

The Economic Development Component of the Ethiopia-South Korea Relationship

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I. A Glance at Ethiopia/Africa-South Korea Relations

In the early decades of post-colonial times, the relationship between African states and South Korea was minimal as many African states at that time honed relations primarily with the Soviet Union mainly because they were robustly supported by the then communist countries in the struggle against colonialism. As noted by Fedorenko (1964), it was the policy of the Soviet Union throughout the period of the emergence of independent states in Africa to support anti-colonial struggles and decolonization proposals and resolutions. In fact, immediately after the 1950-53's devastating war between the Koreans, South Korea was busy working in re-constructing the country in economic and military aspects, remaining largely unengaged in most parts of the world, including Africa. Actually, the most notable development in 20th century Africa-South Korea contact was the establishment of formal diplomatic ties.

But things have changed as of recent. Particularly in the past two decade, South Korea and Africa have been increasingly recognizing

each other as viable diplomatic and economic partners. The establishment of the Korea-Africa Economic Cooperation (KOAPEC) initiative in 2006, as a major platform to drive Korea's development initiatives in Africa, is a vital indicator of this fact.

It is widely acclaimed that KOAPEC aims to deliver tangible outcomes through six main cooperation areas: (1) energy and infrastructure, (2) information communications technology (ICT), (3) human resources development, (4) agricultural development, (5) support for climate change adaptation and/or mitigation endeavors, and (6) sharing of Korea's development experiences to African nations. The most important building blocks of the KOAPEC are the Ministerial Conference and the Public-Private Partnership Forum. KOAPEC is principally understood as the two parties' attempt to catalyze Africa-South Korea relationships in terms of trade, investment and aid. Having held series of summits and conferences (most recently in May 2018 in Busan) KOAPEC has shown its outstanding importance to help achieve the development ambitions of African nations.

In fact, South Korea has been hugely contributing to the development of Africa, through its Korea International Cooperation Agency (KOICA), established in 1991 as a governmental organization for Official Development Assistance (ODA) to enhance the effectiveness of its grant aid programs. With KOICA, South Korea is performing well in supporting the socioeconomic development of Africa. Based on each Country's Development Strategy (CPS), designed for the priority partner countries, KOICA focuses its development strategies on public administration systems, investment, industrial infrastructure, rural development, education, health, and climate change. KOICA has formulated and put in place CPSs with 7 priority partner countries in Africa such as Ethiopia, Ghana, Mozambique, Uganda, Rwanda, Senegal and Tanzania.

Specific to Ethiopia, data from the National Planning Commission (NPC) and Ministry of Finance and Economic Cooperation (MoFEC) of Ethiopia show that the support of the government of South Korea through its KOAFEC and KOICA is of the essence to Ethiopian economic transformation, particularly for the current transformative leadership under H.E. PM Abiy Ahmed. Since he assumed power in April 2018, PM Abiy has instituted significant reforms and promised much more. In political-economy aspects, he planned to liberalize the state control over the economy, released thousands of political prisoners, reconciled religious institutions, united the Diaspora community, made peace with Eritrea and strengthened diplomacy with other neighboring countries. So at this time South Korea's aid is much needed for Ethiopia, particularly in regard to the Republic of Korea's Country Partnership Strategy for Ethiopia.

In the same way, the presence of South Kore-

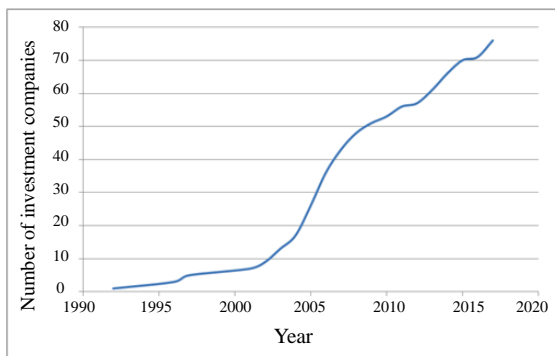
an companies and commodities in Ethiopia is pulsating with energy as of recent. Manufacturing and construction companies, among others, are actively entering the Ethiopian economy these days. The products of South Korean corporations such as Daewoo, Hyundai and Samsung are increasingly making a presence in Ethiopian markets. In fact a few Ethiopian agricultural products, such as coffee, are becoming popular in South Korean markets too.

II. South Korean Economic Performances in Ethiopia

In addition to the fundamental roles the government of South Korea is playing in Ethiopia in aid/assistance aspects, currently South Korean investors are showing excellent performance in several sectors. South Korean investors commenced a good number of investment projects in Ethiopia in the early 1990s (Figure 1). According to the data obtained from EIC, 56 projects are already operational, 14 are at implementation stage and the remaining six projects are at pre-implementation stage.

A glance at the trend of South Korean investment (Figure 2) gives an impression of rising over the years, particularly in the 2000s. In the recent past (2017) alone, five South Korean investment projects entered into the Ethiopian investment milieu. The current very pleasant relationship between Ethiopia and South Korea, as well as the undergoing progressive political transformation under the leadership of H.E. PM Dr. Abiy Ahmed (forgiveness, unity among ethnic groups, rule of law and anticorruption outlooks) in Ethiopia, hints at further increase in the South Korean investment trend during the times ahead, which will make even greater contributions to the Ethiopian economy in numerous aspects.

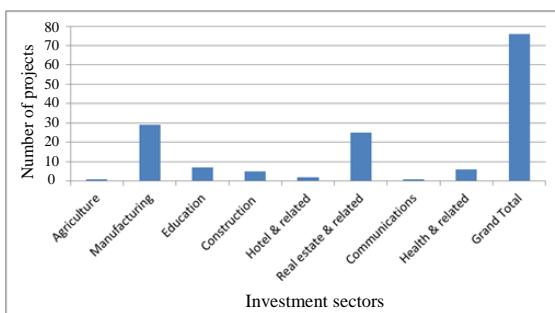
Figure 1. Trend of Korean investment companies in Ethiopia from 1991 to 2017



Source: Computed based on data obtained from EIC

The data obtained from the Ethiopian Investment Commission (EIC) and Export-Import (Exim) Bank of Korea indicates that South Korean investors in Ethiopia are mostly engaged in construction, manufacturing, business facility management, business support services, rental, education sector, finance and insurance, healthcare and social welfare services, professional/scientific and technical services, and wholesale business, agriculture and communication technologies. There are about such 76 licensed investment companies, of which 61 are wholly South Korean and 15 are Ethiopian-Korean joint projects. The EIC data indicates that the majority of the companies are involved in manufacturing, real estate and related, education, healthcare & related sectors and construction.

Figure 2. South Korean investment companies by sector in Ethiopia (1992 - 2017)



Source: Computed based on data from EIC

According to the Exim Bank of Korea, the South Korean companies are engaged in or about to engage in 187 projects in Ethiopia. The transfer and investment values of these projects totals around 46.5 million and over 28.6 million US dollars, respectively.

A case in point is EKOS Steel Mill Plc, one of the major wholly South Korean heavy industries in Ethiopia. It was licensed in 2014 to construct a heavy steel complex in Dukem town (about 20 km east of the capital city of the Oromia region) on 12 hectares of land, with a startup capital of about 24 million US dollars at the current exchange rate. It targeted to produce annually 300,000 metric ton of reinforcement bars, wire rods, and rebars to meet domestic demands and substitute imports. It has already created over 120 job opportunities at its current implementation stage (machinery importation) and is expected to create more opportunities when it reaches the full capacity of its operational stage.

According to NPC (Ethiopia), in addition to its current huge contribution in various aspects, the presence of South Korea in Ethiopia performs an enormous role in promoting Ethiopia as one of the favorable investment destination countries in the world. This, no doubt, will help Ethiopia in achieving its long-term vision in the economic sector i.e “to build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy; to sustain economic development and secure social justice; and, increase per capita income of citizens so that it reaches at the level of those in middle-income countries” (MoFED, 2010).

III. Capital Inflow from South Korea to Ethiopia

According to the study report to European Central Bank by Mileva (2008), foreign direct investment (FDI) constitutes the largest portion of capital inflows in most developing countries in the world. Its contribution in some countries is found to be around half of the total national capital inflows. Mileva (2008) states “...beyond adding to existing national capital stock, FDI stimulates investments in other sectors of the host economy through ‘crowding in’ or ‘spillover effects’.”

In view of the above supporting fact, Ethiopia is gaining a large amount of FDI as a result of its economic ties with South Korea. As indicated in Table 1, FDI inflows from wholly South Korean and Ethiopia-South Korean joint ventures between 1992 and 2017 in Ethiopia amounted to about 112,879,130 USD.

Table 1. South Korea-origin FDI inflows to Ethiopia (1992 – 2017)

Type	(a)	(b)	(c)	Total
	Capital in thousand US dollars			
South Korean-Ethiopian joint	364.6	10,520.9	2,231.9	13,117.3
Wholly South Korean	20,265.5	22,412.0	57,084.4	99,761.9
Total	20,630.0	32,932.9	59,316.3	112,879.1

Source: Computed based on data from EIC (Note: a: implementation, b: operational, & c: pre-implementation)

IV. Ethiopia-South Korea Import-Export Trade

Looking at the spatiotemporal circumstances of the Ethiopia’s international trade, most export destinations are European markets, while imports origin mostly from China, Saudi Arabia and the United Arab Emirates (Yeshineh, 2016). The Ethiopia-South Korea import-export trade started shooting up in the 1990s.

The data obtained from the Ministry of Trade of Ethiopia shows that the average Ethiopia-South Korea import-export CIF and FOB values over the last 10 years (2008-2017) are 162.5 million and 26.7 million US dollars, respectively. In fact, it shows a huge negative balance towards Ethiopia. Ethiopia’s import from South Korea is tremendously huge and increasing as well.

As a key component of the Ethiopia-South Korea economic relationship, the import-export trade between the two countries plays a vital role for economic transformation in Ethiopia in that it enhances competitiveness of Ethiopian commodities by reducing the cost of inputs and increasing the value adding technologies to move up the global value chain. In this regard, UNCTAD (2014) clearly indicates that “...in the post-2015 development agenda, international trade should be seen as an enabler for achieving a broad range of development goals through promoting inclusive and sustainable economic growth.” Particularly, if properly harnessed, the opportunities brought by international trade can be vital for investment stimulation, job creation, efficient resource utilization, technology transfer, innovation, production efficiency and ultimately livelihoods enhancement in developing countries such as Ethiopia.

In view of these realities, the rising import-export trade between Ethiopia and South Korea certainly contributes tremendously to the Ethiopian economy and to South Korea as well. It enables both countries access new markets for their raw materials and/or finished/semi-finished goods and may open up new production possibilities and technologies for both countries. It certainly encourages export diversification for Ethiopia which, in turn, contributes greatly to job creation and balance of payment for the Ethiopian economy. In the

same way, it has an immense role in enhancing the financial capacity of the local enterprises and producers in Ethiopia and again enables the Ethiopian people to consume cheaper South Korean products compared to the costly European and North American items.

V. Technology Transfer and Jobs Created by South Korean Investments in Ethiopia

As defined by Glass and Saggi (2008) "...international technology transfer refers to any process by which a party in one country gains access to technical information of a foreign party and successfully absorbs it into its production process." Concerning the importance of FDI in technology transfer, UNCTAD (2011) also lays emphasis on overseas investment projects having a great potential to play key roles in narrowing the technology gap between the developed and developing countries. They are very important sources in providing high-technology activities and the entire package of knowledge to the developing world. They can transfer and diffuse various forms of foreign operations to individual member of staff and/or local firms in developing countries.

Table 2. Jobs created by South Korean investments in Ethiopia (1992 - 2017)

Sector	Project status			
	(a)	(b)	(c)	Total
Agriculture	57	0	0	57
Manufacturing	3,653	9,421	946	14,020
Education	157	36	0	193
Health	1,345	762	50	2,157
Construction and related	0	435	300	735
Hotels and related	0	30	0	30
Real estate and	228	412	0	640

related				
Transport, communication and related	0	24	0	24
Equipment maintenance & related	0	100	0	100
Grand Total	5,440	11,220	1,296	17,956

Source: Computed based on data from EIC

(Note: a: implementation, b: operational & c: pre-implementation)

In view of the aforementioned realities, Ethiopia is currently benefiting from the technologies and skills it is transferring and adapting from South Korea. Just to mention some, the Korean manufacturing and construction projects in Ethiopia are introducing new approaches of meeting the targets within a short time while expending less energy, but at a superior quality. South Korean ways of business management strategy (business process re-engineering) are also worthy of mention as they have been adapted to the Ethiopian civil service sector for over a decade.

The South Korean investment projects at all stages have created job opportunities for about 17,956 Ethiopians of which about 16,660 (92.7% of the total) are already employed in projects at the implementation and operational stages. This will likely increase job opportunities and relative wages for workers, if properly harnessed. In addition to job creation, the projects have created opportunities for the employees to have access to Korean technologies and skills in various aspects related to the peculiarities of the projects. It is possible that thousands of Ethiopians have gained advanced knowledge of electric installation, metallurgy, construction, textile and garment processing, and information and communication technologies (ICT).

To wrap up the technology transfer and job creation roles of the Korean investment com-

panies in a few words, the companies have been creating a huge number of job positions and opportunities for technology transfer throughout their investment projects in Ethiopia. Quite a large number of Ethiopians have been benefiting from the job positions created and the technology/skill that have come in together with the occurrence of the projects. This can be a decisive moment for Ethiopia to properly adapt the technologies so as to serve the required national objectives. Particularly, the cutting-edge technologies and the export-led strategy growth trajectory approach of South Korea (Jones, 2012) will greatly benefit Ethiopia to adapt the strategy based on its domestic priorities and targets. What very much matters from the Ethiopian side is to trying to establish responsive, accountable, capable and transformative leadership that can understand in-depth and adapt the development scenarios in South Korea these days.

VI. Conclusion and Policy Recommendations

As clearly indicated in the UNCTAD (2014) publication, in the development context of the post-2015 development agenda, international economic cooperation and assistances are very important enablers for achieving a broad range of development goals in the world. Particularly, FDI and trade are integral parts of the international economic system and major catalysts to local development, and carry particular importance to developing countries such as Ethiopia. In view of this reality, the economic cooperation between Ethiopia and South Korea is found to be fundamental for both countries in various aspects. It creates a better investment environment for Korean investors while benefiting Ethiopia in terms of job creation, entrepreneurship, technology/skill transfer and in due course improves the livelihoods

of the people.

Above all, if properly harnessed, the opportunities brought by these activities can be a powerful force and has a great role to play in promoting inclusive and sustainable economic growth in Ethiopia.

However, the Ethiopia-South Korea economic relationship must come to terms with various challenges in order to make the best out of the relationship. One of the key issues to be addressed in Ethiopia is establishing competent, proficient, accountable and transformative leadership, who can foresee the economic and technological development situation in South Korea and gear up the society to select, adapt and make the best out of it. The leadership in Ethiopia should be able to align the development policies/strategies so as to catalyze the positive effects of the South Korean investment in Ethiopia. It may be important to focus on identifying the types of national policies/strategies and institutions that would harness the enabling power of Korean investment projects in Ethiopia, and against that background, design a coherent framework in which the development goals are sustained with respect to the policy mix and conditions required to bring about the desired goals.

Another key challenge in Ethiopia relates to land tenure and human displacement. It is inevitable that investment projects require a piece of land to operate on. Land acquisition, in turn, displaces local people in most cases. In Ethiopia, investment projects have resulted in various social disarticulations, livelihoods disruption, family breakages, public violence and even deaths in many parts of the country. It is the fundamental cause for the change of government leaders, including the prime minister. Therefore, investment projects that inevitably displace local residents are strongly recom-

mended to adequately compensate the displacees so as to sustain their livelihoods in a more sustainable way than their pre-displacement status. In fact, the displacees must be compensated not only for the resources and land use rights they are losing, but also for their psychosocial damages, as displacement by its very nature results in psychological disturbances and social disruptions. The panacea for land related wide-ranging problems in Ethiopia seems to be a drastic change in the current land policy in the country; straightforwardly “privatization of land.” As recommended by Platteau (1996), such policies help to ease land-induced conflicts, enhance the efficiency of the land markets, guarantee tenure security, and assure access to loans. In fact, in the Ethiopian context some public lands must be kept under public ownership for vital government and public development schemes.

In the same way, the government of Ethiopia is recommended to be proactive to environmentally and socially sensitive investment sectors such as large-scale agriculture. This is because some forms of large-scale agriculture carry risks both for the hosting and investing countries. This may contribute to environmental pollutions and human displacement, which are likely to generate harsh local public oppositions and damages to the investment projects. In Ethiopian culture, land is a very sensitive resource and prone to provoke conflict that may damage the reputation of the owners. In this regard, the government of Ethiopia is required to have a comprehensive business model as to how investments involve local farmers as business partners, giving them an active role and leaving them in control of their land so as to have the most positive and sustainable effects on local economies and social development. In fact, this needs also strong support from the investing country (South Ko-

rea in this case) to establish strong and peaceful investors-farmers relationship.

More to the point of environment vs investment, currently South Korea has outstanding experiences in establishing eco-friendly investment projects and nature-friendly cities such as Sejong (a pleasant city in which the city and nature are in harmony) that can be adapted to the Ethiopian situations. In this regard, Ethiopia is expected to fill in the gaps in its policy frameworks to allow only nature-friendly projects of this kind for sustainability and efficiency of the projects which ultimately exceedingly benefits both countries at large.

On the subject of the existing huge trade imbalance, one feasible option seems to be the creation of favorable conditions (such as tariff relaxation) for Ethiopian export items (agricultural and semi-processed outputs, to be precise hides, skins, coffee, tea, oil seeds, and etc.) from South Korean side. This helps the Ethiopian emerging economy greatly in narrowing down its huge trade deficit at present and widens the current limited Ethiopia’s export trade destination areas. It may also create wider opportunities for South Korean enterprises to access Ethiopian raw materials and semi-processed items for their industries. Hence, it is recommended for Ethiopia to aggressively engage in negotiations for a bilateral trade agreement with South Korea. In fact, it is also vital to encourage the Ethiopian private sector to develop market innovations with South Korea through incentive packages.

By and large, Ethiopia needs not only to obtain the technology, but to learn how to use it to its fullest potential, from the South Korean investment projects. In this context, to effectively leverage FDI, trade and government assistance as a means to achieve technology transfer and diffusion, Ethiopia needs to estab-

lish an effective national innovation system which provides an interface for technology-related activity, supports the development of the absorptive capacities of domestic enterprises and their linkages with the projects. There must be intelligibility between FDI policy and other relevant policies such as education policy, international trade and/or export-import policy, agricultural development policy, industry policy, technical and vocational education strategy, innovation and technology policy, for proper integration. Most importantly, Ethiopia is required to enhance its policies and leadership so as to cope with high-tech development milieu in South Korea. It is imperative to put it forward in plain words that only transformative, accountable, capable and dedicated leadership will be able to sustainably benefit the country. The commitment of both countries to social, environmental and transparency standards is also of the essence.

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Acknowledgement

I am very grateful to the Korea Institute of International Economic Policy (KIEP) for

granting me a Visiting Scholarship in August 2018.