




Türkiye's Trade and Foreign Direct Investment in Ethiopia: An Insight into Challenges from 2012-2023

Betslot Addisu Ayal^{1*} 
Esayas Bamlack Bishaw² 
Nani Debele³ 

1 Lecturer in Department of Political Science and International relation at Dire Dawa University, Ethiopia
betselote948@gmail.com

2 Lecturer in Department of Political Science and International Relations at Dire Dawa University, Ethiopia
esayasbm@gmail.com

3 Lecturer in the Department of Political Science and International Relations at Dire Dawa University, Ethiopia
nanidebele4@gmail.com

*Corresponding Author

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Abstract: This study delves into the examination of Türkiye's trade and foreign direct investment activities in Ethiopia spanning from 2012 to 2023, shedding light on the hurdles faced during this time frame. The economic ties between Türkiye and Ethiopia have expanded, with trade volumes and foreign direct investment (FDI) inflows increasing over time. Nevertheless, several obstacles have arisen that impact the course of their relationship. This study sought to accomplish its objectives by gathering data through key informant interviews, observations, and document reviews. The key findings of this research reveal that challenges such as exchange rate fluctuations, human capital shortages, corruption, bureaucratic inefficiencies, high tariffs, infrastructure deficiencies, political unrest, non-payment by companies of their debts, customs procedures, and Türkiye's internal conditions impede the smooth flow of trade and foreign direct investment between the two countries. The study emphasizes the importance of joint efforts between the Turkish and Ethiopian governments, as well as private sector entities and regional collaborators, to address these pressing issues.

Keywords: Challenges, Ethiopian-Turkish relations, Trade, FDI

Introduction

Türkiye had relations with Africa before the formation of the modern state, and during the Ottoman Empire. It had partners in Africa in terms of trade, business, diplomatic, and cultural relations (Hazar & Tepeciklioğlu, 2021). The Ottomans came to power in North Africa, especially Egypt and Libya, in the sixteenth century and continued to influence the region's politics and economics up to the late nineteenth century. In this period, they began to build relations with the African leaders, who sought trade between Europe and the sub-Saharan region (Cicioğlu & Ibrahim, 2023; Tepeciklioğlu, 2017). This engagement created the basis for cultural intercourse and was evidenced by traces of Ottoman contribution to the realms of architecture, language, as well as civil administration in a few of the North African nations (Doğan, 2016; Sıradağ, 2022). However, again, in the early 2000s, Türkiye set out afresh to improve its ties with Africa for economic, religious, cultural, and international political reasons. In 1992, Türkiye established the Turkish Agency for Cooperation and Coordination (TIKA), with the aim of providing development

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cooperation across Africa and enhancing bilateral relations on the continent (Kızıllarslan, 2009; Orakçı, 2022). The strategic partnership started to prevail in Türkiye's foreign policy and the opening of many embassies in African countries, hosting the Türkiye-Africa Cooperation Summit in 2008, even due to shifting Türkiye's relations with Africa, led to a new level in a diplomatic and economic sense (Gamawa, 2017; Nasir et al., 2022; Parlar Dal & Dipama, 2020).

The history of relations between Türkiye and Ethiopia can be traced back several centuries, encompassing both diplomatic and cultural dimensions. Diplomatic relations between the two countries were only observed in the late 18th century when the Ottoman Empire sent its first representative to the Ethiopian Empire (Jima, 2021). However, after the formation of the Republic of Türkiye, there were improvements in relations between Türkiye and Ethiopia despite the fluctuation. Türkiye and Ethiopia did not have colonial relations, which remained the foundation of positive diplomatic relations (Seid, 2019).

After World War II, there was an emphasis on trade and political relations between Türkiye and Ethiopia. However, the economic value of bilateral relations rose after the defeat of Ethiopia's socialist regime in the early 1990s and Türkiye's liberalization of its economy (Jima, 2021). From the very beginning, Türkiye emerged as one of Ethiopia's most preferred trading partners in the New Millennium, with many Turkish companies involving themselves in construction compendiums, manufacturing industries, textile giants, the education sector, and so on. Türkiye's relationship with Ethiopia has grown over the years, and the Türkiye-Ethiopia Joint Economic Commission, plus other bilateral agreements, have been signed. Economic relations have deepened, especially in the last decade following the 2012 investment increment, in which Türkiye became the largest foreign investor in Ethiopia (Jima, 2021). Moreover, this emerging economic cooperation with Türkiye helped consolidate its diplomatic and cultural engagement to foster friendly relations among peoples and increase Türkiye's prestige in Ethiopia (Abdullahi & Abdirahman, 2023).

Since 2012, Türkiye has established itself as one of Ethiopia's most important trading partners and foreign investors. The trade balances between Türkiye and Ethiopia have also increased significantly, allowing the former to export agricultural products, textiles, and other basic materials while, in return, mechanical and construction products and manufactured goods were imported (Seid, 2019). According to Ethiopian Investment Commission, Turkish companies have invested in construction, textiles, manufacturing industries, and energy, creating thousands of employment opportunities and supporting Ethiopia's industrialization.

Investment from Türkiye in Ethiopia was honored by several underlying bilateral agreements and the strategic partnership between the two countries. Visits and forums such as the Türkiye-Africa Economic and Business Forum piled up strength on the economic aspect of bilateral relations at the leadership level (Abdullahi & Abdirahman, 2023). Thus, Ethiopia, which attracted only three Turkish investors by 2005, became one of the top three foreign investors by 2015, as Turkish firms started over 200 projects. Nevertheless, after such progress, Turkish businesses seriously stumbled on factors that concern Ethiopian legislation, bureaucracy, and infrastructure. Fluctuations in the political systems also affected the effectiveness of trade and investment in Ethiopia, as witnessed after 2018 when Ethiopia made some internal political changes. Nevertheless, Turkish trade and FDI in Ethiopia remained gradually rising, which indicated the strategic partnership between the two countries, where Türkiye had an advantage in being an investor in Africa's policy (Seid, 2019).

While there has been a systematic attempt to observe Türkiye's relations with various African countries, more research needs to be done on Türkiye-African relations. Despite the fact that a number of scholars have endeavored to understand Türkiye's relationship with the rest of the African continent in political, economic, and cultural terms, research that provides an in-depth understanding of the particular issues within the sphere of Türkiye's bilateral trade and FDI in Ethiopia is scarce. For example, the strategic interests of Türkiye on the African continent were analyzed by scholars (Cicioğlu & Ibrahim, 2023; Enwere & Yılmaz, 2014) and (Parlar Dal & Dipama, 2020), but the interaction between Türkiye and Ethiopia is analyzed mostly with some simplification.

Regarding Türkiye-Africa relations and their challenges and prospects, Dodo, 2016; Gençoğlu, 2024; Karaoğuz & Gürbüz, 2021; and Tepeciklioglu, 2017 have contributed studies. But these works mostly concern the trends of economic relations between Türkiye and Africa rather than the challenges to Türkiye's trade and investment. Furthermore, research is needed to understand better the existing body of knowledge that focuses on the specific problems of Turkish investors in Ethiopia, such as legal impediments, political risk, and infrastructural deficiencies. More specific research is needed to capture all the dynamics that characterize the profile of Türkiye's trade and FDI in Ethiopia so that those who are interested in improving this bilateral economic link can benefit from the information generated.

Although some research has been done on the relationship between Türkiye and Ethiopia, especially on the history and diplomatic relationship, there is no proper work that focuses on the challenges for Türkiye's trade and FDI in Ethiopia. Other authors like (Verdonk, 2018) and (Abdullahi & Abdirahman, 2023) look at

diplomatic relations as well as political background, but none of them looks at the various barriers to investments in the economic context of Ethiopia faced by Turkish investors. No study so far has been conducted to examine the barriers to trade and FDI that have been constraining Türkiye in Ethiopia, which include regulatory hindrances, political uncertainties, and a lack of infrastructure. This study, therefore, calls for more specific research that explores these challenges offering a greater picture to policymakers and investors who wish to enhance Turkish-Ethiopian economic ties.

As a result, the study aims to investigate and provide evidence about the multifaceted challenges faced by Ethiopia and Türkiye in their trade and FDI relations from 2012 to 2023, as well as their roles and impact on economic growth. A comprehensive view of the evolving relationship between these two nations will be presented in the remainder.

Research gap and justification

The literature on Turkish-Ethiopian relations has yet to address the challenges to Türkiye's trade and FDI in Ethiopia. This is a rather important void, given the fact that bilateral trade and investment flows have been on an upward trend in the last decade. While there has been a significant increase in the number of Turkish companies investing in Ethiopia, the challenges they encounter, including bureaucratic policies, political risk, and transport hitches, have not yet been discussed in the literature.

Since 2012, Türkiye's trade and FDI have seen a remarkable expansion, positioning it as a major economic player in Ethiopia's economy. However, the challenges faced by Turkish investors and traders are deep-rooted, hindering the full development of this economic partnership. Challenges such as bureaucratic barriers, corruption, policy inconsistencies, political instability, and inadequate infrastructure in Ethiopia have yet to be comprehensively investigated. More research is needed to address how these challenges specifically affect Turkish investors and organizations.

This research gap justifies this study's undertaking of shedding light on the existing challenges and opportunities that characterize Türkiye-Ethiopia trade and investment relations. In this way, the research will generate useful knowledge for policymakers, investors, and academic scholars to gain a better understanding of the constraining and enabling factors of Türkiye's FDI and trade in Ethiopia. This investigation's results may also be useful in future policy modifications and company strategies to enhance the bilateral and economic relations between the two countries and develop a better investment climate in Ethiopia.

Conceptual and theoretical perspective of FDI

Conceptual perspective

In this study, "trade" refers to the exchange of goods and services, or merchandise products, across international borders. According to this study, the sale of goods and services, whether local or domestic, is not considered trade. Trade should often encompass the exchange of products and services. Foreign trade is the importation and exportation of separate products or services. International trade, also known as foreign trade, refers to the outflow and influx of commodities or services from a country (Zahonogo, 2016).

According to the fifth edition of the International Monetary Fund's (IMF) Balance of Payments Manual (BPM), foreign direct investment refers to a form of international investment where a person or entity from one country (the direct investor) obtains a lasting stake in a business located in another country (International Monetary Fund, 1993). The term "persistent interest" refers to a long-term relationship between the primary investor and the direct investment enterprise, accompanied by a significant level of influence exerted by the investor over the company's management. When a direct investor purchases 10% or more of a foreign enterprise's ordinary shares or voting power, a direct investment relationship is established. Direct investment encompasses the first transaction that establishes the link between the investor and the investment enterprise, as well as any subsequent capital transactions between them and related enterprises in various economies (Sourdin & Pomfret, 2012).

In this study, FDI can be defined as the investment of capital and management resources by an individual or a firm resident of one country in a firm located in another country. It typically includes the creation of new production facilities abroad, such as factories, or the acquisition of a large block of equity in a foreign firm, which would give the investor some control over the business enterprise. Through the act of capital transfer, technology, and know-how, capital FDI acts as a key enabler for economic development.

Theoretical framework

Theories of international relations primarily serve to elucidate the characteristics of the international system and the behaviors of the entities that interact within it. The challenges faced by Ethiopia and Türkiye in their trade and foreign direct investment relationships from 2012 to 2023, together with their role and influence on economic growth, can be examined through the lens of three international relations theories: liberalism, realism, and constructivism.

Liberalism

Liberalism in international relations emphasizes interdependence, an examination of how states benefit from trade (Sornarajah, 2011). From the liberalist point of view, the rising trade and FDI between Türkiye and Ethiopia are considered strategic efforts on Türkiye's part in the process of development, while mutually beneficial bilateral relations between the two nations have been developed. Liberalism assumes that business and social entities such as multinational enterprises (MNEs), domestic businesses, local communities, and individuals within those entities can cooperate to make more money instead of fighting over it (Lall & Narula, 2004).

Within the framework of the Turkish-Ethiopian relationship, liberalism provides a positive meaning to economic cooperation. The more linking, coupling, and entangling the economic aspects of the two societies through trade, investment, and their institutions, the more stable and peaceful their relations will turn out to be. When Türkiye funds its growth sectors, such as infrastructure and manufacturing, or invests in energy, it bolsters both the bilateral relationship and the Ethiopian government's aims, eliminating opportunities for aggression. Also, liberalism points out the function of international rules and organizations in enhancing this coordination.

Realism

Realism, on the other hand, when it comes to trade and FDI, can be understood as a strategic endeavor aimed at enhancing national interests and asserting regional influence amidst geopolitical competition (Moore & Schmitz, 2008). Accepting the tenets of realism, the economic relations that Türkiye has with Ethiopia, especially the trade relationship and FDI, are not only for commercial or economic gains but are also about attaining strategic power and geopolitical advantage. It is indeed probable that Türkiye's investment in Ethiopia can be viewed in light of assertive attempts to expand and make Ethiopia a strategic hub in Africa for competing superpowers, including China, the United States, and the European Union. In this sense, Türkiye could be interested in gaining a foothold in strategically situated African countries which are economically dependent on Ethiopia. That is why realists would state that all the problems Türkiye is experiencing in Ethiopia—political instability or any other form of bureaucracy—stem from powerful forces and political rivalry.

Constructivism

Constructivism centers on ideas, identity, and culture. In that regard, both Türkiye and Ethiopia are constructivist actors, historically related as well as culturally

constructed, with specific identities and perceptions of the world. In examining this aspect of economic bilateralism and multilateralism between Türkiye and Ethiopia, it is not unthinkable, indeed possible, that Türkiye's historical experiences in Africa and more particularly within the context of the Ottoman legacy in the region may have colored or influenced how both countries view such economic relationships in the contemporary period. The increasing flow of trade and FDI is not only an exchange of goods but also an expression of a cultural and a political bond. In the constructivist approach, we would examine how Turkish investors, and Ethiopian policymakers construct themselves toward each other and how their roles shape their interests, expectations, behaviors, and challenges regarding the bilateral economic relationship.

Materials and methods

Research approach

The study used a qualitative research approach to identify the challenges that shaped Türkiye's trade and FDI in Ethiopia between 2012 and 2023. Exploratory business environment research was conducted. In doing so, a case study approach was adopted to gain a better understanding of the nature of the experiences of Turkish investors and other stakeholders involved in trade and investment. This approach enabled the consideration of intricate ideas within the framework of a real-life reference point for Türkiye-Ethiopia economic relations. Data collection and analysis are in the tradition of qualitative data; interviews, focus group discussions, and documents were used in the data collection process. These methods were used to obtain stakeholders' perception, reason for involvement, and their experiences as a way of understanding various factors affecting trade and FDI between Türkiye and Ethiopia.

Data collection

Primary data and secondary data collection methods were used in this study. In collecting primary data, purposive sampling was used for the following.

Interviews

Semi-structured face-to-face interviews were conducted with key interviewees, who are Turkish investors and other participants. The interviews also included Ethiopian government officials, trade experts, and representatives from investment agencies, among others. These interviews sought to capture the interviewees' views on friction points and facilitators in Türkiye-Ethiopia bilateral trade and investment. To a certain extent, the researchers had the added advantage

of using open-ended questions in the questionnaire in that the respondents could give elaborate responses.

Focus groups

Aside from the interviews, we conducted focus group discussions with a diverse range of participants, including Turkish entrepreneurs, Ethiopian policymakers, and trade associations. These discussions were a melting pot of ideas on articles that pertained to investment climate, regulations, and trade irritants. The variety of topics discussed, and the different opinions observed in these sessions helped us generate a comprehensive understanding of the actual problems and perspectives. This approach ensures that our study is not only comprehensive but also inclusive, reflecting a wide range of perspectives.

For the secondary data, relevant policy journals, reports, and other formal documents, as well as bilateral trade and investment agreements between Türkiye and Ethiopia, were carefully scrutinized. This involved researching trade contracts, renditions, legislation, and investment directives in an attempt to appreciate the fundamental organizational and economic landscapes. In addition, published material in the form of articles, think tank papers, and newspapers were also accessed to consider patterns or emerging phenomena with regard to Turkish FDI and trade in Ethiopia within the studied period.

Data analysis

Aside from interviews, focus group discussions, and document analysis, the data collected were analyzed thematically. This process involved all the data collected from the interviews to try and paint a picture of the challenges, barriers, and opportunities of trade and investment between Türkiye and Ethiopia. The coding started by sorting the raw data into several accessible categories, which were later examined to assess repeating patterns and views presented by the respondents.

Results and discussions

Challenges in Ethiopia-Türkiye trade and FDI partnership

Over the last two decades, Ethiopia has become one of the most sought-after investment destinations for Turkish investors, and Türkiye has become one of the largest investors in Ethiopia, with a high concentration in manufacturing, textiles, construction, and infrastructure investments. Many Turkish companies invested in factories and constructions through the years. Ethiopia, located in the Horn of Africa, has liberal investment policies and cheap labor. Ethiopia's industrialization

policies and the creation of industrial parks have pulled in Turkish firms in a bid to gain a foothold in Africa's rising market (Verdonk, 2018).

Despite the significant hurdles Türkiye's trade and foreign direct investment in Ethiopia encounter, the economic relationship between the two nations is continuously expanding. Turkish investors face numerous challenges, including Ethiopia's intricate and erratic regulatory framework, bureaucratic delays, and inadequate infrastructure, all of which can increase operational expenses and delay project schedules. Moreover, political instability and currency devaluation pose additional risks to Turkish enterprises. However, Türkiye continues to be one of the major foreign investors in Ethiopia, particularly in the industrial, textile, and construction industries.

Lack of skilled human capital

The problems associated with skilled labor are one of the major constraints to Türkiye's FDI in the African market. One of the major reasons is the shortage of human resources that Turkish organizations face because of insufficient vocational training and educational provisions, organizational inefficiencies, and higher training expenses (Tepeciklioglu, 2017). There is also a gap between academia and industries as industries are demanding graduates who have full practical experience and technical competence. But the great bulk of graduates lack practical knowledge despite a satisfying command of theoretical knowledge. This drawback dissuades Turkish investors, who may be interested in investing in countries with a well-qualified workforce. The lack of skilled labor equally raises competition for talent, which in turn leads to higher wages and impacts on the loss, more so within the manufacturing and construction industries where skilled employment is critical for productivity and quality (Kyirewiah & Bilate, 2022). Finally, this means that firms of Turkish origin lose their human capital, which affects their ability to operate in Africa and weakens the country's advantages for future FDI attraction for Turkish companies and others.

Reports indicate that Turkish-led sectors in Ethiopia are hindered by inadequate vocational training programs, which fail to equip the workforce with the skills demanded by industries run by Turkish investors. This misalignment between educational outcomes and industry requirements negatively impacts the efficiency and productivity of Turkish investments in Ethiopia. The shortage of skilled labor has emerged as a significant challenge, affecting operational effectiveness. As noted by Mr. Anteneh Tariku, Senior Investment Promotion Expert at EIC:

The need for more human capital is one of the major impediments to investment activity, let alone investment for development, particularly in

developing countries. This is more so the case in Ethiopia, as is with the rest of the Horn of Africa nations. In Ethiopia, there is plenty of cheap labor; however, the real problem is whether this labor is properly equipped and qualified enough to meet the needs of businesses. The lack of skilled labor has a negative impact on the smooth flow of trade and FDI between Türkiye and Ethiopia. (Interview, EPI-3, Addis Ababa, February 14, 2022)

Costly transportation

Ethiopia is a landlocked country, and therefore, its foreign commerce is extremely dependent on corridors in other states (Shewangizaw, 2016). Officially, physical trade between Ethiopia and Türkiye is mainly done through direct sea route, which passes through the Djibouti border/Red Sea. The Doraleh Container Terminal in Djibouti is highly congested, causing supply chain (SC) disruptions. Such disruptions are likely to cause delays and shortages, which in turn have a negative impact on production schedules and stocks for firms with operations in Ethiopia. These transport issues indicate the real nature of trading in a landlocked environment and are an important reminder that efficient transport infrastructure is central to successful cross-border commerce (Ambaw et al., 2019). In the interview with Mr. Jemal Hassen, Senior Investment Advisor of EIC, he stated the following:

Like most countries in the Horn of Africa region, Ethiopia faces significant transportation costs. Since human resources are largely involved in tracking and repatriation of the assets, expenses required in this area may constitute considerable proportions of the operating expenses for companies operating in the country. The current trend of high transportation costs has a direct impact on the profit line, and it presents many challenges to investment, especially in sectors with slim, low margins or sectors that deal with low value-added products. The main causes of trade obstacles include the absence of transport systems or their substandard nature, lack of improvement or maintenance of trade channels, and weaknesses in the transport chain. These challenges have affected Türkiye's FDI in Ethiopia. (EICI-7; Addis Ababa, February 8, 2022)

Ethiopia's trade relations with Türkiye are clearly harmed by the fact that it is a landlocked nation (and that it incurs additional costs due to slow customs procedures at the Djibouti port), which incurs additional costs, and Ethiopia is particularly burdened by such costs. In addition, Ethiopia has poor infrastructure and is far from the sea. Because of its comparative abundance of land and natural resources, Ethiopia exported primary commodities. In one sense, "this subject exports to the whims of an unstable global market" (Seid, 2019).

Generally, according to data gathered from both interviews and the literature, an effective network of interconnected transportation systems is crucial for the successful trade of agricultural goods and the importation of finished products. Because it is a landlocked nation, Ethiopia is heavily dependent on Djibouti for access to shipping routes. This, along with inadequate infrastructure and a significant distance from the coast, is detrimental to its economic connections with Türkiye. These circumstances necessitate additional expenses, putting significant financial strain on both Ethiopia and Türkiye. This suggests that transportation and logistics costs pose significant challenges for promoting commerce and investment in Ethiopia.

Lack of infrastructure

Foreign direct investment requires essential infrastructure such as electricity, water, access roads, telecommunications, and internet services. Ethiopia, a developing country with poor and substandard transport infrastructure, faces obstacles that can impede economic performance, limit industrial expansion, job creation, export size, and overall economic development (Tiwari, 2015). Infrastructure problems, such as the effects of telecommunications, the internet, roads, railways, and ports, as well as electric power and water, can hinder the smooth flow of goods and services between the two nations and discourage investment (Badada et al., 2023).

According to an interview with investment expert Sebsibe Alemum, poor infrastructure has been viewed as a major impediment to commerce and investment expansion. Ethiopia has made significant infrastructure improvements in recent years, including the establishment of Ethiopian Airlines and regional air transport hubs. It has also announced an investment project to modernize its trunk road network and is putting in place a road maintenance funding framework. Even though Ethiopia has made substantial progress in some infrastructure in recent times, infrastructural facilitates, particularly electric power supply, internet services, and transportation, continue to be important issues for Ethiopia, affecting FDI inflows and trade movement. One Turkish investor expressed his feelings about this issue as follows:

Ethiopia's infrastructure-related restrictions are another major obstacle to Türkiye's trade and foreign direct investment in Ethiopia. Ethiopia's transport and energy delivery systems are characterized by insufficient capacity and inefficiency. It makes it difficult for trade to run smoothly, as trade and investment activities will be disorganized. It may cause delays, increased expenditure, and disruption of Turkish companies undertaking business operations with or in Ethiopia. Unable infrastructure disrupts the

seamless exchange of goods and services between the two countries, resulting in a bar barrier to bilateral trade and investment boosting. (TIKI-2, Addis Abeba, January 1, 2022).

During their on-site research, the team observed that insufficient energy infrastructure and unreliable electricity supply pose challenges for businesses in Ethiopia, especially those in energy-intensive sectors such as manufacturing. Interruptions in power and scheduled blackouts can lead to production disruptions, increased costs, and decreased reliability in meeting customer demands, ultimately impacting Ethiopia's appeal as an investment hub.

Companies' failure to service their debts

According to Fasika's analysis (2019) of Turkish investments, some Turkish companies with the greatest portfolios of non-performing loans at the Development Bank of Ethiopia are all Turkish-owned. Six international corporations, including one Turkish company, owe the Development Bank a total of 8.7 billion birr in non-performing loans. These companies failed to service their loans, and the bank has already confiscated three of their properties, including the defaulting Ayka Addis companies. According to an interview with Mr. Rawda Hussien, Development Bank of Ethiopia (DBE) Senior Investment Advisor;

Turkish owned investment companies are facing serious challenges in accessing foreign exchange and repatriating profit from Ethiopia due to foreign currency restrictions, exchange rate fluctuations, and capital controls. Limited access to foreign currency, particularly over the past five years, can constrain Turkish companies' ability to service their external debts denominated in foreign currencies. (DBEKI-1, Addis Ababa, February 23, 2022).

Similar to this, some of the DBE interviewees responded that economic downturns in Ethiopia can have a significant impact on the financial performance of Turkish companies operating there. Reduced consumer spending, declining demand for goods or services, and currency devaluation have all contributed to revenue losses, making it difficult for companies to meet their debt obligations, especially in the past five years. According to interviews with Abebe Ababayehu, chief of the EIC, a few investment companies have been affected by volatile market conditions, which can impact the profitability and cash flow of Turkish businesses in Ethiopia. Sudden market shocks or disruptions may impair the ability of companies to honor their debt obligations because when these corporations began investing here, government agencies failed to do the necessary due diligence, project appraisals, and feasibility studies. Besides, according to an interview with Mr. Kifle, Director of

the Strategy, Change, and Communication Directorate at DBE, the aforementioned issues exist in the process in which the total loan failure rate is around 39%, and that they take various measures against companies that are late in paying their debt, such as management intervention, early warnings, project rehabilitation, and legal measures that can disrupt cash flows and impede debt repayment efforts.

Challenges in legal, institutional, and policy framework

Legal, institutional, and policy factors affect FDI in Ethiopia, and potential investors are usually discouraged by the existing hitches. Volatile and ambiguous legal frameworks, combined with ineffective regulation, create a volatile climate for entrants who are specifically looking for stability (Hailu & Yihdego, 2018). There may be vulnerability in legal systems used to protect physical and intangible assets, especially concerning property rights and contract rights, investment contracts, and the strength and speed of formal protection provided in case of disputes. Also, frequent changes in policies and the absence of synergy between national and regional policies may make operations challenging and hence have a deterring effect on long-term commitments from foreign investors. Bureaucratic constraints, corruption, and weaknesses in the capacities of key institutional structures exacerbate delays in license issuances, approvals, and enforcement of investment regulations (Getaneh, 2020). These challenges weaken investor confidence as Ethiopia loses competitiveness in the Global Competitive Index, hampering the country's ability to attract and retain FDI in sectors characterized by long-term investments that necessitate well-defined legal frameworks and political stability (Alemayehu, 2023). According to an interview with Mr. Jemal Hassen, Senior Investment Advisor at the EIC;

In Ethiopia, various ethnic groups hold land and other properties. Many ethnic groupings have caused difficulties for investors on numerous occasions. Investors may be concerned about the security of their investments and assets due to a lack of legislative protections in these areas. Inadequate enforcement of property rights has resulted in disputes about land title and property rights, putting Turkish investors in danger of expropriation or asset seizure without adequate recompense. This ambiguity prevents Turkish investors from making long-term commitments and capital investments in Ethiopia, as they are concerned about the potential loss of their assets due to legal inconsistencies and other intergroup actions. (EICKI-3, Addis Ababa, February 17, 2022)

Similar to this, according to an interview with Mr. Muluken Tesfay, Senior Investment Advisor at the EIC, there are issues with legal frameworks that have posed significant challenges to Turkish investment in Ethiopia. The legal

framework, particularly investment proclamations, laws, and directives, have not been revised to reflect technical developments, economic progress, long-term development objectives, and so on. Furthermore, they lack specificity, clarity, and transparency. Because norms and regulations are imprecise, resolving legal framework concerns takes far too long. According to the respondent's investment proclamation and rules, they are more general and have numerous issues.

Currency fluctuations and exchange rate risks

Fiscal policy is one of the challenges to Turkish foreign direct investment implementation in Ethiopia. High corporate tax rates and unpredictable tax policies can deter Turkish investors. Investors in Türkiye look for stable and transparent tax regimes to make long-term investment decisions (Abebe, 2018). Over the past five years, Ethiopian tax policies have been perceived as burdensome and subject to frequent changes, which discourages trade and investment in Ethiopia. Uncertainty regarding tax liabilities and compliance costs can make it difficult for Turkish companies to assess the profitability of investing in Ethiopia (Alekw, 2017).

Fiscal policy challenges were investigated using a set of four challenges that included exchange rate Ethiopian Birr (ETB)/Dollar, inflation rate, provision of foreign currency, and financial cost, which were used to determine the effect of Ethiopia's fiscal policy on manufacturing FDI (Nagayo, 2015). The relationship between the birr and the US dollar plays a role in shaping the success and attractiveness of Turkish investments in Ethiopia. When the exchange rate is unstable, it introduces currency risk, which may unsettle investors by casting doubt on their returns. The varying value or decline of the birr compared to the dollar has the potential to diminish the worth of investments and discourage additional investments. Some Turkish investors are facing challenges due to these fluctuations. For example, two Turkish nationals who owned the Elsie Addis Textile factory in Adama (Nazret) left the country without paying over 933 million Ethiopian birr (40 million US dollars) in loan payments to the Development Bank of Ethiopia, not to mention the claim of an unpaid bill with cotton suppliers in the country (N.A, 2017).

According to Mr. Mulugeta Tameru, Senior Investment Advisor at EIC, it is clear that the shortage in the provision of foreign currency has been a challenge to trade and foreign direct investment in Ethiopia. Fiscal policy is one of the challenges that affects the performance of Türkiye's investment in Ethiopia. This means that shortages in the provision of foreign currency were considered a greater source of challenge to Türkiye's investment in Ethiopia, followed by delays in financing costs

and loans. Therefore, fiscal policy was a major challenge to manufacturing FDI in Ethiopia.

Political instability and security concerns

The flow of FDI in Ethiopia has been significantly affected by political instability, particularly in recent years. For instance, according to the United Nations Conference on Trade and Development (UNCTAD), FDI inflows to Ethiopia decreased from \$4.2 billion in 2018 to about \$2.5 billion in 2020, largely due to escalating political tensions and conflict. Moreover, Ashine (2024) indicates that political instability has led to a reduction in new investment projects, with many foreign investors either postponing their plans or withdrawing altogether due to concerns about the safety of their investments and the unpredictable regulatory environment. Additionally, sectors that are particularly sensitive to stability, such as manufacturing and agriculture, have seen slower growth in FDI, further exacerbating the economic challenges faced by the country.

According to an interview with a Turkish investor, since April 2018, ethnic and religious clashes have erupted in many parts of Ethiopia, killing and displacing a considerable number of people. Over the previous five years, Ethiopia has experienced both rapid political liberalization and an increase in violent conflicts. Ethiopia's security crisis has developed into ethnic clashes, with an increase in the number of internally displaced persons. These violent conflicts have significant challenges for Türkiye's foreign direct investment in Ethiopia. Particularly, the conflict between the federal government and regional states such as Amhara, Oromo, and Tigray might dissuade foreign investors and contribute to erratic investment inflows.

Generally, according to data gathered from both interviews and literature, the conflict within the federal government and between ethnic groups has had a significant impact on the performance of trade and foreign direct investment between Ethiopia and Türkiye since 2018. Aside from that, the current situation in Ethiopia is deteriorating rapidly. The country's internal conflict between the central and regional governments has caused a significant economic crisis, affecting the smooth operation of Turkish trade and FDI flows in Ethiopia.

Weak export capacity

Continued growth of Ethiopia's trade imbalance would be detrimental to bilateral trade relations. The trade balance between Ethiopia and Türkiye has been negative for the past 14 years, and Ethiopia's trade deficit has been growing (Alekaw, 2017). Even though commerce between emerging and industrialized nations frequently results in an adverse trade balance (trade deficit), the latter may become

discouraged and seek new trading partners who would either yield a smaller deficit or a favorable balance. Such economic calculations may also have an impact on Ethiopia and Türkiye's fast expanding bilateral trade (Seid, 2019).

Mr. Sedat Erdoğan, Türkiye's Commercial Counsellor, explained why the trade balance favors Türkiye in its trade relationships with African countries in general and Ethiopia in particular. Sedat believes that the root cause of the trade imbalance was the country's inability to export commodities. Ethiopia's trade suffers because of its limited export destinations and market access. Furthermore, Ethiopia's industrial structure is controlled by a small number of state-owned enterprises and conglomerates, which are highly concentrated and have significant administrative hurdles to entry.

According to Mr. Yasin Ahmed, Director of Bilateral and Multilateral Negotiations regarding trade, Ethiopia's exports to Türkiye account for less than one-quarter of the country's overall volume. The fundamental cause of trade imbalances is the significant price differential between imports and exports. Ethiopia sells agricultural items at a low cost while importing high-priced manufactured goods. Furthermore, for the past 13 years, Ethiopia's external trade with Türkiye has been dominated by chronic trade deficits. These barriers impede free trade and foreign direct investment between Ethiopia and Türkiye.

Import of manufactured goods and export of primary agricultural products

Ethiopia's limited capacity poses the most significant challenge to trade and investment relations between Türkiye and Ethiopia. Ethiopia's export capacity is limited in terms of its volume. Ethiopian exports to Türkiye neither grew nor expanded over time. Mr. Ahmed also said that insufficient production capacity was the key contributor to the trade imbalance. Ethiopia's trade performance has been declining due to the aforementioned issues, as well as numerous challenges in meeting Türkiye's import requirements (Seid, 2019).

Ato Ephrem Mulatu, Senior Investment Promotion Officer of the Ethiopian Investment Commission, believes that Ethiopia's export structure indicates the country's weak economy. Because it is one of the least developed countries, Ethiopia places heavy reliance on a limited range of agricultural commodities for exports. Turkish exports to Ethiopia are primarily manufactured goods. Ethiopia's export profile exposes its reliance on primary commodity exports, which presents its own set of challenges in terms of trade share.

Corruption

In Ethiopia, corruption has a net negative effect on FDI because it creates uncertainty, increases costs, and erodes investor confidence. Bribes and other illicit payments raise business costs, making it difficult to plough back profits into long-term projects (Tadewos & Kuma, 2024). The root cause of corruption hinders effective competition and gives politically favored companies an advantage, which negatively impacts efficiency by deterring foreign firms from operating in such an economy. It erodes institutional credibility, results in present inefficiencies in public services, slows down regulatory processes, as well as diminishes faith in the legal frameworks. Furthermore, corruption undermines Ethiopia's global prestige and thereby the country's attractiveness to ethical businesses decreases and access to aid and development finance are reduced (Shumetie & Watabaji, 2019). Mr. Anteneh Tariku, a Senior Investment Promotion Expert at the EIC, stated the following:

Corruption raises the cost of investing, lowering earnings; hence, investment inflows will decline. Because of the high level of corruption, international investors can circumvent regulations. Thus, bribery can facilitate economic activities and hinder Turkish investors. This can also inhibit new investors from supporting Ethiopian ventures. Corruption in Ethiopia has varied from petty to magnificent over the last two decades, and it is mainly carried out in secret. This undermines good governance and diverts resources from their intended purpose for personal gain. Furthermore, corporate activities impact free competition, benefiting some while discouraging others. Thus, institutional bureaucratic corruption is one of the difficulties affecting Ethiopia's trade and FDI performance. (IPI-7; Addis Ababa, February 8, 2022)

Corruption is a significant obstacle to Türkiye's trade and foreign direct investment in Ethiopia. Turkish companies are forced to pay bribes to enter the market or enjoy a free-market advantage, as those who offer the most are often favored by the use of graft or kickbacks (Habtamu, 2018). Such behavior distorts the proper functioning of the marketplace, giving an advantage to corrupt businesses, especially Turkish enterprises. In addition, corruption also raises investment risk by making the business climate uncertain and unpredictable, which dissuades Turkish investors from allocating resources to Ethiopia. The risks associated with corruption, such as coercion for bribes, fraud, or financial misappropriation, concern Turkish enterprises, inhibiting their desire to expand their business in Ethiopia (KI.10).

Land acquisition problem

The protracted process of obtaining land in both rural and urban areas is another significant challenge that keeps investors from making complete investments (Kebede et al., 2021). The effects of land-related problems for FDI manufacturing in Ethiopia were researched using three challenges: access to land, land rent and lease costs, and rules in land transactions and deals (Hindeya, 2018). According to the responses given by FDI owners chosen as sample respondents:

The most significant challenge is land acquisition. We experienced significant challenges in building new schools or expanding existing ones, particularly in Addis Ababa and Oromia regional states. The other major issue is the slow process of granting land, which discourages investors from investing to their full potential. This is one of our most important challenges in settling investor land disputes, particularly in Addis Ababa and Oromia (OFDIKI-1, Addis Ababa, January 11, 2022).

As a result, the threat of land acquisition problems leads to concern over property rights and land tenure security among international investors, particularly Turkish enterprises. The pressure of potential land ownership conflicts or disagreements on usage rights between the country's nationals and foreign stakeholders will also have a negative impact on Turkish investment in industries, including agriculture, industry, and real estate (KI.10). Land acquisition issues frequently result in long delays or the termination of investment projects, particularly those requiring large land areas. Turkish enterprises specializing in infrastructure development, agriculture, or manufacturing may be unable to obtain the necessary land for their projects. The cost of delays or terminations, as well as the loss of profitability and investment reduction, may be increased (KI.6).

Conclusion

The development of Turkish trade and FDI in Ethiopia from 2012 to 2023 reveals a dynamic relationship accompanied by both opportunities and challenges. Over time, Türkiye has grown as an important player in Ethiopia's economic landscape, exploiting its strengths in a variety of industries to strengthen commercial ties with east African countries. Despite significant growth and remarkable achievements, Ethiopia-Türkiye ties have faced several challenges in terms of trade and investment over the last two decades. These challenges include volatile foreign exchange rates, difficulties in acquiring land, insufficient development of human capital, imbalances in import-export volumes, high tariffs, inadequate infrastructure, bureaucratic procedures, companies' failure to repay debts, complex customs procedures, limited access to the generalized system of

preferences (GSP), corruption, and limited availability of data, which continue to impede the smooth flow of trade and investment between the two nations.

Recommendations and policy implications

Researchers have drawn conclusions and provided recommendations for improving trade and foreign direct investment between Ethiopia and Türkiye. To effectively address these challenges and boost trade and FDI between the two countries, it is essential for both countries to focus on simplifying customs procedures, lowering tariffs, enhancing infrastructure, facilitating access to GSP systems, and creating a more favorable business environment for investors from both countries. Moreover, efforts to stabilize the currency exchange rate and promote increased openness in trade procedures will greatly help overcome these challenges and cultivate mutually beneficial trade and investment relations between Ethiopia and Türkiye.

The Ethiopian People's Revolutionary Democratic Front (EPRDF) government should refrain from engaging in inefficient government organization (GO) bureaucracy, which primarily focuses on matters related to the FDI climate. To improve efficiency, it is necessary to address the slow bureaucracy in both regional and federal land administrations, delayed service delivery in the Federal Inland Revenue Authority, and inconsistent clearance processes in the Ethiopian Customs Authority Office. These issues should be eliminated or, at least, minimized. It is vital for relevant government officials to establish the required infrastructure, particularly in recently designated investment areas. In addition to establishing the Federal Anti-Corruption Commission, it is imperative that government officials at all levels combat corruption by exemplifying themselves as paragons of integrity. In a more detailed manner, senior government officials should serve as volunteer members of the Commission. To prevent corruption and ensure smooth service delivery, it is vital to replace manual service delivery in GOs with computerized service delivery.

For investors, peace and stability are important factors. As a result, the government should work toward peaceful resolutions to resolve border problems. It is reasonable to urge the government to end the military clashes between Amhara, Oromo, and Tigray. Internally, the government must deal with the Tigray People's Liberation Front (TPLF), Oromo Liberation Front (OLF), and FANO –a volunteer-based armed movement of Amhara People– to achieve "true peace" in the country.

To create a favorable FDI climate, the government must improve bureaucracy in GOs, provide land quickly, establish the necessary infrastructure in newly issued investment sites, combat corruption, improve policy, conduct regular discussions

with all investors from all business sectors, and improve the legal framework, according to most respondents. Finally, the authors of this study suggest minimizing the unstable character of the FDI atmosphere and advise the government to stop modifying and amending regulations and proclamations on a regular basis.

Ethical Statement

We are committed to upholding the highest standards of academic integrity and rigorously ensuring the authenticity of our research. Therefore, we believe that the findings of our similarity index check demonstrate the originality and novelty of our contribution to the field of economics, particularly regarding Turkey's Trade and Foreign Direct Investment in Ethiopia

Supporting Institution

Dire Dawa University

Thanks

We appreciate the opportunity to submit our manuscript to the Turkish Journal of Middle Eastern Studies and sincerely hope that our research aligns with the journal's scope and interests.

Appendix I: List of conducted interviews

| Interviewee | Date of interview | Position | Institution |
|-------------|-------------------|---|--|
| KI.1 | March 4, 2023 | Strategy, Change, and Communication Directorate Director | The Development Bank of Ethiopia |
| KI.2 | March 6, 2023 | Senior investment Advisor | EIC (Ethiopian Investment Commission) |
| KI.3 | March 11, 2023 | Commercial Counselor | The Embassy of the Republic of Türkiye |
| KI.4 | March 17, 2023 | Minister | FDRE Minister of Foreign Affairs |
| KI.5 | April 3, 2023 | Senior Investment Advisor | EIC (Ethiopian Investment commission) |
| KI.6 | April 8, 2023 | Türkiye Investor | Addis Ababa Manufacturing Site |
| KI.7 | April 13, 2023 | Türkiye Investor | Bahir Dar Site |
| KI.8 | April 21, 2023 | Senior Investment promotion Expert | EIC (Ethiopian Investment Commission) |
| KI.9 | April 25, 2023 | Commercial counselor | The Embassy of the Republic of Türkiye |

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