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Structural Features and Implications of Ethiopia–China Trade and Foreign Direct Investment Relations (2000–2024)

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Abstract

Ethiopia–China relations constitute one of the strongest China–Africa ties and is an example of emerging South–South cooperation in the contemporary global context. This study examines the structural features and implications of Ethiopia–China trade and foreign direct investment (FDI) relations since 2000. It used a convergent-parallel mixed research approach and case study design. Data were collected from both primary and secondary sources. Data were analyzed through a combination of descriptive statistics (percentages), thematic analysis, document analysis, and discourse analysis. The study indicated that Ethiopia's foreign trade and FDI climate are highly dominated by China. Bilateral trade is marked by an asymmetrical structure: Ethiopia exports primarily agricultural and mineral products, while imports are largely manufactured goods. Chinese firms in Ethiopia are predominantly concentrated in the manufacturing sector and prefer wholly owned investments over joint ventures. Ethiopia–China economic relations benefit Ethiopia through market access, infrastructure development, establishing industrial parks (IPs), and employment opportunities. The partnership also facilitates investments at a competitive rate, access to affordable goods, and diplomatic support in the regional and international affairs. On the other hand, Ethiopia's high dependence on China in trade and FDI, wide and sustained trade deficit in favor of China, and risk of debt sustainability remain concerns, highlighting the significance of policy measures to improve the export base, diversify trade partners, and assess the effectiveness of foreign projects in line with the country's development goals.

Keywords: *Ethiopia, China, Trade, FDI, Structural Features, Implications*

1. INTRODUCTION

China and Africa have centuries of engagements in economic, diplomatic, and socio-cultural areas (Renard, 2011). China-Africa Modern diplomatic ties began in the 1950s and 1960s with China's support for the African countries' independence movement, which provided a strategic foundation in shaping the relationships (Oqubay & Lin, 2019). China saw natural common ground and a sense of empathy with African countries owing to their shared historical experiences and common identity as developing countries; they were both victims of colonization by Western colonial powers and faced the same task of national independence and liberation after World War II (Sun, 2014). In the post-colonial period, the newly independent countries sought China as an alternative partner in response to the supremacy of former colonial powers (Renard, 2011), allowing China to establish strong alliances with them (Gidreta et al., 2022). Today, China has diplomatic relations with almost all African countries (Scobell et al., 2018).

As China’s economy grew rapidly in the late 1990s, its relationship with Africa entered a more commercial phase (Ani, 2012). The fundamental shifts in Africa-China cooperation—from old ideological and geopolitical relations to a post-Mao economic partnership—put trade, development aid, and investment as the primary drivers of China-Africa relations (Mussie, 2022). Since 2000, China has emerged as an important partner of Africa with significant investments and finance flows. With the strengthening of China-Africa relations over time, China has emerged as the main competitor of the United States (U.S.) on the continent. In 2009, China surpassed the U.S. to become the region's largest commercial partner (Regissahui, 2019). China has positioned itself as an important standard-bearer of an alternative approach to development known as “Beijing Consensus” as opposed to “Washington Consensus” (Qobo, 2021). China displaced American, European, and Japanese capitalist and diplomatic soft power, winning influence in several sub-Saharan African countries. It has emerged as a new economic power, the greatest investor, trader, and aid provider in many African countries (Enuka, 2011).

Africa has increasingly turned toward China for financial support of development projects, making China the new top financier of the continent’s construction sector (Ado & Osabutey, 2018). Africa and China agreed on the significance of establishing a strong synergy between the

Belt and Road Initiative (BRI)[1], the UN's 2030 Agenda for Sustainable Development, the African Union's (AU) Agenda 2063, and the development strategies of individual African countries (Osman Elnor, 2022).

Ethiopia and China have had a long history of economic relations comparable to China-Africa relations (Adem, 2016). The two states began formal bilateral diplomatic relations following China's Prime Minister Zhou Enlai's visit to Ethiopia in January 1964. Equally, Emperor Haile Selassie of Ethiopia visited Beijing in October 1971 (Bilate & Zou, 2021). On November 24, 1970, Ethiopia and the People's Republic of China issued the joint communiqué on the establishment of diplomatic ties. Following the setting up of this diplomatic engagement, it has witnessed a generally good relationship between the two countries (Geda, 2008). The Ethiopia-China friendship has been one of the intense South-to-South relations identified in the new millennium and the launch of the Forum on China-Africa Cooperation (FOCAC) in 2000 (Gidreta et al., 2022).

Ethiopia and China have a strong partnership in trade, FDI, aid, infrastructure development, and human resources development. Although bilateral trade started in 1956, the volume of bilateral trade has considerably increased since 2000. China is Ethiopia's second most important trading partner, following the European Union but ahead of the United States (Cheru & Oqubay, 2019). In 2018, about 24% of Ethiopia's imported goods came from China (Calabrese et al., 2022). Ethiopia is one of the recipients of a large amount of investment by Chinese enterprises that are widely engaged in infrastructure projects, such as roads, railways, hydropower, and telecommunications (Cheru & Oqubay, 2019; Geda & Gebremeskel, 2010). Chinese firms have made significant investments in IPs, manufacturing, and real estate (Eickhoff, 2022). Ethiopia is the fifth largest destination for Chinese FDI stock in Africa, following South Africa, the Democratic Republic of Congo, Angola, and Zambia (Calabrese et al., 2022).

[1] Chinese project initially called One Road, One Belt (OBOR). It has two main components: the Silk Road Economic Belt, which focuses on improving connectivity and infrastructure development through Central Asia, Russia, and Europe, and the 21st Century Maritime Silk Road, which emphases developing maritime routes and ports in Asia, Africa, and the Middle East (Komakech & Ombati, 2023; Osman Elnor, 2022).

The rise of China as one of the world's major economic powers has become an important topic of discussion globally, focusing on how China uses its economic power in its relations with other countries and what impacts this will bring (Macikenaite, 2020). In view of this, how the growing trends of China-Africa ties affect Africa remains a point of debate in current academic discourse (Chen et al., 2018; Langan, 2018). According to Cheru and Oqubay (2019), the existing literature regarding the impacts of China-Africa relations on Africa's development presents two competing perspectives: "alarmists" and "cheerleaders". Whereas the first perspective considers China as an “imperialist” power committed to exploiting African resources and dominating markets in the region, the second portrays China as a natural partner that will catalyze Afro-centric development in the context of South-South cooperation.

Ethiopia-China economic relations have attracted scholarly attention. Accordingly, numerous studies, including those works by Bilate and Zou (2021), Calabrese et al. (2022), Cao and Noesselt (2024), Cheru and Oqubay (2019), Geda (2008), Geda and Gebremeskel (2010), Gidreta et al. (2022), Hackenesch (2013), Hairong and Sautman (2024), Tarrósy (2020), Thakur (2009), and Venkataraman and Gofie (2015), have offered valuable academic and policy insights into the topic. However, existing literature has empirical, conceptual, and temporal limitations. Whereas literature indicates China as Ethiopia’s important economic partner, they exhibited limitations in theorizing the degree of Ethiopia’s economic dependence on China in both foreign trade and inward FDI based on empirical evidence. Due to previous studies' fragmented analysis, the structural features of Ethiopia–China trade and Chinese FDI in Ethiopia have not been examined in a systematic and integrated manner. Moreover, given the significant role of China in Ethiopia’s economy, the macroeconomic implications of the relationships need to be comprehensively examined. Additionally, considering the ever-changing structure of international relations and the policy shifts of actors, this study incorporates recent developments in Ethiopia–China economic relations largely based on primary data, which enable an up-to-date assessment of the subject under investigation.

Numerous prior works tend to describe the structure of Ethiopia-China economic relations as the result of underlying economic conditions without examining how these structures are influenced by strategic and political interests, power asymmetries, or institutional constraints. Besides, much of the existing literature frames Ethiopia as a passive recipient of the impacts resulting from China's engagement in its economy. However, the outcomes of Ethiopia-China economic relations are largely the results of continuing negotiations between countries, suggesting the need to analyze how domestic factors are contributing to the outcomes of the relationships.

2. MATERIALS AND METHODS

The study employed a convergent parallel mixed-methods research approach, where both quantitative and qualitative data were given equal weight. Accordingly, both types of data were collected and analyzed simultaneously, and the results were presented side by side. The study used a case study design that analyzed Ethiopia–China trade and FDI relations by examining various perspectives, events, and practices, including trade and FDI patterns, policy orientations, and institutional practices within the relationship.

Data were collected from both primary and secondary sources between 25 June and 16 September 2025. The data range mainly covers sources from 2000 onwards, aligning with the study's temporal framework, as this marked the period when Ethiopia-China economic ties began to strengthen. Primary qualitative data were collected through semi-structured key informant interviews with officials, diplomats, experts, and business leaders. Interviews were conducted through in-person meetings, telephone calls, and email conversations. Interviews were recorded through note-taking and audio recording techniques. For systematic analysis, all audio recordings conducted in the local language were transcribed into text formats manually and translated into the English language. To address the limitations in primary data obtained from Chinese sides, as some were unwilling to provide information, the study used websites and media outlets.

Participants of the study were selected based on nonprobability purposive sampling techniques from various institutions, including Ministry of Foreign Affairs, Chinese Embassy in Ethiopia, Ministry of Trade and Regional Integration (MoTRI), Ministry of Industry, Ethiopian Investment Commission (EIC), Customs Commission, Institute of Foreign Affairs (IFA), Policy Studies Institute (PSI), Ethiopian Economic Association (EEA), Ethiopian Chamber of Commerce, Industry Park and company leaders, universities, and research and consultancy organizations. These institutions were carefully chosen based on their relevance to the study, as well as the accessibility of the required data and study participants. Participants were selected based on various selection criteria, including their positions and roles in the selected institutions, expertise, institutional representations, and experience with trade processes and FDI projects. Accordingly, a total of 16 key informants were interviewed. This sample size was determined based on the principle of data saturation, whereby participants began to repeat similar information and additional interviews no longer produced new insights.

Ethical approval was obtained from the Research Ethics Review Committee of the Faculty of Social Sciences, Bahir Dar University. All participants were informed regarding the purpose of the study, confidentiality of data, and their right to withdraw from participation at any time. Verbal consent was obtained from all participants. While participants were given the choice to be identified by name or to remain anonymous, codes were assigned for those who preferred anonymity.

Secondary data were collected from books, journal articles, official reports, and policy briefs, whereas statistical data were gathered from multiple databases, including the EIC, MoTRI, Ministry of Industry, the World Bank, and the United Nations Conference on Trade, Development (UNCTAD), and International Trade Center (ITC). To ensure the reliability of secondary data, criteria such as peer-reviewed articles, official sources, reputable databases, and their direct relevance to the study were considered. Data priority was given to Ethiopian official institutional sources, including MoTRI and the EIC, for consistency of data, as well as to official international sources widely recognized for trade and FDI statistics, such as the World Bank and UNCTAD.

Quantitative data were analyzed through descriptive statistical analysis of percentages. Data visualization tools, namely pie charts and bar charts, were used to simplify data and enhance clarity and communication. On the other hand, qualitative data were analyzed through a combination of thematic analysis, document analysis, and discourse analysis. Themes were developed through a systematic process of familiarizing oneself with data, creating initial codes, searching for themes, reviewing themes, and defining them in line with the objectives of the study. Finally, the quantitative and qualitative findings were integrated by presenting numerical results together with qualitative themes to produce a comprehensive analysis. Triangulation was achieved by cross-checking findings from quantitative and qualitative data. Quantitative results and qualitative insights were compared side by side to identify areas of convergence, complementarity, and divergence to enhance the depth and credibility of the study.

3. RESULT AND DISCUSSIONS

3.1. The Structure of Ethiopia-China Trade

Over the last two decades, Ethiopia has experienced a sharp increase in economic relations with China, which have grown significantly since the early 2000s (World Bank, 2025). Data from MoTRI (2025) showed that in 2005, China ranked as Ethiopia's second-largest source of imports, with 14.52% of total imports, and was Ethiopia's second-largest export destination, at 8.80% of total exports. In 2010, while China ranked first both as the source of Ethiopia's import, with 23.83%, and export destination, at 13.86%, in 2015 it continued to be Ethiopia's top import source, with 37.30%, and ranked second in terms of export destination, at 11.30%. Similarly, in 2020, China was the leading source of imports for Ethiopia, at 29.47%, and was the 11th top export destination, at 3.11%.

Between 2015 and 2019, bilateral trade reached US$24.18 billion. Given the five-year average values, China appeared as Ethiopia's second-largest export destination (9.60%) next to Somalia (9.81%) and leading import source at 29.77%. From 2020 to 2024, while the Netherlands, the U.S., and Saudi Arabia were the first, second, and third top export destinations with 10.26%, 9.82%, and 9.29% average shares of total exports, China was placed 12th with an average share of 3.21%, reflecting a decline in the share of Ethiopia's exports to China compared with the preceding five years. However, when it comes to the import over the last five similar years, China overwhelmingly dominated Ethiopia's import, at a 30.63% average share of total imports. In 2024, China significantly dominated Ethiopia's foreign trade, accounting for 28.48% of total trade.

The empirical trends indicate that throughout its trade relations with Ethiopia, China continuously dominates Ethiopia's import sources. China holds the top position as the leading source of imports for Ethiopia. The share increases from 14.52% in 2005 to 29.47% in 2020, stabilizing at 29.77% from 2015 to 2019 and at 30.63% from 2020 to 2024. This sustained dominance shows the structural dependence of Ethiopia on Chinese imports. The trend demonstrates the limited diversification of Ethiopia's import sources, despite its considerable trade relations with other countries such as Saudi Arabia, India, the United States, and Japan. On the other hand, Ethiopia's export profile varies between China and other countries, indicating that China plays a modest role as Ethiopia's export destination compared to its significant contribution to imports. This, in turn, demonstrates Ethiopia's limited competitiveness in China's market due to limited export bases and regulatory requirements, whereas Chinese products remain highly competitive within the Ethiopian market. Mr. Gebretsadik Tassew, Head of the Bilateral and Regional Trade Integration Desk at MoTRI, said that "there is much work ahead. Ethiopia has not been managing its exports to China effectively. There are gaps in diversifying exports and in addressing technical standard barriers" (personal communication, July 17, 2025).

Ethiopia has concentrated export and import markets, with China as its biggest trade partner: in 2019 exports and imports of merchandise goods to and from China reached $3.6 billion, about 23% of Ethiopia's total international trade (African Development Bank [AfDB], 2021). Similarly, during the fourth quarter of FY 2023/24, Asia represented 62.4% of Ethiopia's total imports, with the major imports (41.2%) originating from China. According to the EEA (2025) quarterly economic updates, January–March 2025, China makes up an import value of USD 1.8 billion, or 37.3% of Ethiopia's total imports, followed by Saudi Arabia (7.4%), India (7.1%), the U.S. (4.9%), and the UAE (4.8%). The U.S. was Ethiopia's leading export destination, absorbing 10.7% of exports, followed by Saudi Arabia (10.5%), the UAE (7.5%), China (7.4%), and the Netherlands (6.6%). Overall, China remains Ethiopia's key trading partner that dominates its foreign trade. Over the last two decades, bilateral trade relations have flourished and demonstrated robust growth, although characterized by high imbalances in favor of China. Trade structure reflects Ethiopia's high reliance on China, particularly for imports, while its export destinations relatively fluctuate.

As shown in Table 1, over the past five years, Ethiopia's main exports to China were coffee, sesamum seeds, leather and leather products, and cotton yarn. According to data from the ITC (2025), among the top ten of Ethiopia's exports to China in 2024, 87.75% were agricultural products, 5.57% were agricultural-based semi-processed products, 5.52% were mineral products, and 0.84% were manufactured goods, reflecting that Ethiopia's exports to China are predominantly agricultural and mineral commodities.

Table 1

Top Ten Ethiopia's Exports to China (2020-2024)

Product Description	Value (US$)	Share (%)
Coffee	284825986.7	54.216212
Sesamum seeds	71562664.59	13.621849
Leather further prepared after tanning or crusting, including parchmentdressed leather, of sheep or lamb…	34700433.2	6.6051769
Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale.	17753416.19	3.3793369
Leather of goats or kids prepared after tanning or crusting..	14036394.46	2.6718072
Bromides of sodium or of potassium	13795660.22	2.6259838
Soytabean	11669264.81	2.2212276
Other Dried leguminous vegetables,	7134998.651	1.3581366
Gelatin (including gelatin in rectangular (including square) sheets, whether or not surface-worked or coloured) and gelatin derivatives; isinglass; other glues of animal origin, excluding casein glues of heading 35.01.	6079023.179	1.1571332
Quartz	5785761.261	1.1013112
Total	467343603.2	88.958174
Other total	58008458.31	11.041826
Grand Total	525352061.6	100.00

Note. Source: MoTRI (2025).

Table 2

Top Ten Ethiopia's Imports from China (2020-2024)

Product Description	Value (US$)	Share %
Completely Built Up (CBU)	735,587,632.83	2.99
-- of polyesters	459,312,351.94	1.87
-- Machines for the reception, conversion and transmission orregeneration of voice, images or other data, including switching and routing apparatus	425,991,208.77	1.73
- Of a kind used on buses or lorries	398,394,720.37	1.62
-- Of a thickness of less than 3mm	328,263,637.94	1.33
Completely Built Up (CBU) FORM	287,122,947.63	1.17
Other footware	373,199,314.44	1.52
-Poly(ethylene terephthalate):	251,305,601.64	1.02
Other machines for the reception convertion and transmision or regeneration...	182,445,028.24	0.74
Total	**3,441,622,443.80**	**13.98**
Other total	**21,182,794,767.27**	**86.02**
Grand Total	**24,624,417,211.07**	**100.00**

Note. Source: MoTRI (2025).

Table 2 indicated that Ethiopia's primary imports from China over the past five years include fully assembled vehicles, polyester products, telecommunication and data transmission equipment, and bus and lorry components. Among the top ten of Ethiopia's imports from China in 2024, 95.36% were manufactured goods, while 4.64% were mineral products, showcasing that Ethiopia's imports from China are predominantly manufactured goods.

The structure of Ethiopia-China trade is marked by asymmetrical relations. It generally reflects agriculture-manufactured exchange, where Ethiopia exports mainly agricultural and primary commodities to China while China largely exports manufactured and capital goods to Ethiopia. China primarily exports light industrial products, high-tech products, machinery and equipment, textiles, and pharmaceutical and chemical products, while importing sesame, frankincense, myrrh, leather, cotton, and coffee (Ministry of Foreign Affairs of the People's Republic of China, 2025). The asymmetrical trade stems from both Ethiopia's export and import structures, which are shaped by the country's comparative advantage and its level of industrialization. Interviewee 11 (personal communication, July 23, 2025) stated:

> Ethiopia tends to benefit from exporting products that intensively use its abundant and low-cost factors of production, including land and labor force. Due to its low level of industrialization and related constraints, Ethiopia exports few higher-value processed goods, making agricultural commodities its primary products in both export and domestic markets.

On the other hand, Ethiopia's import structure is associated with its demand for infrastructure, economic development, and industrialization. It imports goods that widely use factors of production, such as skilled labor and advanced technology, which are comparatively scarce locally but are abundantly provided by China at relatively competitive prices. In 2025, China remains Ethiopia's key trading partner, possibly driven by Ethiopia's mineral and agricultural exports as well as its sustained demand for Chinese machinery, electronics, and industrial goods (EEA, 2025).

Moreover, Ethiopia-China trade is defined by an unbalanced structure in terms of product diversification. It is typically marked by an export concentration–import diversification structure, in which Ethiopia exports only a limited range of products while its imports from China are highly diversified. Data from MoTRI (2025) revealed that, during the last five years, the top ten

Ethiopian products exported to China together accounted for 88.96% of the country’s total exports to China. In contrast, the top ten products imported by Ethiopia from China during the same period constituted only 13.98% of total imports. These figures emphasize the high concentration of Ethiopia’s exports in a limited range of products and the fact that imports are significantly diversified, a structure that characterizes Ethiopia-China trade.

3.2. Chinese FDI in Ethiopia

Similar to its international trade, Ethiopia’s FDI is also highly dominated by Chinese firms. China is Ethiopia's largest source of investment and largest contractor for engineering projects (Ministry of Foreign Affairs of the People’s Republic of China, 2025). China dominates construction of public infrastructure projects (energy, roads, water) and is a major source of capital and intermediate goods for Ethiopia’s budding industry (AfDB, 2021). As quoted in the Ethiopian Business Review (2025), Dr. Zeleke Temesgen, Commissioner of the EIC, stated that “Ethiopia’s investment journey has been significantly shaped by China’s increasing role in its development.’’ In 2017, 80% of the 32 major international contractor companies involved in significant construction projects in Ethiopia were Chinese contractors (Wolf & Cheng, 2018b). In 2019, China took the greatest share, accounting for about 60% of newly approved FDI projects in Ethiopia (UNCTAD, 2020).

Data from EIC (2025) showed that between 2003 and 2012, Chinese companies contributed an average of 18.01% of total foreign projects in Ethiopia. The shares of Chinese projects were increased from 24.48% in 2013 to 61.45% in 2018. As of 2018, with the exception of a slight decrease in 2020-2021, Chinese businesses have steadily constituted over 50% of FDI projects in Ethiopia. In 2023, Chinese firms reached their peak with 221 projects, accounting for 73.42% of Ethiopia’s total FDI projects. In the first two quarters of 2025, Chinese companies also continued to contribute 64.49% of Ethiopia’s FDI. In general, while about 115 countries have participated in Ethiopia’s FDI projects since 1992, Chinese-involved projects represented about 33.83% of total FDI projects in the country, which is significant in both statistical and economic terms.

The persistent rise of Chinese FDI in Ethiopia from about 18% share in the early 2000s to largely above 50% from 2018 onwards reflects that Ethiopia’s FDI is increasingly dependent on China. While the country’s FDI portfolio indicates investors from about 115 countries, the diversification appears numerically but structurally and substantially concentrated given that the vast majority of Ethiopia's FDI projects originate from China. The pattern shows China's growing global investment capability, its systematic and deep involvement in Ethiopia's infrastructure development and industrial trajectory, and Ethiopia's strategic alignment with China's overseas investment policy.

Figure1
Distribution of Chinese-Involved Projects in Ethiopuia
(Aug 1992-Jul 2025)

Note. Source: Authors' calculations based on data from EIC (2025).

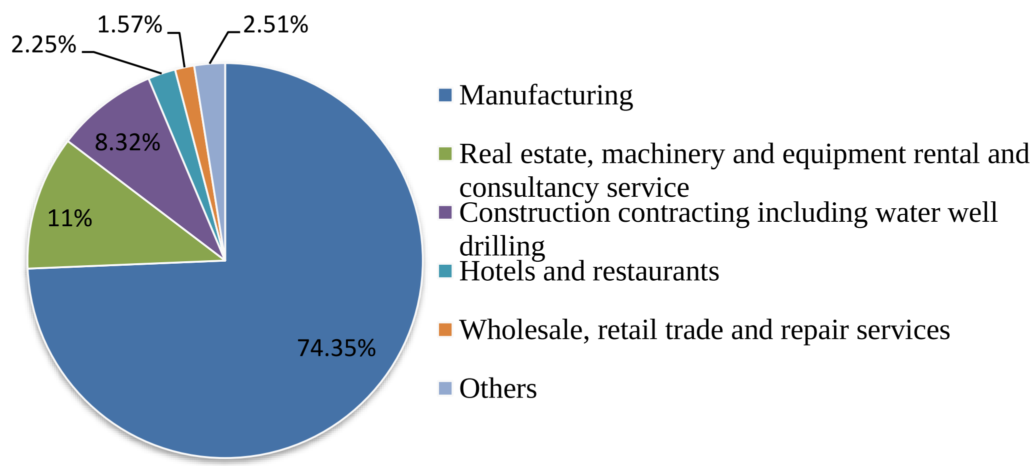
Chinese companies' participation in Ethiopia's FDI also illustrates notable features concerning ownership structure and sectoral distribution. While both Chinese State-Owned Enterprises (SOEs) and private firms are involved in Ethiopia's FDI projects, data from EIC (2025) revealed that the majority of Chinese enterprises are involved in wholly owned foreign-invested projects relative to their participation in joint venture investments. Accordingly, as shown in figure 1, of the total Chinese-involved projects in Ethiopia, an average of 83.95% are owned exclusively by Chinese companies. According to Cheru and Oqubay (2019), among the total 407 new Chinese manufacturing firms in Ethiopia from 2000 to 2017, only 87 of them were joint ventures. In the words of Interviewee 9:

> Although Chinese firms have a significant share in Ethiopia's FDI, they are largely involved in wholly owned projects rather than joint ventures. Reasons for this include differences in work culture, their demand for skilled labor, avoiding conflicts of interest, and freedom to control the full operation and managerial activities of their companies (personal communication, July 16, 2025).

Chinese FDI experiences in Ethiopia demonstrated their preferences for wholly owned investments and their modest level of collaboration with Ethiopia and other international partners. The dominance of Chinese wholly owned companies in Ethiopia reflects both China's overseas investment policy interests and Ethiopia's economic policy orientations that allow investors, including those from China, to engage in wholly owned investments.

In joint venture investments, about 12.91% are co-owned by Ethiopia and China, 2.17% by China and other countries (excluding Ethiopia), and 0.98% by China, Ethiopia, and other countries. Among the Chinese firms surveyed in Ethiopia, 69% were Chinese private, 15% were Chinese-Ethiopian private joint ventures, 13% were Chinese state-owned, and 3% represented others. Within the joint venture companies, Chinese owners typically have a larger share, ranging from 60% to 80% (World Bank, 2012).

Figure 2
Sectoral Distribution of Chinese-Involved Projects
(Aug 1992-Jul 2025)



Note. Source: Authors' calculations based on data from EIC (2025).

Regarding the sectoral distribution, figure 2 demonstrated that the vast majority of Chinese firms in Ethiopia are engaged in manufacturing, accounting for 74.35%, followed by real estate, machinery and equipment rental and consultancy service (11%), construction contracting including water well drilling (8.32%), hotels and restaurants (2.25%), and wholesale, retail trade & repair services (1.57%). Nevertheless, their involvement in other key sectors, namely agriculture, tourism, and mining, remains insignificant, representing only 0.64%, 0.17%, and 0.64% of their total projects, respectively. The high concentration of Chinese companies in Ethiopia's manufacturing sector reveals their limited diversification across sectors.

3.3. Ethiopia-China Trade and FDI Relations: Implications for Ethiopia

In the international system, states engage in relations based on principles of reciprocity (Crescenzi et al., 2010; Keohane, 1986), although the outcomes and benefits differ depending on states' capacities and bargaining power. In this context, Ethiopia's economic relations with China are shaped by its interests to gain more from the engagement relative to the benefits from other economic partners. Participants argued that the reciprocal relationship on which China is based defines the current global order, indicating that Ethiopia-China relations are grounded in mutual benefits, although the effect is asymmetrical. Dr. Seife Tadelle, Director of the Centre for Governance and Intra-Africa Trade Studies at the University of Johannesburg, pointed out that "Ethiopia's economic partnership with China is strategic because it leverages Chinese infrastructure financing and industrial investments to advance its development, despite risks of debt dependency and asymmetric benefits favoring China" (personal communication, August 17, 2025).

Ethiopia's economic engagement with China provides the country with affordable goods. Aware of Africa's purchasing power, Chinese enterprises produce both high- and low-quality goods, addressing diverse consumer demands with respective competitive prices. Ethiopia's reallocation away from Western economies could reflect the fact that China has become more competitive in producing goods that Ethiopia needs to import, hence supplying similarly sophisticated goods but at a lower price. Ethiopia is not at the frontier of technology; there may be efficiency gains from sourcing certain critical inputs and productivity-enhancing materials through imports instead of attempting to produce them domestically (World Bank, 2025).

China supports Ethiopia's economy by creating alternative export markets and promoting trade through preferential policies. Its zero-tariff policy for African nations positions China among the very few industrialized countries to offer such a concession, turning its huge market into a unique opportunity for African economies (African Growth and Opportunity Act, 2025). Accordingly, from the total of 6,422 of Ethiopia's products traded in general, 1,644 export products will get duty-free access in the Chinese market. This opportunity is offered by China unilaterally, and no duty will be imposed on Ethiopia (MoTRI, 2022). The offer helps Ethiopia to access the broader Chinese market, although the access depends on Ethiopia's productive capacity and competitiveness. Dr. Costantinos Berhetesfa, professor of public policy at Addis Ababa University, argued that “for developing nations like Ethiopia, China’s zero-tariff arrangement could be beneficial if governments effectively implement it with effective leadership, sound policies, and strategic frameworks. The key question remains: will they make effective use of this opportunity? I doubt” (Arts TV World, 2025). Although improving other non-tariff measures, including customs procedures and technical barriers to trade, is vital, China’s zero-tariff policy encourages Ethiopia’s export market.

In addition, the currency swap agreement, which Ethiopia and China signed in September 2024 (The Reporter, 2024), is expected to improve Ethiopia’s economy by reducing its reliance on third-party currencies for trade with China. Dr. Costantinos stressed that “the agreement is expected to ease currency constraints, attract greater Chinese investors, and thus improve exports and foreign exchange earnings” (EBS Television, 2024). Moreover, among the 18 WTO member countries with which Ethiopia is negotiating bilateral trade access as part of its membership aspiration, China is one of the four countries—together with Russia, Argentina, and Thailand—with which Ethiopia concluded technical negotiations. Ambassador Li Yihong, the permanent representative of the People's Republic of China to the WTO, affirmed that China will continue its support in light of post-membership contexts (MoTRI, 2025). Although the currency swap agreement is not yet in force and Ethiopia’s quest for membership in the WTO has not been approved, these are important manifestations of China’s support for Ethiopia’s economic interest in the global market.

Data from EIC (2025) illustrate that Chinese enterprises in Ethiopia have engaged in multiple sectors and support its economy. Notable Chinese investment projects in Ethiopia include establishing IPs such as Eastern Industry Park, Hawassa Eco-Industrial Park, Bole Lemmi Industry Park, and Huajian International Light Industry City. In the infrastructure developments, the construction of transport projects such as the Addis Ababa light rail system and the Addis Ababa–Djibouti Railway and building modern road networks, including the Addis Ababa–

Adama Expressway and the Modjo–Hawassa Expressway, as well as the expansion of Addis Ababa Bole International Airport, are important.

The modernization of Ethiopia's telecom by Huawei and ZTE and the manufacturing of mobile phones and appliances, including Tecno, Itel, Infinix, and Synix brands by Transsion Manufacturing, are vital in transforming Ethiopia's ICT and telecommunication sectors. While Sansheng Pharmaceutical PLC and Humanwell Pharmaceutical Ethiopia PLC showcase Chinese contributions to Ethiopia's health sectors, projects such as Host Agriculture PLC, Zhenwei Wang, Shengya Machinery Engineering PLC, and Yuechen Industry PLC indicate their participation in agriculture. Chinese firms also contributed to the construction of hydraulic dams such as Tekeze and Gibe III, the Aysha Wind Farm, and the Grand Ethiopian Renaissance Dam (GERD). In May 2025, Ethiopia signed deals worth US$860 million with Chinese companies to invest in the minerals and energy sector (World Energy News**,** 2025). These pieces of evidence indicate that China in Ethiopia participates in various economic areas that support Ethiopia's economy, including establishing IPs, the construction of roads and railways, ICT development, building power plants, agriculture, and health, although Chinese businesses are unevenly distributed across sectors and more concentrated in manufacturing.

FDI stands as a key catalyst for economic growth and development, particularly for countries embarking on a path of economic transformation (World Bank, 2022). As Ethiopia actively implements its macroeconomic reforms and progresses towards its second Home Grown Economic Agenda, securing substantial FDI is paramount for successfully realizing socio-economic programs. Ethiopia has ambitiously planned to transform its economy structure from an agriculture-led to an industry-led economy through formulating GTP I and GTP II through enhancing industrialization as a priority. It plans to increase the manufacturing share to GDP from 6.9% in 2019/20 to 17.2% by 2030. Also, manufacturing share to employment is planned to grow from 5% to 15% during the same period by creating 5 million new job opportunities (Ministry of Industry, 2020).

In line with Ethiopia's aspiration to industry-lead economy, Chinese firms play the utmost role through their active participation in IPs, particularly in the manufacturing sector, representing 74.35% of their projects in Ethiopia and 47.34% of foreign manufacturing projects in the country. Given that manufacturing is one of Ethiopia's priority sectors, China's active participation in Ethiopia's manufacturing sector aligns with Ethiopia's interests in this sector. In addition, since most domestic enterprises in Ethiopia are concentrated in the service sectors serving domestic markets (Debebe & Bessie, 2022), the increasing participation of Chinese firms in manufacturing helps the country promote industrialization, enhance productive sectors, and increase exports.

Official reports show that Ethiopia benefits from its economic ties with China. Ahmed Shide, FDRE Minister of Finance, said China has provided significant financial support for major projects, such as roads, energy, IPs, and water supply, highlighting that the Addis Ababa-Djibouti Standard Gauge Railway has served as a testimony of the early harvest of the BRI (Belt and Road Portal, 2022). The Ethiopia-Djibouti railway positions Ethiopia as a logistical hub and is important to boost its trade connectivity. Chinese companies have also been praised for their successful implementation of projects. At the inauguration ceremony of the Addis Tomorrow Economic Zone—a project awarded to China Communications Construction Company (CCCC)—Adanech Abiebie, Mayor of Addis Ababa, stated that "we choose CCCC as a contracting company because of its successful track record in accomplishing big projects in Ethiopia and abroad and delivering them in time and up to their high qualities" (FOCAC, 2024).

Chinese firms operate with a competitive edge resulting from their technical know-how and their capacity to operate on considerably lower profit margins. Whereas most international competitors aim for margins of 15 to 25%, many Chinese companies can function at around 10%, an approach enabled by tax incentives, soft loans, and other forms of financial support from the Chinese government, which facilitated low-priced bidding during the early phase of their overseas ventures (Fei, 2020). The dominance of Chinese firms in Ethiopia's FDI projects is, therefore, partly a result of their ability to win tenders by offering competitive pricing, which enables Ethiopia to implement projects at a relatively lower cost. At this point, Lauria (2025) stated that over the past two decades, Chinese firms have penetrated and expanded within the Ethiopian market by leveraging deep sectoral expertise, competitive bidding tactics, and vertically integrated business models.

Chinese firms represented about 60.20% of total capital FDI inflows into Ethiopia since 1992 (EIC, 2025), indicating their significant contributions to the country's economy. Yang Yihang (PhD), Minister Consular of the Chinese Embassy in Addis Ababa, stated that the business portfolio is expected to be higher as the FDI inflow from China to Ethiopia is growing, announcing that in 2023 only, Chinese firms produced 223 new products. He emphasized that the transformation of Ethiopia-China ties to "all-weather diplomatic cooperation" is a significant move making more investments and better future cooperation (Ethiopian Press Agency, 2024).

Chinese firms have created employment opportunities and bought technology that government institutions and local businesses alone could not do. According to data from EIC (2025), Chinese companies are capable of hiring 236,248 permanent and 127,946 temporary workers, accounting for 52.45% and 32.94% of the total labor forces in Ethiopia's FDI projects, respectively. They help technology transfer through manufacturing practices, constructing infrastructure, agribusiness innovation, and healthcare investments, assisting the country's institutional capacity and human capital. Li Xiu Dong, a project manager at the CCCC Ethiopia office, quoted in Ethiopian Business Review (2020), said:

> We have 800 local engineers and thousands of local workers. We have created over 5,000 job opportunities. We have close to six subcontractors, particularly in road building and finishing works. We usually work hand-in-hand with local grade-one contractors. If we win bids, we subcontract part of the project to them. If they win, they subcontract it to us because they need knowledge and technological capacity.

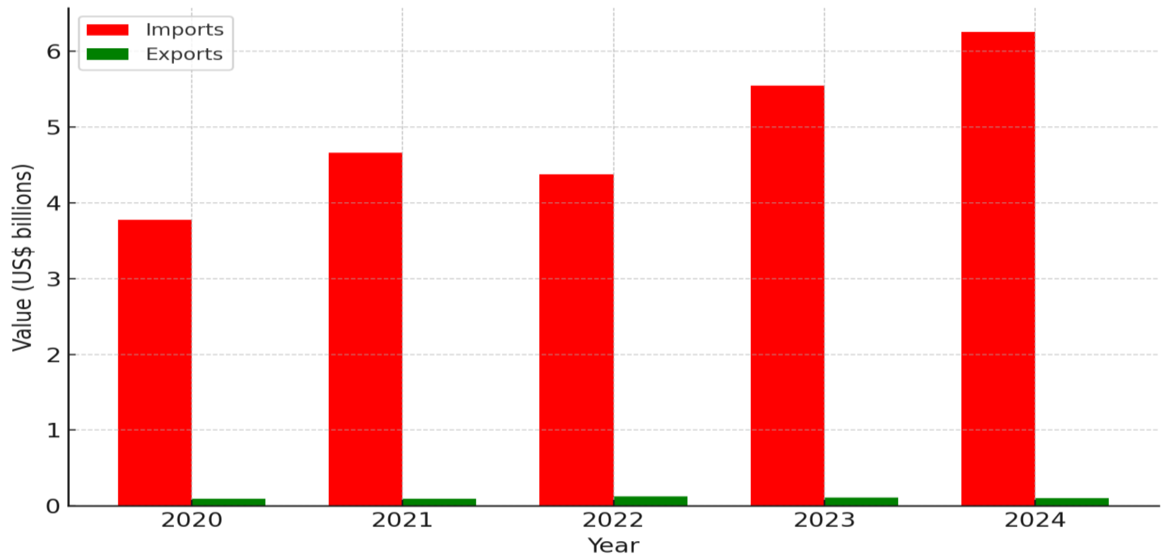
Participants noted that Chinese firms are working industriously day and night. They remain resilient with unsafe conditions, from which Ethiopians could take valuable lessons. At this juncture, Geda and Meskel (2010) affirmed that while FDI, trade, aid, and governance practices are the four key channels of Ethiopia-China economic cooperation, FDI stands out because of its long-term impact on Ethiopia through market-based technology transfer and integrative power into the global production networks.

Due in part to its strong economic ties with China, Ethiopia has maintained diplomatic support from China. "China has regularly expressed diplomatic support for Ethiopia in press statements and accusations by the international community, including the UN. China also supported Ethiopia's pursuit for BRICS membership" (Interviewee 10, personal communication, July 18, 2025). The disagreements on GERD and the recent Ethiopia-Tigray conflict are important instances showing China's diplomatic support for Ethiopia, in which China is guided by its stand on the principles of non-interference, sovereignty, and African-led solutions. Xie Tian, Deputy Head of Mission in China's Embassy to Ethiopia, stated that "China is aware of the importance of GERD to Ethiopia's development, and as a friend of Africa, China has always supported the AU-led negotiations to solve disputes on GERD" (Ethiopian News Agency, 2021). During the Ethiopia-Tigray conflict, China demonstrated its solid stance to respect Ethiopia's sovereignty, prioritizing the AU-led negotiation process and urging the international community to fully respect the territorial integrity and leadership of the country in handling the conflict (The State Council of the People's Republic of China, 2021). These diplomatic supports help Ethiopia leverage its position in international and regional affairs.

Over the years, despite Ethiopia deriving gains from its economic relations with China, the engagement is not devoid of risks. Ethiopia-China trade has experienced persistent and wide trade deficits for Ethiopia. Data from MoTRI (2025) revealed that whereas Ethiopia's exports to China increased nearly threefold between 2005 and 2010, imports from China grew at an even faster rate, increasing by about 3.7 times. Between 2010 and 2015, Ethiopia's average imports from China were over ten times more than its average exports. This means for every dollar Ethiopia earned by exports to China, it spent approximately US$10.60 on imports from China. Between 2015 and 2019, Ethiopia's total trade deficit reached approximately US$21.55 billion, an average deficit of US$4.31 billion annually. As indicated below in figure 3, Ethiopia's trade deficit with China rose from US$3.68 billion in 2020 to US$6.15 billion in 2024. The persistent trade imbalance in favor of China exposes Ethiopia's economy to foreign-exchange pressures and to global commodity price volatility, which in turn weakens its foreign currency reserves.

Figure 3

Ethiopia-China Trade (2020-2024)



Note: Computed bay authors based on data from MoTRI (2025).

Despite Ethiopia increasingly welcoming Chinese FDI, total FDI to Ethiopia is still outweighed by the value of Chinese imports. Chinese FDI approximated US$327 million per year from 1996 to 2017, about 30 times less than the value of Chinese imports (World Bank, 2025). Ethiopia's high reliance on Chinese trade, particularly in imports, coupled with the dominant role of Chinese enterprises in its FDI, make it vulnerable to external shocks and policy influences. Moreover, this high dependence and concentration of Ethiopia's economy on China weakens its negotiating power and limits its ability to diversify sources of technology.

The overwhelming increase of wholly-owned foreign companies, dominated by Chinese, reflects the low participation of Chinese companies in joint venture investments with local enterprises. This results in the risk of reducing local linkages and spillovers, returning capital abroad, and imposing tough competition against local firms. Interviewee 11 emphasized:

> Recently we have observed that Chinese companies have engaged in small-scale projects, such as constructing five- and six-floor buildings, which are likely to create challenges for local firms' participation. Similarly, with Ethiopia's opening of import-export, wholesale, and retail trades, foreign businesses, including those from China, will pose

competitive challenges to local traders, as witnessed in some other African countries (personal communication, 23 July, 2025).

The rising debt burden associated with infrastructure developments, industrialization, and other development projects is among the challenges Ethiopia has faced in its economic engagement with China. China is the major bilateral, non-Paris Club creditor for Ethiopia, accounting for 30% of total external debt (United Nations Development Programme, 2023). Chinese policy banks hold 76% of total bilateral debt and 22% of total public sector external debt, ranking them second only to the International Development Association (IDA) in terms of external debt portfolio. When the stock of Chinese suppliers such as China Electric Power, Huawei, and ZTE are included, they represent 25% of total external public sector debt (FDRE Ministry of Finance, 2025). It is reported that currently Ethiopia's debt owed to China reached US$5.38 billion (BBC Amharic, 2025; Business Insider Africa, 2025).

The employment opportunities and technological transfers that Chinese enterprises offer to Ethiopia are yet unsatisfactory. The most critical issue is that while advanced and highly skilled work positions are primarily held by Chinese themselves, Chinese and other foreign-invested firms pay workers low wages. According to the International Labor Organization's (2019) survey of workers in 38 IPs firms, the average base pay is 1,697 ETB. Similarly, Meyer et al. (2021) found a close figure with the median wage of 1,800 ETB. The pay of the few Chinese IP workers, primarily managers, supervisors, and trainers, is much higher, up to 20 times the local wage. There is a limited contribution of FDI to the creation of decent and value-adding jobs, upgrading domestic skills, and transfer of technology and know-how to local investors (PSI, 2024).

Chinese firms’ participation in Ethiopia’s FDI is largely sectorally selective and unbalanced. While they predominantly engaged in manufacturing, their participation in other priority economic areas, namely agriculture, mining, and tourism, is minimal, where the total share of these three sectors together accounted for only 1.45% of their projects in Ethiopia. Particularly, although agriculture employs over 62% of Ethiopia’s labor force (World Bank, 2023) and contributes to its GDP at 34.9% (World Bank, 2024), the contribution of Chinese companies in this sector is minimal, with 0.64%. This sectoral concentration weakens spillovers, diversification, economic resilience, and inclusive development.

4. CONCLUSION

Ethiopia and China have long-standing economic relations, in which China has significantly shaped Ethiopia's international trade and FDI. While the relations are driven by the strategic interests of both Ethiopia and China, it is between two unequal partners: the economically developed China and primarily agrarian Ethiopia. The diverse levels of economic growth, industrialization, and bargaining power between the countries have resulted in highly asymmetrical trade in terms of import–export volumes as well as product diversity. The structure of trade is essentially one-way, characterized by an agriculture–manufacturing exchange in which Ethiopia's exports are mainly low-priced and few agricultural and mineral goods, whereas its imports consist of high-priced and diversified manufactured products. This unequal trade structure results in a wide and persistent trade deficit for Ethiopia. While Chinese companies constituted the largest share of Ethiopia's FDI, their distribution across sectors exhibits an imbalance.

Ethiopia–China economic ties benefit Ethiopia by creating an alternative market that provides access to affordable consumer goods and relatively cheap capital goods. Ethiopia's development trajectory in the area of infrastructure development, construction, and establishing IPs and SEZs is largely associated with Chinese companies. They create sizeable job opportunities in Ethiopia, albeit limited to low-skill labor positions with low wages. Although Ethiopia has benefited from these economic areas, the high dependence of its foreign trade and FDI on China reduces partnership diversification, restricts technology transfer, and increases the country's vulnerability to external shocks. Besides, in its long-standing economic partnership with China, Ethiopia has experienced a sustained debt burden.

5. POLICY RECOMMENDATIONS

While maintaining economic partnership with China helps Ethiopia in many respects, the country needs to diversify its economic partners to reduce risks associated with dependency and vulnerability to external shocks. Diversifying its export base and improving the quality of products help Ethiopia reduce the trade deficits it has experienced in trade with China. Ethiopia also needs to enhance its bargaining power with China to address technical standard barriers that restrict exports and to improve the salaries of local workers employed in Chinese companies. Moreover, devising strategies that encourage joint venture investments and a balanced sectoral distribution of foreign projects is essential to enhance diversity, technology transfer, and inclusive development.

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