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ARDL Modelling Approach to Test the Effect of Saudi Arabia's Economic Diplomacy towards Ethiopia on Ethiopia's Economic Growth (2000-2020)

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Abstract

The purpose of this study is to propose a new and comprehensive analysis framework for understanding Saudi Arabia's economic diplomacy towards Ethiopia. It involves identifying the tools and objectives of Saudi Arabia's economic diplomacy based on national interests, considering changes in domestic policies and the external environment. The study utilizes an analytical methodology and includes an empirical study that examines the impact of this relationship on Ethiopia's economic growth in the short and long term. The Autoregressive Distributive Lags (ARDL) model is utilized for this analysis. The findings indicate that increasing imports from Saudi Arabia is an effective strategy for improving Ethiopia's economic growth. However, the same cannot be said for exports, primarily due to the specific types of goods that are imported and exported between the two countries.

Keywords: Saudi Arabia; Ethiopia; Economic diplomacy; economic growth; ARDL

Introduction

In practical terms, there has always been a strong connection between economics and politics, with nations using economic tools to achieve their national interests even before the establishment of formal institutions that are now an integral part of foreign policy and diplomatic practices. The literature on economic diplomacy recognizes its dual nature, as it can be employed as both soft and hard power. When used to enhance economic interdependence and cooperation among nations, it acts as a form of soft power. This is achieved through mechanisms such as trade agreements, investment treaties, and other economic arrangements that foster economic development. These initiatives can build mutual trust and understanding among nations, ultimately contributing to more stable relationships. Scholars like Robert Keohane and Helen Milner (1996) argue that economic diplomacy can also be viewed as soft power when it involves economic aid, development assistance, and humanitarian support. By pursuing such strategies, countries can foster cooperation, stability, and a shared interest in maintaining economic relations (R. O. Keohane and H. V. Milner, Eds.,1999).

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Sachs and Collier examined how economic diplomacy plays a crucial part in advancing development by offering economic aid and development assistance to support the most vulnerable countries worldwide. This aid aims to address their challenges and foster economic growth and progress (J. D. Sachs, 2006), (P. Collier, 2007).

During the Cold War, realism portrayed foreign aid as a purely self-interested strategy employed by donors to acquire influence in recipient nations. The motivation behind aid was not rooted in altruism or a genuine desire to assist developing countries, but rather in strategic calculations aimed at advancing the donor's economic or geopolitical agenda (H. Morgenthau,1948), (K. N. Waltz,2010), (R. Gilpin, 2001). Similar to the realist perspective, Easterly held a critical stance toward conventional development assistance. He extensively discussed the drawbacks of aid, highlighting its limited effectiveness in promoting development. He argued that alternative approaches are necessary to tackle the underlying causes of poverty and underdevelopment (W. Easterly, 2009) . An example of this can be seen in the Cold War era when countries like Saudi Arabia and Kuwait provided foreign aid to nations such as Somalia, Ethiopia, and Sudan. Their goal was to counter the influence of Soviet-backed communist movements in the region and promote their Islamic identity (P. Schwab, 1978). Economic diplomacy can also be considered a form of hard power when it involves exerting economic pressure on other countries. This can be explored through the implementation of economic sanctions, trade embargoes, and similar tactics to achieve strategic objectives (R. Gilpin, 2000). Sometimes, when a country relies heavily on another nation for economic support or resources, it becomes susceptible to economic pressure or coercion. In such cases, economic diplomacy can be employed as a form of hard power to safeguard a state's economic interests and ensure its economic security. This can involve using economic incentives or sanctions to influence the behavior of other countries or seeking strategic economic partnerships or alliances to reduce dependence on a single country or region. Some scholars view economic diplomacy as the intersection of economic relations with political and security interests, or as a balance between domestic policy dynamics and the international environment, all in the context of national interests. Okano defines economic diplomacy as the utilization of political influence in international negotiations to pursue national prosperity and the utilization of economic influence to enhance the political stability of the country. It encompasses a combination of foreign policy objectives and instruments, including strategic, economic, political, and security targets, as well as tools like lending, foreign assistance, sanctions, and trade agreements (referred to as economic statecraft) (M. Okano-Heijmans, 2013). Moreover, private and non-state actors also play a crucial role in line with a state's objectives. Therefore, it is essential for the state to engage in economic diplomacy as the primary entity responsible for balancing national interests and the well-being of its citizens. According to Marc Blanchard and Norrin Ripsman, economic statecraft considers the influence of domestic political arrangements and international political factors. It encompasses changes in power dynamics both within a country and in the global order. They argue that domestic policies are significantly influenced by macroeconomic conditions and political regimes, while changes in the international environment have a profound impact on long-term trends in economic diplomacy (J. F. Blanchard and N. M. Ripsman, 1999). In addition, Putnam identified three key elements that demonstrate the interplay

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between economics and security: interdependence, asymmetry, and globalization. These elements are based on the distribution of material capabilities among nations, the strategic international landscape, and the position of the dominant global power in economic competition (R. D. Putnam, 1988).

Looking through the lens of a state-centric realism framework, economic diplomacy is viewed to promote economic security within an anarchic international system. The primary objectives of economic security are to foster economic development and ensure political stability, or regime security. Therefore, economic diplomacy encompasses both economic and political instruments employed by a state. This highlights the notion that a state should utilize economic diplomacy to achieve a balance between national interests, particularly in relation to economic development and national security, which includes political stability and regime security. Consequently, the effectiveness and nature of economic diplomacy are strongly connected to the types and extent of national interests at stake.

In general, Saudi Arabia's economic diplomacy in the Horn of Africa focuses on developmental aid, humanitarian assistance, and investment and trade based on their own interests and changes in domestic and foreign policies. These aspects of economic diplomacy contribute to the ongoing debate about the long-term impact of Saudi Arabia in the region, with three perspectives: Saudi-optimism, Saudi-pragmatism, and Saudi-pessimism.

From the Saudi-optimism perspective, Saudi Arabia's return to the Horn of Africa after the Arab Spring in 2011 has raised hopes for closer Saudi African relations and potential benefits for the region. Saudi-pragmatism suggests that Saudi Arabia's developmental aid in the Horn could be the initial stages of their economic investments in the region. However, pragmatists argue that considering Saudi Arabia's historical involvement in the Horn and the reasons for their recent re-engagement, it is difficult to determine whether the disadvantages of deeper Saudi African economic engagement will outweigh the advantages. They believe Saudi Arabia should be given the benefit of the doubt, considering the recent developmental aid is driven more by political and strategic interests, such as countering Iranian influence and Qatari-supported Muslim Brotherhood, rather than purely economic interests.

Saudi Arabia remains interested in investing in the agricultural sector of Horn of Africa countries as part of their "food security" strategy. However, concrete land acquisitions in the region have been relatively few despite previous plans. Nevertheless, there have been changes in Riyadh's investment policy in the Horn, including investments in sectors such as energy, mining, infrastructure, and banking and finance.

According to the Saudi-pessimist paradigm, increasing engagement with Riyadh in the Horn would perpetuate existing structures of economic and political dependency and hinder Africa's efforts to overcome underdevelopment.

This study asserts that economic diplomacy serves as a foreign policy strategy to pursue a nation's interests encompassing economic, strategic, political, and security aspects. However, there has been little exploration of specific elements within economic diplomacy without providing a comprehensive overview. The differentiation between the types and degrees of interests in specific contexts remains limited, while the distinctions and overlaps between policy expressions, tools, and purposes remain unclear. Recognizing the importance of understanding such orientations in interpreting the complexities of economic diplomacy processes, the study investigates Saudi Arabia's economic diplomacy towards Ethiopia. The objective is to prioritize political and strategic objectives over economic goals, considering changes in domestic policies and the international system. Additionally, an ARDL model is employed to analyze the short-term and long-term effectiveness of Saudi Arabia's economic diplomacy towards Ethiopia. The study's findings reveal a significant positive long-term relationship between Ethiopia's imports from Saudi Arabia and the country's economic growth rate. Conversely, a significant inverse long-term relationship exists between Ethiopia's exports to Saudi Arabia and its economic growth rate.

Ethiopia and the Arabian Peninsula: A Historical Relations

Ethiopia's close proximity to the Red Sea and the Gulf of Aden coast has enabled strong cultural, economic, and religious interactions with the Middle East region since the first millennium B.C. (H. Erlich,1986), (J. Markakis,2003)**.** During that time, migrants from southern Arabia, referred to as the Sabaeans, arrived in the Horn of Africa. The Sabaeans were a Semitic group originating from the kingdom of Saba. They established communities along the coastline of the present-day territories of Eritrea and Ethiopia. These settlements played a pivotal role in trading precious commodities like frankincense, myrrh, and various other valuable goods (M. Abir, 2013). The Sabaeans had a notable impact on the cultural and religious landscape of the Horn of Africa. According to Hassner, the historical connections between Ethiopia and the Arabian Peninsula were primarily focused on satisfying political, religious, and economic needs (H. Ahmed,1992).

During ancient times, Ethiopia and the Arabian Peninsula engaged in trade primarily centered around valuable goods like ivory, spices, textiles, precious metals, and stone. The flow of Ethiopian exports and imports, including spices and precious stones, often occurred through Arab ports such as Aden and Jeddah, facilitating the exchange between the two regions. (J.Sorenson,1992), (R. Pankhurst,1997). Starting from 524 A.D., trade relations between Ethiopia and the Arabian Peninsula encountered significant challenges due to the rise of the kingdom of Himyar in Yemen. The Himyarites, who shared a common South Arabian heritage, established a dominant kingdom that controlled key territories in the southern Arabian Peninsula, including the crucial port city of Aden. This development triggered heightened conflict and competition between Yemen and Ethiopia. The Himyarites perceived Ethiopia as a threat to their control over trade routes connecting the Arabian Peninsula with the Mediterranean region. Consequently, they initiated a series of military campaigns against Ethiopia, resulting in trade disruptions and the closure of vital trade routes. (H. Kennedy, 2022).

Around the year 520 A.D., based on traditional accounts, Kaleb, a prominent figure, led a military expedition across the Red Sea and successfully conquered the kingdom of Himyar in Yemen. Himyar had been a significant adversary to Ethiopia in the region. The conquest of

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Yemen by Kaleb and Abraha had profound historical and economic consequences for the trade ties between Ethiopia and the Arabian Peninsula. It represented a significant expansion of Ethiopian authority and impact in the region. In the 16th century, trade relationships between Ethiopia and Mecca primarily revolved around the trade of slaves, particularly following the invasion of Ethiopia by Ahmad Gragn, who received support from Mecca. Ahmad captured numerous slaves and presented them as presents to the Muslim rulers in Arabia, who backed his conquests. Subsequently, in the 19th century, the Saudi Wahhabi movement emerged as a revivalist force in Arabia, playing a crucial role in the establishment of the Saudi state. (A. M. Vasiliev, 2023).

Islamic trade hubs prospered across the diverse landscapes of Ethiopia, including its highlands and lowlands. Ethiopia primarily thrived on exporting valuable commodities such as gold, ivory, and slaves. The export of slaves played a significant role in Ethiopian foreign trade, influenced by both the political climate within Ethiopia and the rise in the number of pilgrims traveling to Mecca. (H. G. Marcus, 2002), (S. A. Bezabeh, 2016).

Saudi-Ethio relations during the imperial Period (1941–74) and the Derg time (1974-1991)

Ever since establishing diplomatic ties in 1948, Saudi Arabia and Ethiopia have been involved in economic diplomacy shaped by various political events in the Horn of Africa, the Middle East, and the Cold War era. Saudi Arabia's significant oil discovery propelled it to become a prominent global oil exporter, enjoying high demand and commanding lucrative prices. Consequently, Ethiopia grew reliant on Saudi Arabia for industrial goods and foreign aid, as it sought to spur its own economic progress. Additionally, informal trade routes thrived along Ethiopia's borders with Djibouti, Eritrea, Somalia, and Sudan during the period of Ethiopian imperial rule, with some goods being re-exported to Saudi Arabia. (T. Tazebew and A. Kefale, 2021).

Informal trade between Saudi Arabia and Ethiopia was motivated by factors such as price differentials, specific goods demand, and the lack of formal trade infrastructure. Notably, Saudi Arabia's ideological interests also played a role, as the country sought to expand its political influence in the Horn of Africa by forming alliances and supporting traditional colonial powers against anti-ideological regimes in the region. The Second Italo-Ethiopian War in 1935 had a particular impact on Saudi Arabia's foreign policy as Italy used camel-mounted troops during its invasion of Ethiopia. These camels, produced in both Italy and Saudi Arabia, were transported via Italian ships from Yanbu to Massawa. (H. Erlich, 2007).

While Italy tried to gain the support of Muslims in Ethiopia, there is no strong evidence linking Saudi Arabia to direct support of Italy during the war. However, the economic relations between Saudi Arabia and Ethiopia did have an impact on Ethiopia-Israel relations. After Israel's war against several Arab states in 1967, the Arab League implemented a boycott of Israel, which included a ban on trade and economic relations with Israel and any countries or companies conducting business with Israel. Saudi Arabia utilized its developmental aid to help Ethiopia reduce Israel's influence in the country. Riyadh perceived the relationship between Ethiopia and Israel as a potential threat to pan-Arabism and its own regime security. (K. Shehim, 1988).

The significant impact of Saudi Arabia's economic diplomacy, particularly its ability to use oil as a "political weapon," resulted in a global oil crisis. This crisis, in turn, had a profound effect on the economy of Ethiopia, ultimately contributing to a severe economic crisis and the subsequent downfall of Haile Selassie's regime in 1974.

During the Derg regime in Ethiopia from 1974 to 1991, the economic relationship between Saudi Arabia and Ethiopia was characterized by an underdeveloped economy and influenced by Saudi Arabia's political and security interests. Ethiopia primarily exported low-priced agricultural commodities such as fruits, livestock, spices, cereals, and coffee, while imports consisted largely of high-priced manufactured products from Saudi Arabia. Although Saudi Arabia's imports of crude oil and petroleum products had some economic influence in Ethiopia, the country's major import partners were primarily socialist countries like the Soviet Union, China, and East Germany. Under the Marxist-Leninist ideology of the Derg regime, Ethiopia pursued a policy of nationalizing land, industries, and businesses with an aim to redistribute wealth and resources. This resulted in the confiscation of foreign-owned assets and the expulsion of Saudi Arabian businesses from Ethiopia. Ethiopia's alignment with the Soviet Union, perceived as a threat to Saudi Arabia's maritime security in the Red Sea and its regime stability, further strained relations between the two countries. In response, Saudi Arabia intensified its support to Eritrean insurgent movements and Somalia, providing financial aid and military assistance.The tensions between Ethiopia and Saudi Arabia were exacerbated by the ongoing territorial disputes over the Ogaden region, which made Somalia and Ethiopia hostile towards each other.

Ethiopia's economic diplomacy with Saudi Arabia since1991: Challenges and Opportunities in the New Era

After the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) came to power in 1991, the relations between Saudi Arabia and Ethiopia experienced challenges due to ideological differences. The EPRDF viewed Saudi Arabia's ideology as revolutionary and left leaning, which raised concerns about the security of their regime. Similarly, Saudi Arabia perceived the EPRDF's ideology as a threat. During that time, Saudi Arabia's economic diplomacy in the Horn of Africa region was primarily driven by political-ideological interests rooted in Wahhabism. This was evident through their provision of financial aid to religious institutions, support for religious media, scholarships for African students, and recruitment of clerics. These efforts played a significant role in disseminating Wahhabi ideology and practices. (P. Kagwanja, 2006), (R. I. Rotberg, 2005).

However, the government led by Meles Zenawi took a different approach to economic diplomacy in Ethiopia. Their focus was on the significance of foreign investment and trade for the country's economic growth. They implemented policies that aimed at developing a market-oriented economy and giving the private sector a more prominent role. Their goal was to attract

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foreign investment not only from Saudi Arabia but also from other countries in the region. Additionally, Zenawi's government made efforts to improve political and diplomatic ties with Saudi Arabia and other Arab nations, as they recognized the strategic importance of these relationships for Ethiopia's security and regional influence. As part of their initiatives, the Ethiopian Investment Commission was established in 1992 to facilitate foreign investment, and trade and investment policies were liberalized by reducing both tariff and non-tariff barriers, encouraging foreign investment, and promoting exports. (T. Hagmann and J. Abbink, 2013).

These economic reform measures encouraged Saudi's investors increased their interests in agricultural investment, the sector which has supported by Saudi government due to food security concerns.

Saudi Arabia extended financial aid to facilitate the development of infrastructure projects in Ethiopia. This support encompassed the construction of various road networks, namely the Asosa to Kumurk (6.5million),the Azezoto Metemaroad (10 million), and the Arba to Gedeo road ($10 million).(according to Saudi Fund for Development). The geographical proximity of Saudi Arabia to Ethiopia has had a significant impact on the cultural and social aspects of the two countries. With over 100,000 Ethiopians living and working in Saudi Arabia, they have played a crucial role in various occupations and have been sending remittances back to their families in Ethiopia. These remittances serve as a major source of hard currency for Ethiopia. Additionally, Saudi Arabia attracts many Muslims who travel there for the Hajj pilgrimage.

However, when it comes to trade and investment, the relationship reflects an underdeveloped economy for Ethiopia. Table (1) and (2) highlight that Ethiopia's export sector is primarily focused on lower-priced primary products such as coffee, sheep and goat, bovine meat, and sesame seeds Ethiopia has been importing higher-priced industrial manufactured goods from Saudi Arabia, including refined petroleum, ethylene polymers, synthetic fiber, and nitrogenous fertilizers. Between the period of 1991 to 2010, Ethiopia ranked the sixth for agricultural investment for Saudi Arabia and second-largest importer for its industrial supplies, as exports to Ethiopia was US$938 Million and import US$9114 Million (World Bank 2009).[3]

During this period, Saudi Arabia enjoyed a trade surplus with Ethiopia, primarily driven by the growing demand for petroleum products and the fluctuating prices of oil. Saudi Arabia's investments in Ethiopia primarily targeted the agricultural sector, motivated by its national security concerns, particularly in the context of ensuring food security.

These investments were incentivized by the Ethiopian government, aligning with its market-oriented approach to economic reform policies.

Table 1 Saudi Arabia Top import items to Ethiopia (2010)

Products	Value ($) in million

[3] https://wits.worldbank.org/CountryProfile/en/Country/WLD/Year/2009/TradeFlow/Import/Partner/SAU/Product/All-Groups.

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Refined petroleum	869
Ethylene polymers	18.3
Propylene polymer	5.15
Vinyl chloride polymer	1.45
Iron structure	2.27
Prefabricated building	1.26
Delivery trucks	1.28
Raw sugar	7.43
Fruit juice	2.11
Soap	2.27
Pasta	1.44

Source: The Observatory of Economic Complexity (OEC)

Table 2 Ethiopia Top export items to Saudi Arabia (2010)

Products	Value ($) in million
coffee	73.21
Other oil seeds	3.57
Dried legumes	1.49
Spices	1.45
Sheep and Goat meat	13.6
Other meat	5.77

Source: The Observatory of Economic Complexity (OEC)

As part of its strategic interests, Saudi Arabia implemented the King Abdullah Initiative for Saudi Agricultural Investment Abroad (KAIAIA) in 2009. This initiative was a response to the global food crisis of 2008 and aimed to secure the country's food supplies by promoting and facilitating private sector investments in the agricultural sector overseas. The initiative included granting financial support through the Saudi Industrial Development Fund to companies seeking to invest in agriculture abroad. Subsequently, both Saudi sovereign and private investors actively pursued land acquisition and food production, with a particular focus on the Horn of Africa. (E. Woertz, 2013).

In response to concerns about the potential scarcity of food and water and the accompanying risks of political instability, Saudi Arabia made the decision to gradually decrease its purchases of wheat from local farmers by 12.5 percent annually starting from 2008. This measure helped the country achieve self-sufficiency in wheat production but also put a strain on its limited water resources in the desert region.[4] The initiative invested US$100 million in Ethiopia to raise wheat, barley, and rice , as well as a group of Saudi-based investors, including the Islamic Development Bank (IDB), launched in 2008, a seven-year plan worth $1 billion in Africa to

[4] https://www.world-grain.com/articles/9959-focus-on-saudi-arabia.

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reduce dependency on rice imports and supply the Middle East region.[5] A Saudi business delegation, led by Commerce and Industry Minister Abdullah Zainal Alireza, visited Addis Ababa on June 26, 2008. Their primary objective was to explore opportunities for investment in agricultural projects focused on crop development, food processing, and animal fattening.[6] In the same year, Ethiopian government have been given the investment license to 240 Saudi companies.[7] Three Saudi investors had a meeting with Ethiopian Prime Minister Meles Zenawi on April 6, 2009. During the meeting, they decided to invest 375 million riyals in the cultivation of rice, barley, and wheat. These crops were chosen because they were part of the Saudi government's strategic food security program. Additionally, the Ethiopian government provided incentives such as tax exemptions and waived lease fees for the initial years of production. Moreover, the investors were granted permission to export their entire production.[8]

To enhance economic growth, food security, agricultural productivity, and poverty reduction, Meles Zenawi introduced a comprehensive economic development strategy known as Agricultural Development Led Industrialization (ADLI). This strategy aimed to attract international investment in agricultural land. It primarily focused on expanding large-scale commercial farms and improving productivity on smallholdings. The Gambella region in Ethiopia was specifically identified by the government as a suitable area for agricultural investments due to its fertile soil and ample water resources. In recent times, the Ethiopian government has actively encouraged both foreign and domestic investors to engage in large-scale commercial farming in the region. They have provided incentives such as tax benefits, land lease agreements, and facilitated access to credit and infrastructure. (K. Teka, 2013).

As an illustration, under Saudi Arabia's King Abdullah Initiative for National Food Security, Saudi Star Agricultural Company PLC, which is privately owned by Saudi billionaire Sheik Mohammed al-Amoudi and headquartered in Addis Ababa, made significant investments in Ethiopia's agricultural sector. They acquired extensive land in the western Gambela region of Ethiopia. In 2008, Saudi Star Agricultural Company PLC entered into a 60-year agreement with Ethiopia's ruling party, securing a concession of 10,000 hectares of land in the Gambela region. The annual cost for this lease was 158 Ethiopian birr ($9.42) per hectare. Initially, Saudi Star had a total leased area of 140,000 hectares in Gambela, but their goal was to expand it further to 500,000 hectares.[9]

One of the advantages seen in the extensive commercial agricultural investment by Saudi private companies in western Gambela is the generation of employment opportunities,

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[5] Saudi-based partners launch Africa rice farming plan. https://www.farmlandgrab.org/post/view/6636-saudi-based-partners-launch-africa-rice-farming-plan.
[6] Saudi Business Delegation in Ethiopia. https://www.arabnews.com/node/313260.
[7] Saudi Arabia joins in the Ethiopian land grab. https://www.farmlandgrab.org/post/view/2445-saudi-arabia-joins-in-the-ethiopian-land-grab.
[8] Saudi investors to put $100 mln into Ethiopia farm. https://www.reuters.com/article/ozabs-saudi-ethiopia-20090406-idAFJOE5350BS20090406.
[9] Saudi Star Agricultural Development PLC Agreement. https://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/SaudiStar-Agreement.pdf.

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particularly for a significant number of wage workers. The World Bank reports indicate that during the period between 2005 and 2013, productivity per worker surged by 67 percent, leading to a significant decrease in unemployment in the region from 25.6% to 4.4%. These positive changes were primarily attributed to improvements in productivity within the agricultural sector, as well as the wholesale and retail trade industries.[10] However, the extensive investment in large-scale commercial farming has had adverse effects on the social and environmental aspects of the Gambella Region. One concerning aspect is the employment of numerous low-wage workers, usually on a seasonal and short-term basis. This arrangement can contribute to social challenges within the region. Moreover, the investment has resulted in significant environmental degradation, including the loss of forests, depletion of water sources, and degradation of land. The government and foreign investors have failed to fulfill their promises of improved infrastructure, leading to conflicts between the investors and local communities. These conflicts have particularly affected the local and indigenous populations, who are now faced with food insecurity issues. This situation raises concerns about the long-term sustainability and well-being of the region and its inhabitants. (A. W. Degife and W. Mauser, 2017).

An illustration of the negative impact of large-scale commercial farming can be seen through the Abobo rice farm project initiated by Saudi Star in 2008. This project involved the acquisition of 10,000 hectares of land near the Elewero irrigation dam, leading to the extensive clearing of previously forested and savanna areas that were recognized as part of Gambella National Park.[11]

In 2011, the government established the Saudi Agricultural and Livestock Investment Company (SALIC) with an initial capital of $800 million. The aim was to strengthen collaboration between the government and private agribusinesses abroad, with a focus on developing products for the domestic market. Since its inception, SALIC has engaged in investments from 2012 onward, collaborating with numerous global companies operating in various agricultural sectors such as grain trading, rice, meat, and coffee. The company has identified several target countries for its investments, including Egypt, Ethiopia, Bulgaria, Hungary, Kazakhstan, Kyrgyzstan, Poland, Romania, Russia, Ukraine, and Uzbekistan. (According to the United Nations' Food and Agriculture Organization).

Prime Minister Abiy Ahmed came to power following years of anti-government protests that started in 2015. The domestic and foreign policies of both countries have influenced changes in their economic and political relations. Arab Gulf states, driven primarily by national economic goals and security interests, have undergone significant transformations in their national interests. These changes include reforms in religious discourse, social and labor policies, national

[10]ETHIOPIA Employment and Jobs Study. https://documents1.worldbank.org/curated/en/443391562238337443/text/Ethiopia-Employment-and-Jobs-Study.txt.
[11] Understanding Land Investment Deals in Africa. https://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/OI_SaudiStar_Brief.pdf.

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development plans for a post-hydrocarbons future, economic diversification, financial interventions, and increasing international influence.

The oil-centered Gulf states have begun diversifying their socio-economic structures, leading to increased investments from Eastern powers in the oil and infrastructure sectors through the "look to the east" policy. This policy has highlighted the compatibility between the developmental plans of Arab Gulf countries and China's "Belt and Road" initiative, creating opportunities for mutual benefit in areas supporting the diversification of Gulf Cooperation Council (GCC) economies.

The turmoil that unfolded across the Middle East in 2011 resulted in a reshuffle of regional power distribution and changing political ideologies. This has increased the strategic importance of the Horn region in the strategies of Arab Gulf states. These states have recognized the growing Iranian influence in Syria and Yemen, as well as the threat posed by the Islamic State of Iraq and the Levant (ISIL). Moreover, Turkey and Qatar's regional ambitions, particularly through the involvement of the Muslim Brotherhood's political wing, have amplified the significance of Africa in the security agenda of GCC countries.

In 2013, the Gulf Cooperation Council (GCC), based in Riyadh, developed a comprehensive approach aimed at incorporating the economic, cultural, and security interests of Horn countries into Gulf visions. This approach was proposed by Saudi Arabia's foreign minister, Saud al-Faisal bin Abd al-Aziz Al Saud. In June, GCC foreign ministers met in Jeddah to promote future peace talks with the region.

The outbreak of conflict in Yemen in 2015 further solidified the strategic interests of the GCC countries in the region. Riyadh restored its ties with Eritrea after the latter offered to contribute forces to a Saudi-led military coalition in Yemen. Subsequently, on September 16, 2018, Eritrea and Ethiopia signed the Jeddah Peace Pact at a summit hosted by King Salman, effectively ending a decade-long conflict between the two countries.

In general, the KSA and the UAE have sought to use economic diplomacy through financial aid and their relative power at the regional level to pressure the Horn countries, such as Djibouti, Eritrea, Ethiopia, Sudan and Somaliland, to join their camp and cut relations with Iran and Muslim Brotherhood's camp. The regional power balances after the Saudi-led military intervention in Yemen (2015) and the GCC crisis (2017), have pushed the KSA and the UAE to strengthen relations with their African clients on security level. The intervention in the Yemeni war by the regional powers, Saudi Arabia and Iran have turned the conflict into a bigger war by proxy. The KSA has increasingly involved in the Horn to cut off Iranian logistical support to supply arms to the Houthi rebels, and the region has become at the forefront of Saudi Arabia's strategic interests related to national security and the regional balance of power. The Saudi-led coalition have persuaded their Sudan, Eritrea, Djibouti and Somaliland through economic diplomacy tools, such as loans, investment and military assistance to join the pro-Saudi camp and keep Iranian ships out of the Red Sea. From the maritime security, The KSA's is focused on investment in port projects and military bases that serve their geopolitical and security interests.

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The Bab El-Mandeb strait is particularly important because it provides a direct shipping route for its oil exports to reach Europe and Asia. The strait is also a key transit point for other goods and commodities, including natural gas, minerals, and agricultural products. Given, the competition over geo-economic diversification among the GCC states, the KSA's attempts to counter the pro-Turkey camp and Iranian threats, has played critical role to strengthen political leverage through a new offer of mediation has been made to end the deadlock in the conflict between Ethiopia and Eritrea. A part of Abiy's government political and economic reform, the country has decided to wholly or partially transfer its shares in state-owned railways, hotels, parks and state-run manufacturing companies to the private investors, which has attracted Saudi's private and public sectors to invest in Ethio-Telecom, Ethiopian Airlines, Electric Power Stations and Maritime and Logistics.

The Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE) have used economic diplomacy to pressure countries in the Horn region, including Djibouti, Eritrea, Ethiopia, Sudan, and Somaliland, to align with them and sever ties with Iran and the Muslim Brotherhood. The power dynamics in the region, influenced by the Saudi-led intervention in Yemen in 2015 and the Gulf Cooperation Council (GCC) crisis in 2017, have led the KSA and UAE to strengthen their security relations with African nations.

The Saudi-led intervention in Yemen and Iran's involvement have transformed the conflict into a proxy war. Saudi Arabia has become increasingly engaged in the Horn region to disrupt Iranian logistical support to Houthi rebels. The region has become a focal point for Saudi Arabia's national security and regional power balance interests. The Saudi-led coalition has employed economic diplomacy tools such as loans, investments, and military assistance to persuade Sudan, Eritrea, Djibouti, and Somaliland to align with their interests and prevent Iranian ships from accessing the Red Sea.

From a maritime security perspective, Saudi Arabia has focused on investing in port projects and military bases that serve its geopolitical and security interests. The Bab el-Mandeb strait is of particular significance as it provides a crucial shipping route for Saudi oil exports to Europe and Asia. The strait is also important for the transit of other commodities such as natural gas, minerals, and agricultural products. Saudi Arabia's efforts to counter the pro-Turkey camp and Iranian threats, while competing for geo-economic diversification among GCC states, have played a crucial role in strengthening its political leverage. As part of this strategy, Saudi Arabia has made a new offer of mediation to resolve conflicts between Ethiopia and Eritrea.

Under Prime Minister Abiy's government, Ethiopia has undertaken political and economic reforms. As part of these reforms, the country has decided to partially or fully transfer its shares in state-owned railways, hotels, parks, and manufacturing companies to private investors. This has attracted investments from Saudi Arabia's private and public sectors in companies such as Ethio-Telecom, Ethiopian Airlines, electric power stations, and maritime and logistics

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infrastructure.[12] As part of Saudi Arabia's economic diversification strategy to reduce its reliance on oil and gas for power generation, the country has started investing in the African renewable energy sector. An example of this is the partnership between ACWA Power, a Saudi company selected from a pool of 12 pre-qualified bidders, and Ethiopia Electric Power (EEP), the state-owned electricity producer. On October 15, 2019, ACWA Power, EEP, and the Ministry of Finance signed a Letter of Intent to develop two solar projects in Ethiopia, with a combined capacity of 250 megawatts. In the first round of Ethiopia's solar program, organized under a new public-private partnership law, the Riyadh-based utility developer secured two projects of 125 megawatts each (ITA, 2022).[13] Saudi Arabia has adopted a strategy of balancing its interests in the Renaissance Dam crisis between Ethiopia and Egypt. Riyadh acknowledges Egypt's concerns about food security, as Egypt heavily relies on the water from the Blue Nile in Ethiopia. On the other hand, Addis Ababa sees the dam as crucial for its national security, aiming to harness the Nile's flow for hydroelectric power and food security.

To facilitate the completion of the Grand Ethiopian Renaissance Dam project, the Gulf Cooperation Council Interconnection Agency (GCCIA) has suggested a two-year feasibility assessment for an electric cable connecting Saudi Arabia and Ethiopia. This connection could potentially pass-through Yemen, Djibouti, or Eritrea. In a bid to gain Egypt's support for the project, the Gulf Cooperation Council countries have also contemplated extending electricity connections to Cairo, considering Saudi Arabia's interests in the Renaissance Dam. (KFCRIS, 2020).[14] The Government of Saudi Arabia has provided $140 million soft loan to the Government of Ethiopia supporting roads, energy infrastructures, and health programs in December 2019.[15]

As per Saudi Arabia's 2030 vision, the government is actively encouraging foreign companies to invest in the food processing sector within the country. They are offering attractive incentives, including allowing up to 100% ownership for foreign investors. Additionally, the Saudi Arabian Agricultural Development Fund will continue to support foreign investments in accordance with specific strategies and requirements such as political stability, geographical location, natural resources, and investment environment of the target country.

In 2022, Saudi Arabia’s GDP exceeded $1trillion for the first time in history, positioning the country as one of the top twenty economies in the world, and the largest economy in the Arab world and the Middle East. In the same year, the country imported approximately $3 billion worth of intermediate food products, and by the end of 2030, are expected to exceed $70 billion

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[12] Ethiopia opens up telecoms, airline to private, foreign investors. https://www.reuters.com/article/us-ethiopia-privatisation-idUSKCN1J12JJ.
[13] Ethiopia - Country Commercial Guide. https://www.trade.gov/country-commercial-guides/ethiopia-energy.
[14] Red Sea Peace Initiatives: Saudi Arabia’s Role in the Eritrea- Ethiopia Rapprochement. https://www.kfcris.com/pdf/d20bbcf408a7f0d61ee0858c8a6db5fd5ee0744ccd381.pdf
[15] 15 Saudi provides $140 million loan to Ethiopia. https://newbusinessethiopia.com/health/saudi-provides-140-million-loan-to-ethiopia/.

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of Saudi's total investments in food manufacturing sector, making it a major producer of high-value food products in the Middle East. (USDA, 2023).

Due to its arid lands and limited water sources, Saudi Arabia faces challenges in achieving self-sufficiency in food production. Additionally, considering its young and growing population, relying solely on domestic production for food security is no longer feasible. Ethiopia, on the other hand, possesses favorable natural resources and a strategic geographical location. However, the country faces internal instability and complicated relationships with Cairo and Khartoum, which impact its relations with Saudi Arabia. Political interests related to Egyptian-Saudi and Ethiopian-Egyptian relationships also influence Saudi-Ethiopian relations. The investment environment in Ethiopia is hindered by widespread corruption and bribery due to information gaps, lack of coordination between regional and federal government offices, and inadequate infrastructure and technical resources. The government's focus on state-led development projects has often resulted in inefficiencies and corruption. Moreover, the Ethiopian economy heavily relies on agriculture, with limited diversification into other sectors. (T. Hagmann and B. Korf, 2012).

The livestock export sector presents a significant opportunity for Ethiopia, but the country has not fully capitalized on it. In recent years, this sector has faced challenges, and Ethiopia has not fully utilized the potential benefits it can offer. According to the World Bank's 2023 report, the revenue generated from Ethiopian livestock in 2021 decreased by over USD 100 million compared to the figures recorded in 2018.[16] In the late 1990s, Saudi Arabia imposed a ban on the import of live animals from countries such as Somalia, Ethiopia, Eritrea, Sudan, Kenya, and Djibouti due to issues with Ethiopian livestock marketing. Over the years, the livestock sector in Ethiopia has faced numerous challenges, including a lack of infrastructure such as quarantine centers and logistical problems. These challenges have resulted in the country losing more than half of its livestock importing countries. Additionally, the sector has been impacted by issues such as smuggling, inadequate infrastructure, and logistical difficulties, leading to the spread of diseases like Rift Valley Fever (RVF) and Foot and Mouth Disease (FMD), causing suffering among the animals.[17]

Despite its abundance of natural resources, Ethiopia has struggled to establish itself as the primary export destination for agricultural products to Saudi Arabia and capitalize on the economic diplomacy initiatives of Riyadh. These initiatives are tied to significant investments from the Sovereign Wealth Fund and private sectors aimed at attracting diversified and substantial investments to Ethiopia. The Saudi wealth fund is mandated to seek out deals that align with Crown Prince Mohammed bin Salman's strategy of reducing dependency on oil revenue and expanding into new industries through the Public Investment Fund (PIF) and acquisitions. However, Ethiopia has not been able to take full advantage of these developments thus far.

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[16] https://www.worldbank.org/en/country/ethiopia/overview.
[17] Saudi's ban on livestock imports remain in place, officials displeased. https://www.thereporterethiopia.com/22438/.

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The Empirical Study:Methodology and Data Resources

Econometric Methodology

In the study analyzing the relationship between imports, exports, and economic growth in Ethiopia, the approach of Pesaran et al. (2001) is employed. The benchmark regression model is constructed based on the GDP growth rate, serving as an indicator of economic growth.

$$GROWTH_t = f(EXPORTS_t, IMPORTS_t)$$

In this model, the factors that help explain the relationship are Ethiopia's exports to Saudi Arabia (EXPORTSt), imports from Saudi Arabia (IMPORTSt), and their previous values represented by EXPORTSt-i and IMPORTSt-i respectively. The endogenous variable is economic growth (GROWTHt), and its previous value is denoted as GROWTHt-i.

The ARDL model was calculated by two steps:

Step 1: An ARDL model was utilized to conduct a co-integration test, aimed at determining the presence of a long-term causal relationship between the variables. The specific model that was established is as follows:

$$\Delta GROWTHt = a0 + \sum_{i=1}^{p} \alpha 1i\ \Delta GROWTHt - i + \sum_{i=1}^{q1} \alpha 2i\ \Delta EXPORTSt - i + \sum_{i=1}^{q2} \alpha 3i\ \Delta IMPORTSt - i + \beta 1GROWTHt\text{-}1 + \beta 2EXPORTSt\text{-}1 + \beta 3IMPORTSt\text{-}1 + \varepsilon t$$

Where ε_t was the white noise, p, $q1$, $q2$ were the maximum lag orders, determined by AIC. The presence of a long-term equilibrium relationship between the horizontal variables was investigated using the F-statistic.

The null hypothesis stated that there was no such relationship. The null hypothesis can be rejected if the value of the F-statistic exceeds the upper bound critical value. If co-integration is found, the analysis will proceed with the conditional autoregressive distributed lag model.

Step 2: The ARDL model was employed to examine both the long-term and short-term relationships among the variables. Specifically, the ARDL model was utilized to estimate the long-term relationship:

$$\Delta GROWTHt = a0 + \sum_{i=1}^{p} \alpha i\ \Delta GROWTHt - i + \sum_{i=1}^{q1} \beta i\ EXPORTSt - i + \sum_{i=1}^{q2} \beta\theta i\ IMPORTSt - i + ut$$

While the short-term relationship can be estimated using the ARDL-ECM model:

$$\Delta GROWTH_t = a_0 + \sum_{i=1}^{p} \alpha 1i\ \Delta GROWTHt - i + \sum_{i=1}^{q1} \alpha 2i\ \Delta EXPORTSt - i + \sum_{i=1}^{q2} \alpha 3i\ \Delta IMPORTSt - i + \upsilon ECT + \varepsilon_t,$$

5.2 Variable description and Data Sources

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The study utilized time series data from 2000 to 2020 in Ethiopia as the research sample. The data for the variables were obtained from various sources, including the Chatham House organization, the https://resourcetrade.earth website, and the official database of the World Bank. The relevant variables were defined as follows:

1. Gross domestic product growth rate (*GROWTH*)

The growth domestic product annual growth rate in Ethiopia was used as an indicator of economic growth in Ethiopia.

2. Exports (*EXPORTS*)

Exports refer to the value of exports from Ethiopia to Saudi Arabia in million dollars.

3. Imports (*IMPORTS*)

Imports refer to the value of imports of Ethiopia from Saudi Arabia in million dollars.

The long-term and Short-term Equilibrium Between the Ethio-Saudi Trade and Ethiopia Economic Growth

Results of unit root test and co-integration test

Initially, a unit root test was conducted to determine the stationarity of the different variable time series. The results indicated that one variable, "growth," was stationary at the level, suggesting it had an integration order of 0 [I(0)]. This conclusion was made based on the p-value being less than 5% at the level.

On the other hand, the remaining two variables were initially non-stationary series but became stationary after being differenced at the first order. This indicated that these variables had an integration order of 1 [I(1)], as their p-values were less than 5% after taking the first difference. In summary, the analysis revealed that one variable was stationary at the level, while the other two variables were stationary after differencing at the first order.

In addition, this study conducted a co-integration test, specifically the Bound test, to examine the relationship between three variables:

GROWTHt, EXPORTSt, and IMPORTSt.

The results of the test, as presented in Table 3, revealed that at various significant levels (10%, 5%, 2.5%, and 1%), there was evidence of a co-integration relationship among GROWTHt, EXPORTSt, and IMPORTSt.

Table 3: Bound test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	36.29082	10%	2.63	3.35

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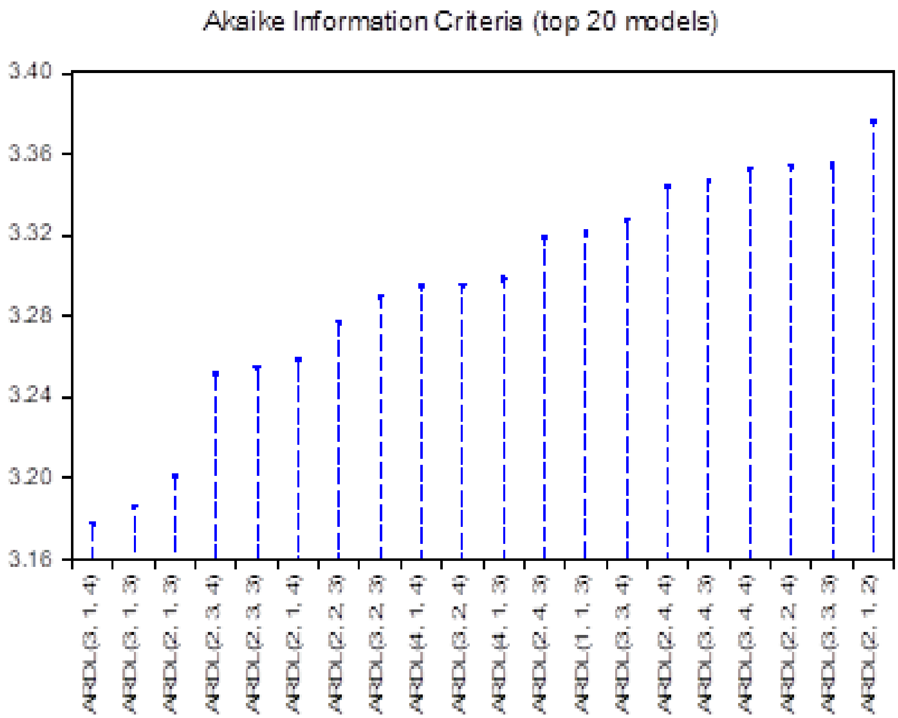
K	2	5%	3.1	3.87
		2.5%	3.55	4.38
		1%	4.13	5

Source: done by researchers using e-views 10.

Estimation Results of Short-term and Long-term ARDL Model

To estimate the long-term coefficient, it was crucial to establish the lag order of the model first.



Source: By researchers using e-views

Figure 1: the lag selection of the model

The lag order of each variable in the model was determined based on the Akaike Criterion (AIC) using the actual statistics of the sample data. The model with an ARDL (3,1,4) lag order was identified as the most suitable, as it had the smallest value. The estimation results are provided in Table 4 below.

Table 4: The estimation results of the short term and long term of the model

Selected Model: ARDL(3, 1, 4)

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	Variable	Coefficient	Std. Error	t-Statistic	Prob.
Short run model	GROWTH(-1)	-0.213596	0.097612	-2.188219	0.0712
	GROWTH(-2)	-0.105382	0.081705	-1.289788	0.2446
	GROWTH(-3)	-0.113691	0.098921	-1.149320	0.2942
	EXPORTS	0.008330	0.013668	0.609453	0.5646
	EXPORTS(-1)	**-0.040422**	**0.014305**	**-2.825689**	**0.0301**
	IMPORTS	-0.000706	0.000980	-0.720538	0.4983
	IMPORTS(-1)	0.001782	0.001283	1.389541	0.2140
	IMPORTS(-2)	0.000960	0.001065	0.901021	0.4023
	IMPORTS(-3)	0.001181	0.000989	1.194385	0.2774
	IMPORTS(-4)	0.001024	0.001140	0.898564	0.4035
	C	15.52187	1.290642	12.02647	0.0000
Long run model	**Variable**	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
	EXPORTS	-0.022400	0.007913	-2.830972	0.0299
	IMPORTS	0.002960	0.001056	2.803190	0.0310
	C	10.83424	0.936042	11.57452	0.0000
Error correction term	CointEq(-1)	-1.432669	0.097089	-14.75618	0.0000

Source: done by researchers using e-views 10

According to the findings in Table 4, the analysis reveals that imports and GDP growth rate do not have a significant relation in the short term. However, there is a significant relationship between the lag of exports and GDP growth rate in Ethiopia. Specifically, the first lag of exports shows a significant effect at a 5% confidence level. The relationship between exports from the previous year and the current year's GDP growth is negative. This means that an increase in exports by one unit leads to a decrease in GDP growth by 0.040422 units.

On the other hand, in the long run, both exports and imports have significant relationships.

Specifically, a one-unit increase in exports leads to a 0.0224 decrease in GDP. Conversely, a one-unit increase in imports results in a 0.00296 unit increase in GDP. Additionally, the adjustment coefficient of the error correction terms is -1.432669. This suggests that when short-term fluctuations deviate from the long-term equilibrium, the system tends to return to equilibrium with an adjustment intensity of 1.432669. This indicates that economic growth tends to self-stabilize.

The Ethiopian export sector primarily consisted of low-priced primary products like coffee, sheep and goat meat, bovine meat, and sesame seeds. Unfortunately, these exports did not have a positive impact on Ethiopian GDP. On the other hand, imports of industrial manufactured goods from Saudi Arabia, such as refined petroleum, ethylene polymers, synthetic fibers, and nitrogenous fertilizers, had a positive influence on GDP growth in Ethiopia.

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Over the period from 1991 to 2010, the trade balance favored Saudi Arabia due to the rising demand for petroleum products and the volatile nature of oil prices. Notably, Saudi Arabia's investments in Ethiopia have primarily focused on the agricultural sector. This aligns with their national security interest in terms of food security. These investments have been facilitated by the market-oriented policy implemented by the Ethiopian government as part of its economic reform policy.

Checking the Model

To assess the reliability of the model, the study conducted tests to evaluate serial correlation, heteroskedasticity, normality, and stability. The results indicated that the model was stable, as confirmed by the CUSUM test displayed in figure 3. Additionally, the residuals exhibited a normal distribution, with the Jarque-Bera probability exceeding 5% (as shown in figure 4).

Furthermore, there were no indications of serial correlation or heteroskedasticity, as evidenced by the Chi-squared probability exceeding 5% according to the findings presented in table 5. This suggests that the residuals were not correlated and maintained a consistent variance (R. R. Moawad, 2020).

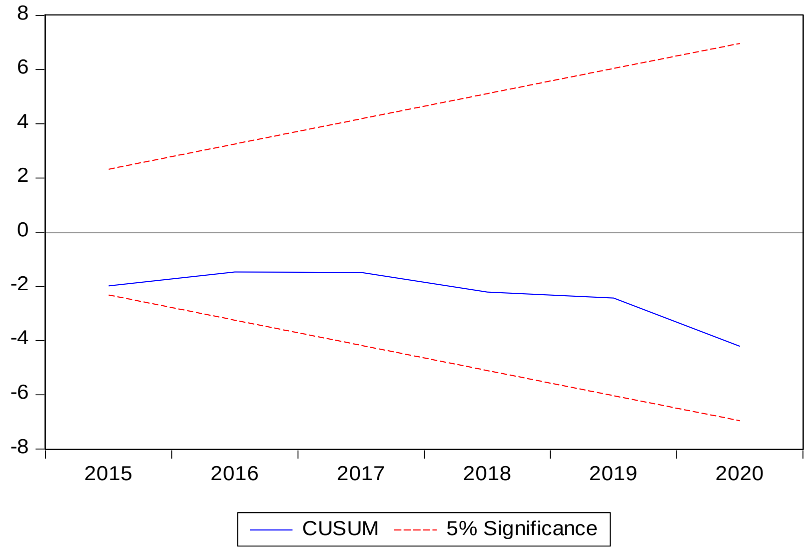

Figure 3: The Cumulative Sum of Recursive Residual (CUSUM) test.

Source: By researchers using e-views

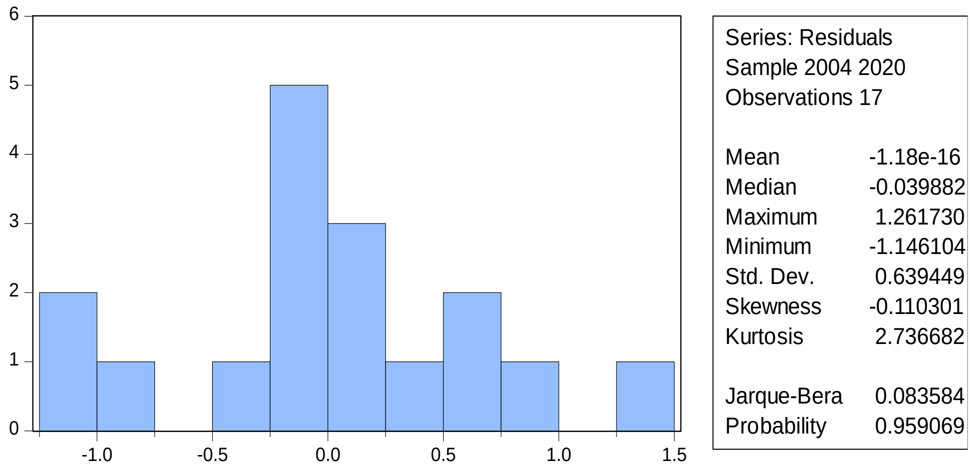

Figure 4: Jarque-Bera normality test

Source: By researchers using e-views 10

Table 5: Tests for serial correlation and Heteroskedasticity

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	3.303145	Prob. F(2,4)	0.1422
Obs*R-squared	10.58871	Prob. Chi-Square(2)	0.0050
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	2.041475	Prob. F(10,6)	0.1977
Obs*R-squared	13.13852	Prob. Chi-Square(10)	0.2160
Scaled explained SS	1.421155	Prob. Chi-Square(10)	0.9992

Source: By researchers using e-views 10.

Conclusion

The study examined Saudi Arabia's economic diplomacy towards Ethiopia, focusing on the types and degree of national interests and their connection to domestic policies and the external environment. It concluded that in the new era, Saudi Arabia's economic diplomacy towards Ethiopia primarily emphasizes political and strategic objectives over economic goals. The study utilized the ARDL model to investigate the impact of this relationship on Ethiopian economic growth, specifically analyzing the relationship between Ethio-Saudi imports and exports and Ethiopian economic growth.

Based on the empirical findings, the following conclusions can be drawn: Firstly, there exists a long-term stable co-integration relationship between Ethiopian economic growth and both exports and imports. Secondly, exports have a significant negative impact on economic growth in both the short and long terms. Thirdly, imports have a positive and significant effect on economic growth in Ethiopia. These findings indicate that increasing imports from Saudi Arabia can effectively enhance Ethiopia's economic growth. However, this is not the case for exports, which can be attributed to the nature of the goods exported. Ethiopian exports primarily consist of lower-priced primary products such as coffee, sheep and goat meat, bovine meat, and sesame seeds, whereas imports from Saudi Arabia mainly comprise industrial manufactures like refined petroleum, ethylene polymers, synthetic fiber, and nitrogen.

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