¹⁰ The overriding question from the standpoint of Africa is: What does this mean to the African condition? This question is loaded and answers to it will vary. This study has attempted to answer this question in a way that contributes to new knowledge from a state-society angle.

With the aid of the ‘state-society’ framework (Migdal *et al.*), ‘second image reversed’ (Gourevitch) as well as the ‘relational model of power’ (Bryan), the book has advanced a key argument that progressively from 1995, the state-society complex in Ethiopia is not a product of internal factors (state and society) alone, or external factors (foreign capital) alone, but a result of the interaction between both the external and internal variables. Throughout, the analysis does not lose sight of the fact that the distinctive nature of Chinese capital is at the core of the engagements.

The book covers the period between 1991 and 2016. In other words, it is an analysis from the time the EPRDF government took over up to date. Although serious economic relations in this phase of China-Ethiopia relations began effectively in 1995, this twenty-five-year period sufficiently captures both the internationalisation of Chinese capital in Ethiopia and the reform era in Ethiopia that made it possible. However, the period immediately preceding the coming to power of the EPRDF in 1991 is crucial for particularly two reasons. Firstly, it provides the background to understanding some enduring state-society aspects and contending issues in Ethiopia that have a bearing on the present such as ethnic rivalry, regionalism, conflict, distribution of economic opportunities as well as the foundation of the state’s foreign policy directions. Secondly, it gives the best basis for understanding the big break from a socialist to a neoliberal mode of production, the latter of which is at the core of the book. For this reason, Chap. 3 covers the crisis and contradictions in Ethiopia since 1974 under the Dergue, but in so far as they set the stage for Chinese investment when the EPRDF took over in 1991.

The implications of the study’s framework and the crucial role of party capitalism and informal networks are to highlight how social relations and contests are embedded within the state. It makes the point that we need

to understand the state in relational terms. The exercise of political power by the EPRDF in Ethiopia is related to the mutual dependency that sustains both the rulers and the ruled or between the regime and other various actors, including Chinese capital. Social relations commonly entail ties of mutual dependence between the parties. As Emerson put it, 'A depends upon B if he aspires to goals or gratifications whose achievement is facilitated by appropriate actions on B's part.'¹¹ The relationships that are developing in Ethiopia between the state and social forces as a result of Chinese capital are mutually empowering and it is misleading to therefore assume that the state is acting on, and by itself. By adopting Migdal's state-society approach, the book contends that in Ethiopia, the state can only be best understood in relational terms as a 'social contract' rather than 'black-boxing' it by taking it for granted that it acts autonomously with China or that China simply and easily pursues its interest through it without any roles for the internal social forces in Ethiopia. Whilst the basis of the relational dependence may take different forms, for example, based on ethnicity, access to land resources or business opportunities, the bottom line is that the Ethiopian state does not act alone. The analysis has shown that this relational understanding of power is applicable in analysing Ethiopia not only under the current EPRDF regime, but also during the Dergue period.

The relational understanding of power is very much connected to the basic argument underpinning the state-society framework. There could be many ways of analysing China-Ethiopia relations but this study has done so by focusing not only on the state, but also on the social forces organised through it. It has explored the internal social and economic relations underpinning the emerging capitalist order in Ethiopia. It concludes that they are embedded within new forms of political relationships between Ethiopia and China. By applying a framework that brings the society into the China-Africa debate, it has shown the state in relational terms as an institutional complex through which different social forces act. As Migdal states, 'creating the conditions for domination in society and maintaining dominance – the reproduction of power within society – are the products of the multiple ongoing arena struggles and accommodations.'¹² The state-society framework helps us to understand that when analysing China in Africa, the whole point is not that whether it is a 'good' or 'bad' relationship. Instead, the framework helps us come to grips with the way in which contestation takes place inside the state. This even has the potential to alter the balance of power between state and society. The analysis

discussed how various social forces such as party-linked capitalists, business associations, peasants, the ruling EPRDF party and its alliances as well as informal institutions operating outside or alongside the state are a crucial factor within the context of China-Ethiopia relations. The Chinese mode of engagement is reflected through its impact on new and old social forces as they operate within the state.

The main contention of the book, therefore, is that China's impact in Africa is not limited to economic and political effects alone, but goes beyond to include state-society relations as well. In this quest, three objectives had to be met. The first objective was to make the case for a theoretical framework that accommodates society, especially social forces organised through the state into the discussion. This supported one of the core aims that is to advance a relational view of the Ethiopian state. Together with the relational concept of power, several theories have been used and all of them have underlined the importance of going beyond the myth of the 'black box' state. The second objective was to show the linkages between the external and internal forces that are connected to Chinese capital in Ethiopia. Theorising the domestic impact of Chinese capital using Gourevitch's 'second image reversed' framework, an inside-out approach has been advanced. This led to the third and last objective, which was to bring out the evidence of the state transformation through state-society relations obtaining in Ethiopia as a result of China's distinct mode of capitalism.

8.2 A SUMMARY OF THE MAIN FINDINGS AND CONTRIBUTIONS TO IR LITERATURE

The thesis' hypothesis was that China's huge presence in Africa, just like any other globalisation, has state-society implications because of the complex linkages involved. To that end, the thesis underlines the important observation that the impact of the internationalisation of China's distinctive capitalism goes beyond the questions of economic development, dependency or imperialism. Rather, from the Ethiopian case study, it is discerned that the internationalisation of Chinese capital is made possible by intricate processes involving the forging of relationships between Chinese capital and local social forces linked to the state. In short, it is the linkages between the internal and external factors analysed via an 'inside-out' approach that set this work apart.

Africa is however composed of different polities each with a unique set of often complex internal dynamics. By electing to use an in-depth focus on Ethiopia, the study has avoided generalisations but produced Ethiopia-specific outcomes of Chinese globalisation. One such outcome is the growing authoritarianism that for long has been conceived or understood merely as a product of the EPRDF regime's political power project in Ethiopia tied around a patrimonial 'historical legacy,'¹³ inherent 'authoritarian political tradition'¹⁴ and 'ethnic domination.'¹⁵ Authoritarianism in Ethiopia especially in this digital age cannot be explained by these enduring legacies alone. In Chap. 7, for example, the relationship between Chinese capital in the telecommunications sector such as ZTE and the Ethiopian regime shows how the latter has sought to deal with opposition forces by closing and compromising digital outlets with the sole help of the former. This is all part and parcel of the centrality of the 'inter-party linkages especially between the CCP and the EPRDF'¹⁶ in the organisation of a mutually beneficial relationship spearheaded by Chinese capital in Ethiopia.

The distinctive mode of Chinese neoliberalism is behind the internationalisation of Chinese capital which in turn is guiding its engagement with other parts of the globe like Ethiopia. This is brought clearly by the drivers of Chinese investment in Ethiopia covered in Chap. 5. Whilst the usual frameworks for China-Africa analysis acknowledge the distinctive nature of Chinese capital, they hardly interrogate how this distinctiveness is at the centre of its engagement, let alone the impact it has on state-society relations in individual African countries. This study has sought to demonstrate the existence of this gap in International Relations literature.

8.3 A VARIETY OF NEOLIBERALISATION: THE LINK BETWEEN 'ETHIOPIAN NEOLIBERALISM' AND CHINESE INVESTMENT

In theoretical terms, this book also contributes to the 'variegated neoliberalisation'¹⁷ scholarship. In her reviews of scholarship on India-Africa studies, Chacko observes and identifies opportunities for further research. In particular, Chacko urges a focus on 'emergent varieties of neoliberalism that are taking shape as the product of processes of neoliberalisation and state transformation in India and Africa and the growing interlinkages

between them.¹⁸ Whilst India and China may be employing different approaches in their contemporary relations with Africa, Chacko's observation is very relevant when also applied to China-Africa relations. Just like India-Africa relations, Africa's relationship with China is also producing varieties of neoliberalism. The party-oriented neoliberalism coming out of this Ethiopia case study finds a place in this scholarship. This analysis has identified particularly that party capitalism and the informalisation of politics in Ethiopia are processes of internal transformation whose external element is linked to distinctive Chinese capital and its internationalisation in Ethiopia.

One such clear outcome is the strengthening of Ethiopian state institutions, which in turn has been linked to this party-oriented capitalism variant that is taking shape in Ethiopia alongside the informalisation of institutions. This fits squarely with Peck *et al.*'s argument that neoliberalism can take different forms depending on the contextual conditions. They view neoliberalism 'as a set of intertwined processes, neoliberalization acts on and through state and institutional forms; its character and consequences necessarily evolve over time, while varying geographically along with contextual and institutional conditions, as well as with the evolution of crisis tendencies, both of accumulation and of regulation.'¹⁹ The neoliberal variant taking root in Ethiopia cannot be detached from the diplomatic, economic and political relationship between the two countries.

Linked to the above, the study highlighted the close cooperation and linkages between all of these aspects of the relationship by discussing the amount, frequency and importance of exchange visits ever since Meles Zenawi's first visit to China as Prime Minister of Ethiopia in 1995. Exchanges of visits are not limited to the two sides' top leaders but also include delegations of all kinds—commercial, cultural, medical and military—and increasingly visits from provinces, all of which highlights the diversity of cooperation.²⁰ The party-party affinities are a major contributory factor to the politicisation of the economic relationship and this explains the features that Ethiopian neoliberalism is taking. The institutionalisation of commercial, political, social and diplomatic relations with Ethiopia by the EPRDF government is an aspect of the internal-external linkages that have produced an Ethiopian party-oriented neoliberalism.

8.4 PARTY CAPITALISM: ETHIOPIA'S MODEL OF NEOLIBERALISM

As a result of its interaction with Chinese capital, a distinct form of capitalism is developing in Ethiopia. We concluded that a party-oriented variant of capitalism has emerged in Ethiopia, and although it is tied to patrimonialism, this should no longer be viewed narrowly or strictly as part of a historical, cultural continuity but an outcome of the changing dynamics of the China-Ethiopia relationship. Firstly, the ties that link Ethiopia and China are rooted in the party-party relationship between the CCP and the EPRDF. This link is playing out within the state as the government and party have fused in Ethiopia. The EPRDF is now one of the richest political parties in the world and certainly 'the largest business conglomerate in the Horn of Africa if not in sub-Saharan Africa.'²¹ This cannot be explained fully without understanding the role that Chinese capital has played.

With a well-oiled strata of party cadre business people, a party investment vehicle (EFFORT), as well as SOEs, the EPRDF is the biggest beneficiary of Chinese investment in Ethiopia. Because the state is now so immersed in the economy, it is using its position to pick winners (social forces linked to it) and losers when it comes to opportunities offered by Chinese capital such as lucrative joint venture contracts. In 2011, the Ethiopian Airlines (was) establishing a joint venture company with Hainan Air of China and China Africa Development Fund (CADFund) to build and own the five-star hotel Ethiopian plans to build near the Addis Ababa Bole International Airport.²² Beneficiaries have been identified as social forces with very close links to the state. The implications for this are discussed shortly.

The subject of institutions is quite topical in African political and economic analysis. It is often said the tragedy of Africa is the failure of institutions.²³ This study contends that focus should not be on formal institutions only but that the relationship between formal and informal institutions of power is central to the analysis of politics. With Ethiopia, the emphasis is on institutional transformation as a result of its enmeshment with Chinese capital. The way that this has transformed state institutions provides a context for explaining the impact of Chinese investment. In Chap. 7, for example, it was shown how the EPRDF regime works to ensure that Chinese capital gets all the lucrative investment projects in

the country. This emphasises that regime interests are well defended and advanced by Chinese capital. This has led to the emergence of informal networks.

The informalisation of institutions becomes part of wider patterns of global capitalism. Ethiopia has some of the worst investment and bureaucratic regulations that ordinarily scares away investors. However, Chinese capital is instead expanding in Ethiopia. The explanation for this is found in the informal arrangements that are entered into at the political party level between the CCP and the EPRDF. When done informally, the understanding is that rules and regulations are either relaxed or ignored as both parties share a common desire to see the transaction through. This even extends to the level of corruption but which is however very hard to detect because it has been institutionalised.

Informal institutions are a crucial component of the political economy of many African countries due to the underdevelopment or inadequacy of formal institutions. A significant amount of interaction between Chinese and Ethiopian officials happens behind closed doors which clearly brings out the fact that perhaps the best way to misunderstand African politics is by paying inadequate or no attention to informal institutions. Officials are aware of the institutional inadequacy in their own countries whilst the Chinese investors are ready to bribe their way out. One long-term possible impact is that if local officials and foreign capitalists find new ways of engaging via informal institutions, it could mean that the importance and integrity of formal institutions are neglected and these formal institutions weaken further over time. Informal institutions are being preferred because they do not exert many additional costs as they result in, for example, speedier transactions. The problem, however, is that in the long term, it is impossible to predict what will become of the Chinese economy. Already, there is talk of the Chinese economy slowing down.²⁴ If, for example, China were to retreat from the continent for one reason or another, it is possible that Africa will once again be dealing with non-Chinese countries. If for argument's sake one gives the European Union (EU) as an example, Africa will have difficulty maintaining or this relationship if it is still found with weak or non-existent institutions as the EU deals with formal institutions for both transparency and accountability reasons. Ethiopia should therefore not neglect building and strengthening formal institutions just because the informal ones can do the job with one major country.

8.5 CHINA-AFRICA RELATIONS IN THE TWENTY-FIRST CENTURY: SOME NEW RESEARCH AGENDAS

There are some insights emanating from this analysis to indicate some directions for future China-Africa research. Most African countries have maintained strong ties with the West despite expanding relations with China. Given the marked differences between Chinese and Western neo-liberalism in general, some research questions are emerging. There are many factors that ‘fundamentally distinguish the Chinese path from neo-liberalism, which takes the capitalist political system and private ownership as its basic political and economic foundations, and which advocates “small government” that is governments that do not intervene in the economy.’²⁵ Give such a scenario of two, powerful main forms of globalisation, all playing out within individual states in Africa, researchers could examine how such countries are managing or handling Chinese influence and Western influence at the same time? What are the nature of compromises and mechanisms that are sustaining this triangular relationship?

This book has focused on Ethiopia but within the general context of China-Africa relations. As argued earlier, China impacts different countries differently and in its internationalisation effort, it has specific ways of engaging with different countries. China prefers to deal at a bilateral level where it can exploit opportunities as well as deal with challenges provided by each individual country. This focus on bilateral relations is notwithstanding the existence of ‘a high-profile Africa Policy, adopted in early 2006.’²⁶ In addition, the level, of Chinese capital, both private and state, differs from state to state in Africa. In order to illustrate this point, it is worth examining snap investment figures. The total Chinese investment into Zimbabwe to date between 2005 and 2016 stands at \$8.76 billion, Botswana \$1.44 billion, whilst in our Ethiopian case study, it is a whopping \$17.62 billion.²⁷ This variation demonstrates that the level of the internationalisation, and ultimately the influence of Chinese capital in Africa, differs from state to state. However, China still does share special relationships with some African countries in a different way. While Ethiopia may share some characteristics with other sub-Saharan African countries, for example, ethnic and/or religious tensions, widespread poverty, under-development and official corruption among others, the conclusions reached in this thesis may not necessarily be truly reflective of the impact of Chinese capital on other African countries. This, therefore, leads to the next future research suggestion.

There is a need for thorough analysis on the specific neoliberalisms that are emerging in specific African countries as a result of their relationship with Chinese capital. This analysis could be informed by Brenner's variegated neoliberalism analogy. Brenner *et al.* have worked on variegated neoliberalism and among a variety of conclusions, they note that neoliberalism takes various forms including that it can be a regime type. For example, to elaborate on this, they explain that 'what Albert (1991) termed "neo-Americanism" was the foil against which to define a normatively and socioeconomically superior "Rhinish" model, an ideal-typical formulation strongly influenced by the German case, along with trace elements from Japan and Scandinavia.'²⁸ The book analysed the way in which the political and economic relationship between the EPRDF regime and the CCP has been linked to the emergence of an Ethiopian liberalism. It has led to the conclusion that this Ethiopian liberalism can best be described as a party-oriented capitalism. As a future research agenda, the question that may confront researchers on China-Africa relations is: what forms/varieties or types of capitalism are emerging in individual African countries that are engaging with Chinese capital? This question opens up avenues for expanding on the variegated neoliberalisation school. Specific, in-depth case studies will make this very clear. There is a lot to be gained therefore from more studies of this nature and with the same focus but from a variety of case studies.

Having achieved its research objectives by applying an 'inside-out' perspective, this book suggests that the type of neoliberalism that eventually emerges is a result of two key processes. First is the external variable which for the present purposes remains Chinese capital. Second is the internal interaction between the state and social forces within the African state. This relationship (in the Ethiopian state relational) determines the way in which Chinese distinct capital influences the emergence of a regime-type neoliberalism. This is quite reminiscent of the Marxist Socialist era of the 1960s to 1980s in Africa. There emerged African socialism²⁹ *ujamaa* (Tanzanian Socialism)³⁰ among many others. The way in which Marxist or Socialist modes of production from mainly the then United Soviet Socialist Republic (USSR) or China engaged and interacted with social forces of the time such as African liberation war parties influenced the type of Marxist or Socialist model in different countries. To this end, future research could adopt this 'inside-out' approach to examine the role of social forces within some African countries against the background of foreign capital, be it Chinese capital, Western capital or otherwise.

The impact of social forces will differ in different African countries. These future research suggestions may therefore find ‘inside-out’ approaches such as the one adopted in this thesis useful. In other words, the suggested research on variegated neoliberalisation may bring out better outcomes when a thorough consideration is also given to specific social forces within specific African countries and how they interact with the state. In general terms, Chinese investment is received with mixed feelings across sub-Saharan Africa. It would be interesting to get an indication of the role and influence of social forces within these countries in accommodating or limiting Chinese capital with its distinct form of neoliberalism. A crucial dimension of this study has been to explore the way in which new and old social forces are reconstituted within the state as a result of Chinese investment.

Findings from the study can be useful in alerting the wider African research community that in examining South-South cooperation between China and individual African countries, it is quite important to go beyond the ‘political’ issues underpinning the history of the cooperation as there are certainly new categories of analyses arising and worthy of academic attention as well. Whilst the geopolitics and geo-economics of China-Africa cooperation have attracted the attention of many a scholar, this study hopes to inspire future researchers to venture into the under-researched role of social forces and their interaction with global capital in shaping state transformational processes. Such inquiries however require effective approaches like the state-society perspective due to the inadequacy of the usual theoretical frameworks that have guided African discussions such as modernisation, dependency and underdevelopment theories.

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