IDCEA research brief - Ethiopia

Florian Schaefer (LSE)
Carlos Oya (SOAS, University of London)

Ethiopia's Construction and Manufacturing Sectors: Patterns and Determinants of Employment Conditions

The growing engagement of Chinese investors and contractors in sub-Saharan Africa has raised widespread concerns about the social sustainability of these interventions. However, there has been a notable lack of systematic comparative evidence either for or against such claims.

Hence DfID and the ESRC have financed 'The Industrial Development, Construction and Employment in Africa (IDCEA)' research project to conduct systematic surveys in Ethiopia and Angola on employment conditions in both manufacturing and construction, comparing Chinese, other foreign and domestic enterprises in both countries. This Research Brief reports on the main results for Ethiopia.

Ethiopia has been a major beneficiary of Chinese FDI and construction projects in recent years. Between 2014 and 2017 Chinese FDI in the country doubled, reaching over $2 billion in accumulated stocks. Ethiopia also became the largest beneficiary of Chinese construction activities in Africa.

Our research in Ethiopia comprised a survey of 837 Ethiopian workers across 40 manufacturing and construction companies – 14 Chinese firms, 14 Ethiopian firms and 12 other foreign-owned firms – all well as 150 qualitative interviews with workers, managers, trade unionists and policy makers. For manufacturing we looked at firms making textiles, garments and leather products, both inside and outside of industrial parks, while in construction we surveyed road building companies.

Job Creation, Wages and Working Conditions

One popular misconception about Chinese firms in sub-Saharan Africa is that the majority of their workers are Chinese. However, our research suggests that about 90% of workers are, in fact, Ethiopians. The small minority of expatriate workers is concentrated in managerial or skilled technical jobs.

While the construction sector recruits a fairly flexible workforce, large-scale manufacturing companies maintain a more stable workforce. However, in both Ethiopian and other foreign-owned manufacturing firms, 28% of workers have no written contract. In Chinese-owned firms this percentage is 38%. In the construction sector, about two-thirds of all workers across all firms report having no written contract.

Wages, especially for unskilled workers, are relatively low across both sectors even if all above official poverty lines. Simple comparisons between firms by origin suggest at first glance relatively small differences in wages, sometimes not statistically significant. These differences are related to the distribution of wages within the three types of ownership in both the manufacturing and construction sectors. For low-skilled workers there is a relatively narrow distribution of wages in Chinese firms, especially in the manufacturing sector. For semi-skilled workers, wages across the three types of ownership are broadly comparable, but Ethiopian firms employ more workers at higher earnings levels.

Overall, wages across Chinese and other firms are broadly similar when we consider the effects of other worker and company attributes such as: age of workers, tenure in job, location effects, including being in industrial parks, and other differences as shown in the report. Regression analysis suggests that the biggest effects on wages come from the skill level of the respondent, from working in the manufacturing rather than the construction sector (due to lower wages in manufacturing), and from working for a company located in an industrial park. In regression analyses that controls for worker- and company-level characteristics, as well as for location in an industrial park, we find that national origin of firm no longer has a significant effect on wages.

Non-Wage Working Conditions

In Ethiopia manufacturing workers enjoy more non-wage benefits than construction workers, but there are large differences across companies. For example, 85% of workers in Chinese manufacturing firms and 64% of workers in other foreign-owned manufacturing firms receive food at work, while only 13% of workers in Ethiopian firms—which are usually located outside industrial parks—receive food.

Chinese manufacturing firms are noteworthy for providing 83% of their workers with transportation to work—a percentage significantly higher than that for other foreign-owned or Ethiopian firms. But both other foreign-owned and Ethiopian manufacturing firms provide a much larger share of their workers with medical care and paid sick leave. For example, Ethiopian firms provide 89% of their workers with paid sick leave while Chinese firms offer such leave to only 54% of their workers.

In terms of health and safety, occupational hazard is more significant in the construction sector. Chinese firms seem to perform slightly better in terms of reported incidence of accidents and injuries, especially compared to Ethiopian firms.

Management-Worker Relations

There is evidence of some work culture and language communication clashes in foreign firms, including Chinese companies. Workers in Chinese companies appear more likely than their counterparts in other foreign-owned and Ethiopian companies to feel abused by managers. In the construction sector, 45% of workers in Chinese companies report having suffered verbal abuse. The comparable percentages in Ethiopian and other foreign-owned firms are 20% and 22% respectively.

Also, 17% of workers in Chinese construction companies have reported physical abuse from managers whereas in Ethiopian construction companies, there has been only one such case and in other foreign-owned companies no such cases.

In the manufacturing sector, the incidences of verbal and physical abuse appear to be higher overall and differences are mostly between Ethiopian companies and foreign firms, including Chinese firms. In Chinese manufacturing companies 62% of workers report verbal abuse and 22% report physical abuse, while in other foreign-owned manufacturing companies 58% of workers report verbal abuse and 12% report physical abuse. But in Ethiopian manufacturing companies the comparable statistics are only 35% and 4%, respectively.

Unions, Collective Bargaining and Strikes

There is a greater prevalence of trade unions and collective bargaining in Ethiopian manufacturing firms than in either Chinese or other foreign-owned manufacturing firms. In Ethiopian firms, 55% of workers report that there is a union. But only 17% of workers in Chinese firms and 26% of workers in other foreign-owned firms report the same. A major reason is that Chinese and other foreign-owned manufacturing firms are more likely to be located in industrial parks, where unions are often actively discouraged.

It is noteworthy that strikes took place across many of the companies in our survey sample. Invariably the key grievance was low wages. In Chinese and other foreign companies overtime pay and fringe benefits were also part of disputes.

In the construction sector, work stoppages were most likely at Ethiopian firms but significantly less likely at Chinese and other foreign-owned firms. But in the manufacturing sector, 55% of workers reported strikes in other foreign-owned companies; 36% reported strikes in Chinese companies; while only 19% reported strikes in Ethiopian companies. The higher percentages for the two kinds of foreign-owned firms are likely due, in part, to their location in industrial parks.

Training and Skill Development

There are few differences in the provision of training across the three types of ownership of manufacturing firms. For semi-skilled manufacturing workers, Chinese firms provide training to slightly more workers (i.e. just over 80%) than Ethiopian or other foreign-owned firms. For unskilled workers, other foreign–owned firms provide slightly more training than the other two types of firms, but the levels for all three types of ownership still hover around 80%.

For the construction sector, the percentage of workers (either unskilled or semi-skilled) who are trained hovers, for the most part, around 20%. The exception is training in Ethiopian firms, where about 40% of semi-skilled workers are covered.

Concluding Remarks

Overall, differences in wages and working conditions are driven more by the sector in which companies operate and the skill level of workers than by the national origin of the company. Within these categories, whether a company is located in an industrial park is an important explanatory factor. Companies inside the industrial parks are much more likely to be tied in to sophisticated global production networks, generally serving the consumer markets in high-income countries. Buyers in such networks exact strong pressure on their suppliers to keep costs low, while meeting demanding targets in terms of quality and turnaround times for orders. Moreover, the nature of the global value chains in question, garments and leather products, means that profit margins for producers are generally low. Firms might perceive it to be in their interest to keep wages low, at least in the short term. Industrial parks therefore act as particular spaces of wage setting and labour control. The physical barriers around the park provide company managers with a much greater degree of control over their labour force, and inter-firm coordination bodies, such as tenant associations, at least potentially allow firms inside parks to coordinate with one another. As access to parks is controlled, employers also find it easier to restrict trade union activities in the parks.

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