A Different Path of Industrial Development? Ethiopia's Apparel Export Sector

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1 Introduction

Textile and apparel features as a high priority sector in Ethiopia's economic development plans for structural transformation and industrial development. The underlying theme in industrial policy documents and debates is that the manufacturing sector should complement the growth of the country's dominant agricultural economy (agricultural development led industrialisation, ADLI). The focus is on labour-intensive and low-tech industries with linkages to agriculture—which includes textile and apparel, among other sectors (Altenburg 2010; Bräutigam et al. 2015; Gebreeyesus 2013; UNECA 2015).

In order to do this, industrial policy has been central in Ethiopia's development strategies. Indeed, Ethiopia is 'the poorest country to have devised a national economic transformation based explicitly on industrial policy' (Bräutigam et al. 2015: 3). Ethiopia's industrial plans have a long-term perspective, include ambitious targets and aim at deep institutional reforms inspired by the East Asian development experience. These strategies view the private sector as the engine of growth, highlight the importance of international actors and stress the leadership role of the state to enhance the performance and productive capabilities of the private sector.

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Similar to the East Asian experience, the plans have a strong export focus. However, they also differ in some crucial ways: they concentrate on strategic foreign direct investment (FDI) and there is a clear focus on linking agriculture and the industrial sector. Through the integration of exports, FDI and linkages to agriculture, they pursue an integrated value-chain approach. By placing the Climate Resilient Green Economy Strategy at the core of its future growth model, Ethiopia is attempting to mainstream a green industrialisation agenda into its industrial policy and practices.

The textile and apparel sector has direct links to agriculture through cotton production, is labour-intensive and relatively low-tech, and has large export potential. By picking this sector, Ethiopia follows many developed countries and newly industrialised economies, where the textile and apparel sector was central in the industrialisation process (Dickerson 1999). Given its low entry barriers (low fixed costs and relatively simple technology) and its labour-intensive nature, the apparel sector absorbs large numbers of unskilled and mostly female workers. It provides upgrading opportunities into higher value-added activities within and across sectors, most importantly to textiles (Staritz 2011; Staritz and Morris 2015). However its defining characteristics also mean that it is very globally competitive, leaving many suppliers with limited leverage and challenges in ensuring longer-term development benefits.

In this chapter, we first provide an overview of Ethiopia's apparel export sector. We then discuss how the sector's integration into global value chains (GVCs) is different from most other apparel exporters in sub-Saharan Africa, focusing on the diverse types of ownership therein, including foreign and locally owned firms, and the importance of a proactive industrial policy. This leads to an assessment of upgrading and localisation processes. We conclude by summarising the major achievements of developing the apparel export sector in Ethiopia, and also point to challenges and shortcomings. For an earlier publication, we (2016) conducted interviews with 21 apparel and textile firms and eight interviews with relevant institutions from the public and private sectors in Ethiopia in November 2015. This information and data is updated from more recent field research, presented in Whitfield and Staritz (2019). The empirical information presented here is based on these research trips, unless otherwise indicated.

2 Development of the Apparel Export Sector in Ethiopia

Ethiopia's textile and apparel sector took off after 2010. Data provided by the Textile Industry Development Institute of Ethiopia (TIDI 2017), complemented by our own interviews and updated with data from Whitfield and Staritz (2019), shows that there were 99 textile and apparel firms in 2017, including 23 spinning and weaving/knitting mills, 14 vertically integrated textile and apparel firms, and 62 apparel firms. This is inclusive of all firms that had set up operations in industrial parks by the end of 2017, even if not yet exporting. The sector had 55,076 direct employees in 2016, increasing from around 48,000 in 2014. Including accessories, ginning and packaging, the sector employed 57,432 workers. These employment figures, along

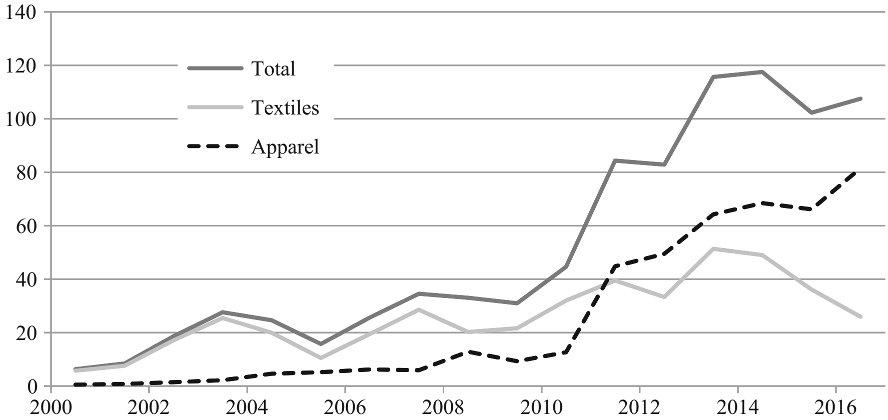

Fig. 1 Ethiopia's textile and apparel exports, in USD million. Source: Data obtained from the UN international trade statistics database. Note: Apparel represents HS92 61+62. Textile represents HS92 50-60+63. Exports represent partners' imports

with the export ones discussed below, are set to increase significantly, as firms in new apparel-specific industrial parks become fully operational. Ethiopia's apparel exports rose from USD 1 million in the middle of the first decade of this century to USD 12 million in 2010, and then jumped dramatically to USD 82 million in 2016 (as shown by Fig. 1). Textile exports were more important than apparel ones until 2010, accounting for USD 23 million in that year. They also rose to USD 49 million in 2014 but fell afterwards, accounting for USD 26 million in 2016. By 2016, textile and apparel exports together accounted for USD 108 million. Combined exports accounted for 19% of total manufacturing ones and 4% of all exports in that year.

End export markets are very concentrated, but this has declined in recent years. The major end markets for Ethiopian apparel exports are the EU-15 (the 15 pre-2004 member countries of the European Union), with a share of 48% of total such exports in 2016—declining from a previous 73% thereof. The United States accounted only for around 18% of these in 2014, but this increased to 42% in 2016. This is due to the rise of transnational producers, with their GVC networks. Textile exports went primarily to Turkey (44%) and the EU-15 (32%). The growth of textile exports until 2013 was primarily related to Turkey accounting for more than half of them. In contrast the share of the EU-15, which historically accounted for more than 90% of textile exports, has decreased to around one-third. However textile exports declined after 2013, which is explained by the closure of several Turkish textile firms.

The rapid rise of the sector and particularly of exports is the result of a number of factors, including preferential market access, changes in buyers' sourcing strategies, local context factors and the active industrial policies of the Ethiopian government. Duty-free access to the EU and US through the African Growth and Opportunity Act

(AGOA) and Everything but Arms (EBA) are key drivers of this export growth.[1] If these preferential trade agreements disappeared, industrial expansion in the sector would collapse (certainly at this early stage). Ethiopia has developed an AGOA strategy and has recently launched an AGOA Centre within the Ministry of Trade, with a mandate to help Ethiopian firms take advantage of this agreement. Ethiopia has also duty-free access to 16 other nations, including Australia, Belarus, Canada, China, India, Japan, Norway, New Zealand, Russia, Switzerland and Turkey (UNCTAD 2015), and is a member of the Common Market for Eastern and Southern Africa.

Buyers from the EU and US, searching for new low-cost production sites in sub-Saharan Africa so as not to concentrate all their activities in Asia, have actively visited Ethiopia to screen potential suppliers or 'convince' their core ones to invest in or source from Ethiopia. Although Ethiopia's labour costs are very low, when aggregated European buyers claim prices are still not comparable to Bangladesh. European buyers also prefer full-package suppliers and many firms in Ethiopia can only fulfil cut, make and trim (CMT) export orders. For buyers from the US, prices are more advantageous—as Asian supplier countries have to pay tariffs of up to 32% that are especially high for synthetic apparel products such as sportswear and workwear, according to data obtained from the UNCTAD Trade Analysis Information System.

The fact that Ethiopia is supposedly politically stable and also personally and socially safe differentiates it from many other sub-Saharan African production sites (recent widespread protests make this questionable though), making a big difference to foreign owners or managers of firms locating there. Further, Ethiopia offers a large pool of trainable labour at one of the lowest costs worldwide. Wages are lower than in any other sub-Saharan African apparel-exporting country. Further, electricity costs at around USD 0.027–0.047 a kilowatt-hour are very competitive compared with Bangladesh (0.05), Cambodia (0.16–0.21) and China (0.11) and also one of the lowest in sub-Saharan Africa (World Bank 2011). Energy is, moreover, environmentally friendly and carbon neutral, as it is largely supplied by hydroelectric plants. Water costs are also very low. What is more, Ethiopia grows some of the world's finest cotton and has a spinning, weaving and knitting history. The cotton sector is, however, underdeveloped and production does not meet textile demand.

[1] AGOA provides quota- and duty-free access to the market of the US for a large number of goods from sub-Saharan Africa. EBA, meanwhile, has been in force since 2001, and allows for quota- and duty-free imports—with the exception of armaments—to the EU from all least developed countries.

3 What Differentiates Ethiopia' Integration into Apparel GVCs?

The key country-condition differentiating Ethiopia from other least developed countries, especially in sub-Saharan Africa, is the pursuit of a proactive industrial policy with a clear vision and commitment. As noted the textile and apparel sector is one of the top priority sectors in Ethiopia's development plans, receiving special attention regarding resource allocation (foreign exchange, land and loans) and benefitting from sector-specific institutes supporting skill and technology development as well as other incentives—particularly ones linked to export. What makes Ethiopia interesting from both an academic and a policy perspective is that many of its business and industrial policy dynamics are different from the more established sub-Saharan African exporting economies.

Diversified types of firm and ownership structure exist in the sector. These are state-owned enterprises, firms linked to the dominant parties, private locally owned ones, Ethiopian diaspora-owned ventures and a variety of foreign-owned businesses. Ethiopia has a history of state-owned enterprises in apparel but particularly in textile production. These firms were privatised starting in the first years of the new century. Two textile mills could only be sold in 2017 to the Tiret Corporation, the endowment-owned firm linked to the Amhara National Democratic Movement—a political party that is one of four members of the ruling Ethiopian People's Revolutionary Democratic Front. These two mills produce woven fabric and made-up textiles, largely for the domestic market but with around 30% for export. There is one other integrated textile and apparel firm that exports a share of its made-up textiles and apparel products. It is owned by Effort Investments, the endowment-owned firm linked to the Tigrayan People's Liberation Front—which also forms part of the ruling front, and claimed 499 out of 547 seats in the last legislative elections.

Locally owned private ones account for nearly half of the firms, but are much smaller in size compared to the three local ones among public domain and foreign firms—particularly new FDIs in the industrial parks. A vertically integrated firm that is a sister company of the MIDROC Group, owned by the Ethiopian-Saudi entrepreneur Mohammed Hussein al-Amoudi, constitutes an exception in this regard. The majority of local firms, however, focus only on apparel production for the domestic market, with only 14 local firms—including the three discussed in the previous paragraph and the MIDROC Group-related firm—producing also for the export market (Whitfield and Staritz 2019). Among the owners are Ethiopian diaspora investors who emigrated during the Derg regime (1974–1987) but who have now returned home, attracted by business opportunities, AGOA preferential market access and supportive government policies. Diaspora investors have international business experience, contacts abroad, understand foreign cultures and speak the same language as foreign buyers. Hence, they are able to make value-chain connections more easily. As one diaspora owner-manager said during an interview with us, 'we know how to walk the talk with US customers'.

There are around 50 foreign-owned firms in Ethiopia. In terms of number of firms, China is the largest investor, followed by India, Turkey, South Korea, Sri Lanka and the EU. Given the expansion of industrial parks, most new investors are transnational producers with decision-making capacities situated at the headquarters abroad—but there is still an important share of FDI that seems to have more local decision-making power, particularly compared to other sub-Saharan apparel-exporting countries. The first FDI wave involved Turkish investment from around 2008/2009, as a result of close diplomatic relations between the two governments and, from 2010 onwards, also due to Turkish firms' search for new low-cost locations as an alternative to North Africa in the context of the Arab Spring. Investment was largely in textile mills producing fabric and yarn, with the exception of one large vertically integrated firm that also produced apparel and became the by far largest apparel exporter. However, by 2017, four Turkish textile and apparel firms had closed down, as they could not pay back their loans to the Ethiopian government.

The more recent wave of transnational apparel producers (from India, South Korea, Taiwan and Sri Lanka) are attracted by low costs of electricity, labour and water, high public security and political stability, duty-free access to the EU and US, government incentives for FDI and particularly the new industrial parks—with Bole Lemi, located on the eastern outskirts of Addis Ababa, being the first. They generally have globally dispersed plants, focus on export and follow the typical production set-up of transnational producers, producing low-value-added, large-run products in Ethiopia on a CMT basis, with head offices and often also textile mills abroad pursuing the higher value-added activities. However, several have plans to also produce more complex products in Ethiopia and to build backward textile linkages. Hence, some of these firms have the potential to be more locally embedded and diverge from governance structures and firm set-ups typical for transnational producers (Morris et al. 2016). Chinese firms are small compared to the other FDI ones. Some are located in the Eastern Industrial Park, a private one developed by Chinese investors, and some only concentrate on the domestic Ethiopian market.

The large share of local firms (even though most are not exporters), the prevalence of vertically integrated firms at this early stage of sectoral industrialisation as well as potentially more embedded FDI firms distinguish Ethiopia in sub-Saharan Africa. FDI in that region—apart from Mauritius and partly Madagascar—is to a large extent only involved in export-oriented apparel assembly (Morris et al. 2016). In Ethiopia, the sector covers part of the whole value chain, including spinning, weaving, knitting and sewing, as well as cotton farming and ginning—but linkages to apparel exports remain limited. The other feature distinguishing Ethiopia is the role of government, driven by a clear vision and high commitment from political leaders, embodied in economic policies steering a specific form of export-oriented industrial development. Notwithstanding capacity problems, the government has a clear aim to drive industrialisation through an export-oriented strategy, focussing on priority sectors, foreign and domestic investment attraction, and capability and skill development. It also attempts to create a conductive environment for the development of the private sector, investing in education (primary, technical, vocational training and tertiary), infrastructure (particularly power generation and transport) and health. Industrial policies also have a selective character, providing direct support and influencing resource allocation towards priority sectors. With the exception of Mauritius, which pursues a clear development strategy focussing on upgrading, the other sub-Saharan African apparel-exporting countries do not pay sufficient attention to learning, linkages, local value-addition and upgrading (Morris et al. 2016).

Ethiopian recent industrial policy for the textile and apparel sector encompasses seven key strategies to drive export-oriented industrialisation:[2]

1. Using bank loans and foreign exchange to push exports: The Ethiopian government engages in selective policies that strongly influence resource allocation to priority sectors and to export. The regulation of the banking sector and foreign exchange flows play an important role in influencing resource allocation. The two state-owned banks, the Commercial Bank of Ethiopia and the Development Bank of Ethiopia, provide most of the credit to firms in priority industries under favourable conditions. Foreign investors are not allowed in the banking sector as long as national banks have not become competitive enough to compete with them. Through strongly controlling access to foreign exchange and giving favour to export firms, the government further influences resource allocation. The government uses this to reward export firms and to punish those only serving the domestic market.

   This policy is supplemented by general export-promotion initiatives such as the establishment of a foreign exchange retention scheme as well as voucher and duty-drawback ones and bonded warehouses, to facilitate the importing of inputs for the production of export products. Export firms are allowed the duty-free import of inputs as long as they are needed for the manufacture of export products and of equipment, machinery and spare parts. Further, they have access to a credit-guarantee scheme to avoid problems of working capital and the government has reduced the costs for opening letters of credit. Firms in priority sectors also receive tax holidays on corporate income tax from 1 to 9 years and on income tax from 2 to 7 years, depending on the export share (minimum 60%) and location of the firm (the closer to Addis Ababa, the fewer years), access to serviced industrial parks as well as support through sector-specific institutes (Gebreeyesus 2013).

   What is more there is a clear distinction in policy documents between 'rent-seeking' and 'developmental' industrialists, and an emphasis on the need to curtail the former and promote the latter. The Ethiopian government seems to have a deep-seated mistrust towards traders as rent-seeking middlepersons in contrast to as producers (Bräutigam et al. 2015). For example, foreign investors are not allowed to invest in trading-related activities. Some trading activities such as those performed by agents are, however, crucial for gaining access to and

[2] Whitfield and Staritz (2019) provide an overview of the development of textile and apparel sector-specific industrial policy in Ethiopia.

building trust with foreign buyers. This is less of an issue for large foreign firms, which have access to buyers through their head offices abroad but important for smaller foreign firms—and particularly local ones.

2. Use of land and serviced industrial parks to attract investment: In Ethiopia, land can only be leased from local and regional authorities for up to 99 years. Hence, access is important. Firms in priority export sectors gain access to land at favourable lease rates. More recently, the government has developed industrial parks targeting specific sectors. These provide not only land and factory shells but also communication/telecommunication services, electricity and water. They are particularly important in tackling infrastructure challenges. The first industrial park established was Bole Lemi, with 20 relatively large prefabricated factory sheds. It was fully booked out even before construction was completed. Factory rental has a renewable 10-year term, with a very favourable rental charge of USD 1 per square metre and month in the first 5 years and USD 1.25 per square metre and month in the remaining five. Outside of Addis Ababa, the most developed industrial park is Hawassa, where a group of foreign manufacturers largely from the apparel sector is commencing operations. Further industrial parks planned and developed are Adama, Bahir Dar, Dire Dawa, Jimma, Kombolcha and Mekele.

   There are more FDI firms wanting to invest in or expand into industrial parks than the government can accommodate. Consequently, some firms have started to build such parks on their own. Parks have been allocated to foreign investors on a country-cluster basis, and have been granted to Chinese, Egyptian, Indian and Turkish investors. The aforementioned Eastern Industrial Park (located just outside of Addis Ababa) is the first such one, developed by a Chinese private firm with support from its national government in 2007. It contains, however, only few textile and apparel-related firms. The other country-based industrial parks are only at an early inception stage currently.

3. Strategic FDI attraction and GVC participation: Policy in Ethiopia emphasises GVC participation and attracting foreign lead firms as critical levers to access global markets. FDI is a key channel to acquire capital, skills and technology. Investors are actively approached. FDI attraction involves high-level bureaucrats and politicians, with prime ministers personally visiting priority countries to talk to potential investors. The focus is twofold: persuading buyers from the EU and US to source from Ethiopia, and attracting large first-tier suppliers from apparel-producing countries to set up plants in Ethiopia. The strategy is to bring in key buyers and suppliers as first movers, thereby increasing the country's profile on the international-sourcing landscape.

   The strategic approach to FDI attraction requires investors to ensure an export focus and vertical integration or linkages. Foreign firms are required to export 80% of production to secure incentives and political support. Firms not able to reach their export targets lose this support. Moreover, linkage policies do not confuse localisation with indigenisation. Textile firms are pushed to expand into apparel to increase local value-addition and apparel firms to invest in textiles, particularly if they have mills abroad. Textile firms are also pressed to sell fabric and yarn to local apparel manufacturers. The Ethiopian government is clear that only attracting FDI is not sustainable for building competitive industries. Hence, it is complemented by aiming to secure transfers of skills and technology from foreign to local firms. The aim is to assist Ethiopian firms to develop their own capacity to break into international markets. Policy documents differentiate between attracting large-scale foreign investments and focussing on domestic investors to build medium- and small-scale capabilities. In other words, they try to avoid the usual large-firm bias that can be seen in the other main sub-Saharan African apparel-exporting countries. However, backward and subcontracting linkages are still very limited.

4. Focus on productivity and skills through specific institutes: Productivity and skills are accorded major importance, and priority sectors are strengthened through the establishment of sector-specific capacity-building and technology-support institutes. TIDI has been established to support, coordinate and guide the textile and apparel sector. It implements a capacity-building programme to enhance competitiveness, provide consultancy, investment promotion, marketing services, research and training (Gebreeyesus 2013). In addition, largely through TIDI (2015), the government provides capacity-building and export-facilitation activities such as trade fairs, benchmarking studies and investment support. However TIDI seems unable to operate as a one-stop shop for firms, which still have to apply to various government departments and ministries for permissions and permits (Bräutigam et al. 2015).

   The government has strongly invested in education and training. Technical and vocational education and training has been expanded with support from the German Corporation for International Cooperation, new universities have been built with a focus on science and technology, and sector-specific institutes such the Textile and Apparel Institute at TIDI have been set up. The Ethiopian Institute of Textile and Fashion Technology (EiTEX) at Bahir Dar University produces graduates in garment engineering, textile engineering and fashion design, who occupy most top-management positions in the textile and apparel firms. The government supports the recruitment of foreign supervisory and managerial personnel in local firms through a matching grant scheme, facilitates access to temporary work permits for technical personnel within foreign firms, assists export ones in hiring expatriate experts and organises short-term training seminars for supervisors and managers too.

5. Exporting alongside domestic market protection: All firms in the sector are strongly encouraged to export. The National Export Coordination Committee, chaired by the prime minister, meets monthly to set and monitor export targets. It aims to improve coordination among government institutions (Oqubay 2015; Gebreeyesus 2013). Firms have to submit yearly export plans, demonstrate a commitment to export and meet certain export targets to which incentives are coupled. High import protection in the sector is intended to facilitate export-oriented industrialisation, and is subordinated to export. Close to two-thirds of tariff lines are protected by the maximum tariff of 35% plus an excise duty of 10%, a surcharge of 10% and a value-added tax of 15%—with the latter also applying to local inputs. However, exemptions allow for the duty-free

importation of inputs used for export products. Ethiopia has also prohibited the import of second-hand textile and apparel items, which have proven to be a major problem in neighbouring East African countries (Office of Textiles and Apparel 2016).

Protection does, however, incentivise firms to sell to the domestic market, since it offers higher profits, is less demanding in terms of standards than export ones and does not require investments in compliance and upgrading either. As such the majority of local firms only supply the domestic market, and those that export also straddle both that market and the domestic one too. Earlier FDI firms also supplied the domestic market, but the new wave of FDI based in industrial parks is focussed specifically on export. Hence, the government's dualistic policy of combining export focus and import substitution has helped to subsidise the process of becoming competitive for local firms—but, at the same time, it has also reduced incentives to become competitive and to upgrade. Ultimately, the Ethiopian government tries to operate with both a carrot and a stick to firms' intent on primarily hiding behind protective domestic barriers. Still, it has faced challenges to implement this approach.

6. Development of value-chain linkages between apparel, textile and cotton: The Ethiopian government operates a dual import strategy to develop a well-integrated industry and avoid import dependency. It provides facilities for exporters to import duty-free inputs, improve trade logistics and rail transport as well as to increase local value-addition through backward and forward linkages. The latter requires particularly improving capacity, quality and price in the textile sector, as the existing local textile mills cannot be used for export production. Hence, the government concentrates on attracting new investors to build textile capacity. A similar strategy is followed for accessories and packaging inputs within industrial parks. Even though Ethiopia has significant potential in terms of cotton production, gaining access to cotton supply continues to be a challenge for textile mills. The recent transfer of responsibility of cotton development to TIDI provides a chance to deal with the entire value chain in a coordinated manner. The government is working towards expanding cultivation, improving production, raising quality and attracting domestic and foreign investors for cotton.
7. A green industrialisation agenda: The Ethiopian government is attempting to mainstream a green industrialisation agenda into the country's industrial policy and practices, through incorporating its Climate Resilient Green Economy Strategy. Another key policy document, 'the Green Economy Plan', is based on four pillars—the last one being leapfrogging to modern and energy-efficient technologies in buildings, industrial sectors and transport. It aims to implement innovative measures to bring a green-growth agenda to three key sectors: cement, leather and textile/apparel. At the core is a major focus on renewable energy—geothermal, hydropower and wind—to cut carbon emissions. Central to this is ensuring that the new industrial parks use LED and intelligent lighting systems, renewable energy sources, natural ventilation and lighting, recycled water and renewable resources, develop green areas and reflect upgraded environmental standards and

inspection systems. The government hopes to leapfrog global competition by using the parks' green identity to provide a competitive advantage over Asian firms (Oqubay 2015).

4 Upgrading and Localisation

There have been functional, process- and product-upgrading initiatives in Ethiopia's apparel export sector. Simultaneously, there are also localisation processes in terms of local linkages and skill development—ones that are, however, only at an early stage currently. With regard to process upgrading, the technologies used in the industry—and, hence, productivity—vary considerably. Local firms, particularly older ones, tend to use basic and medium-level technology. Newer locally owned apparel firms usually have better technology. In earlier waves, foreign-owned firms made use of the government allowance to relocate their whole factory from abroad—including second-hand machinery. Most foreign-owned firms in the industrial parks have invested in the latest technology. For local firms, limited capacity utilisation, smaller-scale operations, poorly trained workers, weak intra-firm organisation and low-quality raw materials are major reasons for limited productivity (Gebre Egziabher 2012; Van der Pols 2015).

Yet, a World Bank study indicates that in a few well-managed firms, labour productivity is nearly comparable to levels in China and Vietnam (Dinh et al. 2012). This shows that if proper work layout and training is put in place, the average productivity of labour can be improved significantly—especially for basic apparel products. An issue impacting on productivity is labour turnover in the context of developing an industrial working class, and workers shifting between firms and sectors in search of higher wages.

Product upgrading has occurred only to a limited extent, as exports are concentrated in basic apparel products; several firms aim to upgrade the types of product to more complex ones, however. A South Korean firm in an industrial park produces quite complex, high-quality products for outwear brand buyers, but at the cost of high productivity. Locally owned firms tend to be focussed on basic knitwear products for the EU market, and on relatively standard sport and workwear products exported to the US. The current focus on basic products is also confirmed by export data: Ethiopian apparel export products are mostly basic, relatively low-value items, and show a high degree of concentration. Key export products include jerseys, knit t-shirts and trousers. Export product concentration is relatively high, as compared to Asian and other sub-Saharan African countries. The top-five products accounted for almost 70% of total apparel exports in 2014. With regard to the two key end markets, product concentration is high in both—with the top-ten products accounting for 92% in the EU-15 and for 88% in the US respectively. All of the top-ten products for the EU-15 in 2014 were knitwear items, while there were four woven items among the top-ten US ones, according to data obtained from the UN International Trade Statistics Database.

The majority of export firms are CMT, but there is a wide range in respect of future forms of adaptation—indicating a potential for functional upgrading. Most foreign transnational firms are undertaking CMT in Ethiopia, with their head offices abroad conducting higher value functions. But some, particularly the new wave of Indian investors, have a more flexible division of labour and are also planning to bring textile production to Ethiopia. Other foreign firms have offices abroad but already pursue a more flexible division of labour, with Ethiopia being their only foreign production location. Local export firms are CMT, or full package—'free on board' (FOB).[3] For some, CMT is the preferred option because FOB is too risky in the current business context in Ethiopia. Hence, they prefer buyers in charge of input sourcing, design and specifications. For local FOB firms, a challenge is that competitive fabric inputs are often not available locally. They have to be imported. Few local firms provide their own textiles for apparel exports. Buyers increasingly want to work with full-package suppliers; upgrading to FOB will be important, then. Most locally owned firms do full-package production or even original design manufacturing for the domestic market, meaning that they provide the design themselves; some firms also have own-brand products in the domestic market too.

While the sector exhibits some important characteristics of integrated value chains, this is still at a very early stage with regard to backward and subcontracting linkages among export firms. There are minimal linkages between foreign and local firms in the export business. There are, however, more linkages between firms supplying the domestic market and local apparel ones sourcing fabric from domestic mills. Foreign apparel firms generally do not source from local textile mills in Ethiopia. They prefer using their own global textile mills or suppliers nominated by their buyers. Subcontracting relationships between foreign and local firms are also very limited. Due to a lack of experience and the sole focus on domestic sales, many fabric qualities are based on carded cotton, have an inferior quality and do not comply with international standards on chemical use, restricted substances and shrinkage. Hence, local fabric can only be used to produce made-up textiles, uniforms and workwear for the domestic market (Van der Pols 2015). There is also a mismatch between knitted and woven fabric. The former state-owned textile mills are all in woven manufacturing. Exports are, however, concentrated on knit apparel products. Thus, apparel exporters are forced to import accessories and fabric to meet international standards.

Given Ethiopia's very recent development of export-oriented manufacturing workers from the countryside have little experience in industrial employment, and basic labour skills are absent. All firms interviewed mentioned this, but also the high potential of Ethiopian workers to develop their skills—not only at the operator but also management and technician levels. Some FDI firms pointed out that they were

[3]Under CMT, buyers are in charge of input sourcing and financing as well as the suppliers get a fee for producing the apparel product. Under full package, or FOB, suppliers produce to the design specifications of the respective buyers—but the former are in charge of sourcing and financing inputs, most importantly textiles. Suppliers are also responsible up to the point of loading onto export carriers.

positively surprised by the good trainability of local workers. Most are trained on the job, as there are limited high-quality training institutes. Skilled labour at higher levels is increasing as a result of fast-growing education and emerging training institutions. Managers and technical graduates are particularly recruited from the aforementioned EiTEX. In foreign-owned firms, there is a mix of expatriate and local workers in management and technical positions. Notwithstanding the limited development of the export-oriented industry, the share of expatriates is, however, low compared to other apparel-exporting countries (Morris et al. 2016). In most firms, the objective is also to train locals and replace expats. Local export firms can access matching grant and other government support schemes to use foreign experts for a certain period of time.

5 Conclusion

In summary, the Ethiopian government needs to address a number of challenges to make the apparel export sector more internationally competitive and to improve its developmental outcomes:

- Access to local inputs is a major impediment, and contradicts the integrated value-chain approach of the Ethiopian industrial development strategy.
- The challenges in offering FOB production, larger volumes and product diversity restrict locally owned firms with regard to upgrading processes and the creation of stable buyer relations.
- Infrastructure deficits discount the country's wage advantage and—together with lead-time issues internal to the firms—prevent companies from entering the higher-value, time-sensitive segments of the export market.
- Basic skills gaps are being met through a variety of interventions, but productivity is a more crucial issue related to higher production, managerial and technical skills and labour turnover; it particularly affects more complex apparel products.
- Social upgrading, especially in terms of working conditions, is another issue that merits more attention, because it constitutes a concern that is not addressed as strategically as environmental upgrading is.

In many senses, what has been happening in the Ethiopian textile and apparel sector is exceptional for a low-income country. Despite starting from a very low base, Ethiopia has seen impressive progress through an active export-driven industrial policy, based on understanding the strategic importance of GVCs and of linkages between end markets, lead firms, large foreign producers and knowledge transfer to locally-owned firms to build domestic industrial and export capabilities. The government has developed a holistic industrial policy to promote industrialisation through developing the manufacturing industry, with textile and apparel being among the key priority sectors. It has used state levers to provide support for exporters, without opening up the domestic market to foreign imports and FDI firms—leaving it to local firms instead. The government has strategically attracted buyers to come to Ethiopia and sought FDI from major apparel-producing countries. Sector-based, serviced industrial parks with targeted incentives for export firms are a central mechanism to attract investment. The government has created sector-focussed institutions that concentrate on skills and technological capacity-building for targeting entrepreneurs and workers. It furthermore tries to encourage integration between textile and apparel production and the cotton sector, with the aim of creating domestically integrated value chains.

Thus far, Ethiopia has shown some remarkable success in creating an apparel-exporting sector. The growth rates of exports over the past 5 years are impressive. The goals to force the pace of this are admirable. The sector has also experienced upgrading initiatives regarding functions, processes and products. They remain focussed on new foreign firms, though. Localisation processes in terms of local linkages and skill development exist but are at an early stage. The government moreover pursues an active approach in terms of environmental sustainability; this is, however, in contrast to social sustainability. Providing Ethiopia with a niche as a green textile and apparel production location is seen as a competitive edge, and a way to leapfrog the global position of Asian and other sub-Saharan African producers.

However the field research that we carried out in Ethiopia has revealed that challenges remain, particularly in terms of limited local linkages of apparel exporters, the focus on CMT production, long lead times, low production and product flexibility, skills issues as well as insufficient infrastructure. Most worryingly, backward linkages from apparel to textile and cotton are quite limited, even though an integrated value-chain approach through ADLI has been a main feature of the Ethiopian development strategy. Also, linkages between foreign and local firms remain limited. Hence, despite important progress, it remains to be seen how sustainable the process will be—and to what extent the policy objectives will be realised. The jury is still out on whether the ambitious policy goals and initial successful performance will achieve the envisaged industrialisation targets in the long run. Yet, one thing is for certain: this is a production location that differs markedly from other apparel producers in sub-Saharan Africa.

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