

EVENT REPORT

ROUND TABLE MEETING – ETHIOPIA: NEW TEXTILE SUPPLY BASE FOR THE WORLD

Partnership for Investment and Growth in Africa (PIGA)

19 November 2019

African Union headquarters, Addis Ababa, Ethiopia

TABLE OF CONTENTS

I.	KEY INFORMATION.....	3
II.	OPENING SESSION	3
III.	ETHIOPIA’S TEXTILE AND APPAREL INDUSTRY	5
IV.	Panel #1: ETHIOPIA’S ADVANTAGE IN THE GLOBAL TEXTILE VALUE CHAIN	6
V.	Panel #2: HOW TO ENSURE SUSTAINABLE INVESTMENT IN ETHIOPIA’S TEXTILE SECTOR.....	8
VI.	BUSINESS MEETINGS.....	10
VII.	PICTURES OF THE EVENT	11
VIII.	ANNEXES	11

I. KEY INFORMATION

Objective of the event:

Discuss Ethiopia's potential to become one of the main textile and apparel production hubs in the world.

Co-organizers:

- Ethiopian Investment Commission (EIC)
- China Chamber of Commerce for Import and Export of Textiles and Apparel (CCCT)

Number of participants: approximately 100 (including approximately 30 women)

Types of participants:

- International buyers;
- Potential Chinese investors;
- Chinese-owned companies based in Ethiopia;
- Representatives of Ethiopian institutions (EIC; Ethiopian Textile Industry Development Institute (ETIDI); Ethiopian Textile and Garment Manufacturers Association; Industrial Park Development Corporation (IPDC));
- Representatives of international organizations (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ); Department for International Development (DFID) of the Government of the United Kingdom of Great Britain and Northern Ireland in Ethiopia);
- Representatives of business organizations (Control Risks; Mesfin Tafesse & Associates Law Office; Eastern Industrial Park).

Documents attached to this report:

- Event programme;
- Speeches and presentations of opening speaker and speakers of the first session on "The textile and apparel industry in Ethiopia".

II. OPENING SESSION

Speakers:

Mr. Temesgen Tilahun, Deputy Commissioner of the Ethiopian Investment Commission (EIC)

H.E. Mr. Tan Jian, Ambassador of China to Ethiopia

Mr. Zhang Xi'an, Vice President of the China Chamber of Commerce for Import and Export of Textiles and Apparel (CCCT)

Mr. Mark George, team leader, Economic Development Team, Department for International Development (DFID) of the Government of the United Kingdom of Great Britain and Northern Ireland in Ethiopia

Ms. Dorothy Ng'ambi Tembo, Deputy Executive Director of the International Trade Centre (ITC)

Full speeches are available in the annexes; key points are summarized below:

Mr. Temesgen Tilahun:

- Foreign direct investment (FDI) is key for the development strategy of developing countries, like Ethiopia, wanting to intensify their industrialization process, but it comes with intensified use of natural resources and movements of population from rural to

urban areas and the need for rapid urbanization. Making investment and development sustainable is, therefore, essential.

- **Ethiopia is not just interested in the volume of investment coming into the country, but in responsible and sustainable investment.** He defines this as investment that generates inclusive growth and protects both the environment and social fabric.
- **Ethiopia has enshrined sustainability in its constitution** within Articles 43 and 44, asserting the rights of Ethiopian citizens to a “clean and healthy environment”.
- Ethiopia has put in place the [Ethiopia’s Climate Resilient Green Economy \(CRGE\) Strategy](#), implemented along the current five-year development plan, the Growth and Transformation Plan II (GTP II), to identify green economy opportunities that help the country achieve high growth while keeping greenhouse gas emissions low.
- **The Ethiopian Environmental Protection Authority (EPA)** supports investors to ensure that they comply with national environmental regulations and investors can settle in state-of-the-art industrial parks meeting best practices in terms of environmental protection. Hawassa Industrial Park is one example.

Mr. Tan Jian:

- The textile and apparel (T&A) industry is very labour intensive and a good stepping stone for developing countries to join the global supply chain.
- T&A can promote the development of other sectors like animal husbandry (raising sheep or silkworms) or agriculture (cotton cultivation).
- **The Ethiopian Government should send stronger messages on stability and ease of doing business and reinforce those.**
- The government should **focus on addressing the concerns of existing investors, because they will talk to other potential investors** about the business environment and will influence their investment projects.
- **China’s total direct investment in Africa up to the end of 2018 reached \$46 billion and Ethiopia is one of the top four destinations** for investment in Africa. **China is Ethiopia’s largest source of FDI** and Chinese investments amount to approximately 110 billion birr across 1,348 projects, including 172 in the textile industry. This represents approximately 60% of all FDI into Ethiopia.
- Several Chinese textile companies have already set up factories, such as Wuxi JP Textile Corporation, Wuxi No. 1 Cotton Ethiopia Textile, Sunshine Ethiopia Wool Textile, Antex Textile Group, and Kingdom Linen, and they are taking corporate social responsibility seriously.
- **Cooperation, partnerships and dialogue should be strengthened** among all stakeholders (governments, businesses, buyers and sellers, etc.) to help Ethiopia become the new textile supply base for the world.

Mr. Zhang Xi’an:

- Since China’s accession to the World Trade Organization at the end of 2001, the textile and garment industry has become one of the most beneficial industries, with sustained high-speed export growth. At present, China’s manufacturing industry has accelerated its step to go abroad. Ethiopia, as an important trade and investment partner of China, has great potential for future trade and investment opportunities in the textile and garment sector.
- Mr. Zhang witnessed the great progress made in the development of the industry in recent years and believes Ethiopia can become an important manufacturing hub.

Mr. Mark George:

- **More than 300,000 new jobs could be created in the textile and apparel (T&A) sector**, with approximately 2 million new entrants to the labour market each year being fair and decent jobs.
- So far, the sector has attracted approximately 65 operations and created 100,000 new jobs.

Mrs. Dorothy Tembo:

- China is important in the development of African countries, including Ethiopia, where **Chinese FDI make up to 60% of overall FDI in Ethiopia since the last two decades**.
- There is opportunity for Ethiopia to attract a very significant number of the 85 million to 100 million low-cost labour-intensive manufacturing jobs that China is expected to transform into higher value-added jobs by 2030.
- Along with the large labour pool, market opportunities, preferential trade agreements with the European Union (EU) and the USA, low energy cost and strategic location, Ethiopia will benefit from the African Continental Free Trade Agreement (AfCFTA), which will open up even more market opportunities for incoming investors.

III. ETHIOPIA'S TEXTILE AND APPAREL INDUSTRY

The objective of this session is for participants to gain a better understanding of the considerations of international buyers on the Ethiopian textile production sector and potential and how it fits into the global market.

Speakers:

Mr. Sileshi Lemma, Director General of the Ethiopian Textile Industry Development Institute (ETIDI)

Mr. Goshu Negash, President of the Ethiopian Textile and Garment Manufacturers Association (ETGAMA)

Ms. Elisaveta Kostova, Deputy Project Manager of the Sustainable Textile Programme Ethiopia, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

Full speeches and presentations are available in the annexes; key points are summarized below:

Mr. Sileshi Lemma (ETIDI):

- **The T&G industry has traditionally been a stepping stone for industrialization** and this industry has continuously relocated itself to low-cost locations for sustainable competitive advantage.
- It is structured into consumption and production clusters and Ethiopia is well positioned to do T&A business competitively: with the second most populous population in Africa (more than 100 million), low energy cost, duty-free access to major markets, the untapped potential for cotton and natural fibres production, favourable policies and incentives.
- **The development of the T&A sector is a priority for the Ethiopian Government**, which has set up the Ethiopian Textile Industry Development Institute (ETIDI) to further develop the sector.
- **The totality of the cotton produced locally is now absorbed by the local T&A industry, but there is a huge untapped production potential**. A pilot of BT cotton cultivation has now started, with 150 hectares under cultivation, and the government is highly encouraging investments in the cultivation and processing of different natural fibres (silk, linen, bamboo and wool, etc.).

- Great progress has been made in terms of production capacity of ginned cotton (from 283 tons per day in 2011 to 763 tons per day in 2018), cotton yarn (from 118 tons per day to 300 tons per day) and woven fabrics.
- **Today, 280 companies of medium and large size, compared with fewer than 75 companies 10 years ago, are established in the T&A sector.** Export earnings of \$155 million compared with \$21 million in 2011.
- **The challenge is that most inputs are imported (\$2.5 billion worth) due to a lack of backward and forward linkages in the value chain** (the import tariffs study addresses this problem).
- The commitment of sourcing companies such as H&M, Decathlon, PVH Corporation and The Children's Place is key to the development of the sector.
- Chinese investment has contributed to the growth of the sector through knowledge and technology transfer, closing local companies' capital gap and opening up new markets, and the government is looking forward to working with more Chinese investors and international buyers to further develop the sector.

Mr. Goshu Negash (ETGAMA):

- The T&A sector stagnated for many years, but it has been growing rapidly in recent years due to investments from investors, including from Turkey and China.
- **The CMT (cut, make and trim) purchasing model can only be a stepping stone for the sector's growth.** Indeed, in this model, the supplier keeps the development of new styles and the materials under his control, and outsources the labour-intensive jobs (cut and make; sew and trim; final Quality Control; pack). The value addition is, therefore, very low and this does not contribute to the overall development of the value chain. Indeed, for now, most raw materials and components are imported from abroad.
- **Domestic and foreign investors have a key role to invest in missing parts of the value chain** like raw cotton and man-made fibres, woven and non-woven fabrics, dyes and chemicals, trims and accessories, for Ethiopia to become the textile hub of the African continent.

Mrs. Elisaveta Kostova (GIZ):

- Offered a strengths, weaknesses, opportunities, and threats (SWOT) analysis of Ethiopia's environmental standards, highlighting **weaknesses such as lack of water and energy, low compliance of local firms, usage and disposal of sludge, enforcement of regulation and low-quality environmental impact assessments.**
- Showcased a video with interviews of Ethiopian textile industry workers on the issues they face and the impact working in the T&G sector has on their lives. Several workers outlined areas of improvements such as the need to have longer lunch and restroom breaks, and the need to have varied tasks involving different body positions to avoid physical pain.

IV. **Panel #1: ETHIOPIA'S ADVANTAGE IN THE GLOBAL TEXTILE VALUE CHAIN**

Panellists:

Mr. Arwin Ludiansyah, Country Controller of H&M Ethiopia Production Office

Mr. Neil Hackett, Group MD (Sourcing & Supply Chain) of the Edinburgh Woollen Mill Ltd.

Mr. Anas Tazi, Country Leader Ethiopia, Decathlon

Ms. Emily Kaiser, Director of The Children's Place (TCP) Global Sourcing Department in Greater Africa

Moderator: **Ms. Ingrid Colonna**, Associate Project Officer of PIGA, ITC

Questions included:

- What are the key advantages and challenges for the T&A industry in Ethiopia?
- What is their view on Ethiopia's T&A industry development compared to South-East Asia?
- What advice would they give to local authorities?
- What standards do they implement and how do they partner with their local suppliers for those to meet the standards?
- What programmes do they put in place for skills improvement?
- Can there be a common compliance standard for factories from the brands?

Key points from the discussion are summarized below:

Ms. Emily Kaiser (TCP):

- When selecting suppliers, TCP looks at three aspects: 1) Cost; 2) Responsible compliance of sourcing; 3) Quality and park safety. For the sourcing and quality and safety check, the company uses third-party audits. For responsible compliance of sourcing, TCP partners with Better Works, Social & Labour convergence and Nest.
- TCP found that several vendors are often not perfect to start with, but TCP is willing to solve problems with them and work hand in hand for them to become compliant.

Mr. Anas Tazi (Decathlon):

- Ethiopia's textile industry is at the beginning stage. It cannot be compared with South-East Asian countries or South Asian countries, as those countries started decades ago.
- Decathlon is now in Ethiopia and aiming for a long-term development, evidenced by their office and training efforts.
- Bottlenecks include: high logistics cost; low efficiency; missing linkages in the value chain; underdeveloped banking system.
- Decathlon in Ethiopia imports 100% of their inputs, which presents a challenge for Ethiopia as a sourcing hub, because one of their new key performance indicators (KPIs) is CO₂ impact, which they display in their stores.
- Decathlon's suppliers have been decreasing over the years, and they focus on developing the capacity of their suppliers and have five-year plans with suppliers.

Mr. Arwin Ludiansyah (H&M):

- Ethiopia may be able to develop the sector more quickly than other countries have in the past due to technological advancement and lesson learning.
- The lack of input suppliers affects lead times and sourcing of fabrics locally will depend on cotton becoming sustainability certified.
- Ethiopia has several advantages along with the low-cost labour: 1) Abundant young work force; 2) Trade benefits to USA/EU; 3) Abundant renewable energy resources; 4) Strategic location to enable fast turnaround if bottlenecks are solved.
- Challenges include: lack of backward linkages, lack of local fabric supplies, and weak financing and banking infrastructure.
- H&M works with the International Labour Organization (ILO) and GIZ on different capacity building programmes to improve workers' skills.

Mr. Neil Hackett (Edinburgh Woollen Mill):

- On Brexit's impact on imports from Ethiopia: In the best case scenario, the UK will leave the EU with a deal and it can be a good opportunity for Africa. The UK will negotiate with countries or regions on trade deals. In the worst case scenario, there will not be a deal, but there will be some legislation in place like the Generalized System of Preferences (GSP).

- On sourcing criteria, the company looks at four main aspects: 1) Price; 2) Backward linkages; 3) Political stability; 4) Local suppliers. When engaging in a country, the company aims at long-term development.
- On standards: despite the multiplicity of standards, if companies aim to comply with the most stringent ones, they should be able to comply with all.

All panellists agree on Ethiopia's potential to become the manufacturing hub of the continent if challenges outlined above are alleviated and there is improvement in ease of doing business. **The Ethiopian Government should focus on attracting investment bringing technological advancement, improving technology and skills transfer**, and should solve the power issue, which is one of the biggest inhibitors for the full value chain development (garment factories can still run with power cuts, but this is impossible for a textile mill).

V. Panel #2: HOW TO ENSURE SUSTAINABLE INVESTMENT IN ETHIOPIA'S TEXTILE SECTOR

Sustainable investment takes social, environmental and corporate governance into account in the investment decision-making process. Socially responsible investors encourage corporate practices that promote environmental stewardship, consumer protection, human rights and diversity. Such practices contribute to better integrate Chinese investors into local communities and ensure mutual benefits.

During this panel, panellists were invited to share their views on how to achieve sustainable investment in the Ethiopian textile sector and provide examples of best practices to implement responsible social and environmental investment practices.

Panellists:

Mr. Tao Huixing, General Manager of Eastern Industrial Park

Mr. Patrick Jin, Associate Consultant of Control Risks Group

Mr. Wei Changjun, General Manager of Mina Textile Co. Ltd.

Ms. Ana Batalhone, Associate Sustainability Expert at the Trade for Sustainable Development (T4SD) programme of ITC

Moderator: **Mr. Zhang Xi'an**, Vice President of the China Chamber of Commerce for Import and Export of Textiles and Apparel (CCCT)

Key points from the discussion are summarized below:

Mr. Tao Huixing (Eastern Industrial Park):

- The construction of the Eastern Industrial Park (EIP) began in 2008. It was aligned with Ethiopia's strategy to transform its economy from agriculture-based to industry-based. To date, the park has created 18,000 jobs.
- The park was built on land previously used for agriculture, so there is the need to ensure that farmers are compensated and that job opportunities are guaranteed.
- The Eastern Industrial Park's plans for its second phase will focus on textile and garment production, and the protection of the environment:
 - EIP is expanding and upgrading and will focus on jeans production (two big companies will come and there is a real potential for Ethiopia to become the manufacturing hub of Africa). Jeans production produces a lot of contaminated waste water, so they will put in place strong environmental protection measures with waste water disposal. As Ethiopia has started the exploitation of natural gas,

gas will be used in the park and petrol will be phased out. A top environmental expert has been recruited to guide the process and all companies in the park will be inspected regularly to make sure that they abide by the environmental protection measures of the park.

- As cotton is growing very well in Ethiopia, they will coordinate with local farmers to cultivate more cotton and upgrade the cotton produced to be able to use it in the jeans production. This is a long-term project.

Mr. Patrick Jin (Control Risks Group):

- The main risks faced by investors are the following:
 - Political stability: Ethiopia will go through general elections next year, which might cause some issues.
 - Laws and regulations: law enforcement is different at the local and national levels – the local governments are less powerful than the national one.
 - Taxes: the government of Ethiopia is reasonably “clean”, but the main risk is a China/USA trade war, which might play a role in the economic development. Control Risks wonders whether the general elections will be affected by the trade war.
 - Labour law: labour issues related to ethnicity and strikes, etc. all impact investors.
 - Infrastructure and transport: lots of companies face energy problems.
 - Issues with communities: government should carry conversations better on land dispute and industrial park builders.
- Advice to overcome these risks: distributed investment and strong leadership.

Mr. Wei Changjun (Mina Textile Co. Ltd.):

- Mina Textile is one of the first companies that settled in Ethiopia (in 2011) and is producing dyed fabrics (importing raw fabrics from China and selling the finished products mostly on the local market as well as exporting to destinations like Turkey). Mr. Wei bought a stated-owned company named Arbaminch Textile Share that he expanded. The number of employees decreased from 1,000 to 300 while productivity gains were done through advanced technology, so production increased rapidly.
- On why Mr. Wei decided to settle in Ethiopia rather than other East Asian countries: Mr. Wei decided to settle in Ethiopia as he knew another Chinese company already present in the country. Mr. Wei developed Mina Textiles step by step using his own internal resources.
- Mr. Wei’s advice to incoming investors: it is better to invest step by step and plan the process carefully. Your business scope must be aligned with your overall strategy, also keeping in mind what you can bring to your clients by moving to this new destination. Teamwork, including with the locals, is very important to make your investment project succeed.
- On the reasons to choose Ethiopia: Ethiopia is very well positioned in terms of security, climate and culture and the nation has a special spirit and pride, as it was the only country not to be colonized in Africa.
- On interactions between local and Chinese staff: all staff to respect themselves; otherwise, how could you respect others? Then Chinese staff need to understand that, at all times, they are representing China and realize whatever they promise. Chinese and Ethiopians both have a long history and rich culture that needs to be respected.

Ms. Ana Batalhone (T4SD - ITC):

- The T4SD team developed a sustainability handbook for investors to incorporate sustainability measures along their investment process in Ethiopia. The guide is available [here](#).

- On the fact that Chinese investing abroad gained a reputation for interacting mostly with the Chinese expat community and having little interactions with locals:
 - When researching for the guide, they saw that a win-win attitude brings stronger loyalty, productivity and better relationships with the local community by bridging communication gaps.
 - At the beginning of the project, the two most important things are to cope with the language barriers and the cultural barriers. Investing in language classes and sharing cultural festivities are good measures to overcome these barriers, along with preparing Chinese employees correctly before they come to the country. Finally, embedding strong mechanisms to report and deal with internal issues.

VI. BUSINESS MEETINGS

Following the panel discussions, participants had the opportunity to have one on one meetings with some Ethiopian institutions and companies providing business support services:

Institutions	Description
Ethiopian Investment Commission (EIC)	Ethiopia's investment authority, responsible for encouraging and mobilizing domestic and foreign investment in Ethiopia. EIC provides end to end investment services from promotion, to licensing and registration, and after-care.
Industrial Parks Development Corporation (IPDC)	A government agency mandated to build and manage public industrial parks in Ethiopia. IPDC also provided investment promotion and support services for investors.
Mesfin Tafesse & Associates Law Office (MTA – Law Office)	A leading corporate law office in Ethiopia and a member of the African Legal Network that specializes in investment advisory and provides full legal services.
Ethiopian Textile and Garment Manufacturers Association	It is the only association representing the private sector in the textile industry. Established in 2006, it currently has close to 100 members. The association provides match-making, research, capacity building, and advocacy services to its members.
Control Risk	Control Risks is a global risk management with offices in many African countries. Control Risk is a specialist risk consultancy that helps create secure, compliant and resilient organizations.
CDC Group	CDC Group is a development finance institution owned by the UK government. CDC invests in projects with substantial development impacts across the globe.
ITC/Trade for Sustainable Development	An ITC team dedicated to researching and advising businesses around the world on how to trade and invest responsibly and sustainably.

VII. PICTURES OF THE EVENT



Event moderator, Mr. Xuejun Jiang, and opening speakers: Mr. Temesgen Tilahun, Ms. Dorothy Ng'ambi Tembo, H.E. Mr. Tan Jian, Mr. Mark George, Mr. Zhang Xi'an.



Mrs. Dorothy Ng'ambi Tembo delivering her opening remarks.



Panel 1 moderator and speakers: Mrs. Ingrid Colonna, Mr. Neil Hackett, Ms. Emily Kaiser, Mr. Arwin Ludiansyah, Mr. Anas Tazi.



Panel 2 moderator, Mr. Zhang Xi'an, and speakers: Mr. Tao Huixing, Mr. Patrick Jin, Mr. Wei Changjun, Ms. Ana Batalhone.



Mr. Temesgen Tilahun delivering his opening remarks.



Mr. Mark George delivering his opening remarks.

1. Speech of Mr. Temesgen Tilahun, Deputy Commissioner of EIC
2. Speech of H.E. Mr. Tan Jian, Ambassador of China to Ethiopia
3. Speech of Mr. Zhang Xi'an, Vice President of CCCT
4. Speech of Mr. Mark George, DFID
5. Speech of Ms. Dorothy Ng'ambi Tembo, ITC
6. Speech of Mr. Sileshi Lemma

7. Speech of Mr. Goshu Negash
8. Presentation of Mrs. Elisaveta Kostova
9. Overall bilingual event programme with speakers' bios