St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

A study on the Examination of performance of Ethiopian textile Industry

A Research Project Prepared for fulfillment of Masters of Business Administration

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ST. MARY'S UNIVERSITY

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Examination of Performance of Ethiopian Textile Industry

BY

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Samuel Kifle (PhD) and Ashenafi Beyene (PhD). All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

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Name	Date and Signature

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as university advisor.

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Advisor

Abstract

Ethiopian textile industry is one of the priority areas through which the country has planned to achieve its growth and transformation plan. The main purpose of this study is to examine the performance and challenges of the sector to improve the performance of the sector by using qualitative research method. The finding shows that there are major problems which require immediate solution to promote the sector (working capital shortage problem, quality problem, low labor productivity, poor automation, and high labor turnover) are some of the major problems of the sector which caused under utilization of the existing potential and as a result the country could not able to generate sufficient job opportunity and foreign income from the sector.

As per the finding of the study, some recommendations as to improve the quality of the product which contributes to the competitiveness of the country in the international market , government involvement in providing market information, the need for man power development, means of provision of working capital, incentive system to improve labor productivity, importance of automation to replace the old machineries, and the development of related industries as chemical industries as dyes, are critical to improve the sector’s performance.

Acknowledgement

First of all I wish to thank the almighty God for giving me the courage and strength in my work while I was preparing this study to its completion. Following this I wish to present my heartfelt appreciation for my Advisors Samuel Kifle (Phd) and Ashenafi Beyene (Phd) for their continued follow up and assistance in suggestion and inspiration they gave me in the process of conducting the research. In addition to this I wish to express my appreciation to Ministry of Trade and industry staffs, textile development institute, and revenue and customs authority in providing me the required data on time.

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Lists of Abbreviations

STA – Short Term Agreement

LTA – Long Term Agreement

MFA – Multi Fiber Agreement

GATT – General Agreement on Trade and Tariff

WTO – World Trade Organization

LDC – Least Developed Countries

FTA – Free Trade Area

AGOA – African Growth and Opportunity Act

EBA – Every Thing But Arms

COMESA – Common Market for East and South Africa

GSP – Generalized System of Preference

MFN – Most Fevered Nations

SSA – Sub Saharan Africa

RoO – Rule of Origin

PTA – Preferential Trade Area

FDI – Foreign Direct Investment

ADLI – Agricultural Development Led Industrialization

ICAC – International Cotton Advisory Committee

E.P.R.D.F. Ethiopian Revolutionary People's Democratic Front

US – United States

EU – European Union

Mn – Million

USD – United States Dollar

GTP **-** Growth and Transformation plan

GPT – Growth Transformation Programme

MoFED – Ministry of Finance and Economic Development

Examination of performance of Ethiopian textile Industry

Chapter I - INTRODUCTION

1.1 Background of the Study

Ethiopian textile industry is one of the priority areas through which the country has planned to achieve its growth and transformation plan. Despite its history is almost as old as that of human civilization, it was introduced to Ethiopia with Italian invention of Ethiopia. The textile production and trade have been important elements of human activity since the time of industrial revolution. Because textile products serve to satisfy basic human needs. Moreover, textile industry require much labor and provides large employment opportunity for a large number of people. It requires relatively little capital to establish production infrastructure and facilities. The fact that it requires small capital makes it favorable at commencement of the project.

The global textile industry has faced some major structural changes and complexities due to some regulations set by the importing countries. The world trade of textile was governed by short term agreement (STA) during 1961, which was later replaced by long term agreement (LTA) in 1962. The developed countries have developed some mechanisms in which they protect their local industries particularly the (Canada, United State of America, and Europe) came up with a more comprehensive trade restriction proposal known Multi Fiber Agreement (MFA) in the year 1973 which became effective in 1974. Under this agreement it is agreed that, to set quotas through negotiation of bilateral agreement for the amount that other countries could export to developed countries and the developing countries were permitted to protect the domestic industries against the competitive imports products.

The MFA was a major segregation from the core principles of GATT, the principle of non discrimination and transparency. The (MFA) agreement provided a certain level of economic stability since member countries could be sure of exporting certain amount of product within the system. However, the World trade organization substituted the Multi Fiber agreement with Agreement of Textile and Clothing (ATC) since January 1st 1995. Following this agreement, countries tried to work on economic Impact of Export and elimination of MFA restrictions and, they were able to subject this sector to the rules of WTO during 2005. Due to the replacement of MFA by ATC and gradual liberalization of global textile trade, many less developed and developing countries were able to built textile industry. With this situation the global textile industry was shaped into separate regions with separate production and consumption patterns. Currently, the most known textile production centers are East and South Asia, ASEAN, Sub Saharan Africa. The global textile products consummation centers are, the EU. Canada and U.S

The Lower wage rates in developing countries and labor intensiveness nature of textile production tend to give developing countries a comparative cost advantage for textile production. in developing countries. As the result the industry is tending to shift to developing countries, with textiles constituting large portions of each country's export product. After the post quota regime, some African and Asian countries such as: China, Pakistan ,India, and Tunisia in Africa were emerged as the largest beneficiaries of the system due to the globalization of textile trade, and the advantages of sourcing from developing countries, that is the availability of cheap labor costs and the availability of local raw material.

In the global textile trade, the supply of textile exceeds it's demand so that textile industry becomes the buyer's market, as the result the international textile price showed a downward tendency. Countries with better textile subsector development are gradually moving their production centers to the lower labor costing countries. They are mostly engaged in works that are technology intensive production systems and produce higher value added products. This reduces the textile production cost.

Textile industry is the base for transformation of people from an agrarian to an industrial society, since it can accommodate the literate and illiterate population. It is vivid and clear that most developed countries have passed through textile industry prior to their current status of development, it must be noted that it may not play the game as it did with those countries due to replacement of some jobs by technology.

The developed countries offer tangible eligible incentives for some Sub Sahara African countries, mainly for least developing countries (LDCs) that will help them to continue their development efforts and grow their economy so that they can build free market. For this purpose the developed world formed Free Trade Agreements (FTA) has temporarily extended different preferential market access for textile products. But the free trade agreement also serves as a means of restricting market opportunities of third party countries since and those countries don’t have similar Free Trade Agreement status since Free Trade Agreements are bilateral agreements between countries. Several industrialized countries including European Union, United States, Australia, Canada, and Japan provided preferential treatment to products originating from Least Developed Countries. This condition provides special importance to African textile industry. It gives a chance to access in the United States markets under the African Growth Opportunity Act (AGOA) and the Cotonou Agreement in the European Union or the Everything But Arms (EBA) initiative. Those arrangements can be seen as examples of nonreciprocal preferential trade agreements.

Under the stated situations Ethiopia can be placed in a comparative cost advantageous position in textile production since there is large number of population within the teen ages. Moreover , there is suitable agro-climatic conditions for the production of cotton, which serves as the main raw material of the sector, cheap lower labor cost , the textile production and consumption has now shifted to Least Developed Countries, the availability of the international good will to foreword market privilege through Free Trade Agreements (FTA), manly through African Growth and Opportunity Act (AGOA) programme to US market and Everything But Arms (EBA) initiative to EU market and regional markets like common market for east and Southern Africa (COMESA). Thus it is necessary to understand about the role of textile industry as a base for Ethiopian agricultural led industrialization and can serve as a major source of foreign currency.

1.2 Statement of the problem

Despite Ethiopia has long history as long as 3500 years back, textile industrialization came to Ethiopia with Italian invention of Ethiopia. Following that Dire dawa textile factory was established in the year 1939.During the imperial government Akaki textile was established with Indian government. The E.P.R.D.F. government has identified textile sector as a priority sector for industrialization so as to solve the problem of creating job opportunity and foreign exchange earnings and provided different incentives that can promote the development of the sector. To this end the Ethiopian government has planned growth and transformation programme for five years (2004/05-2008/09) for textile industry development and to upgrade the foreign exchange earning to USD 500 million by the year 2008/09.

To achieve the envisaged export planned target in addition to improving the productivity and product quality of the existing textile industry through renovation and expansion, the government has planned to attract foreign and domestic investment to the development of textile industry. Even if the Ethiopian government has planned to privatize all state owned textiles factories and to create employment opportunities from this sub sector within these five years, the development of Ethiopian textile industry remained stagnant due to some constraints as working capital shortage. As different information sources Rahel Abebe (2007) have revealed, the government of Ethiopia remained far behind to meet its plan as at 2006 EFY. The share of foreign currency generated by exporting textile industry products, when compared with the country's total exports remains minimal.

Compared to others Sub Sahara Least Developed Countries, Ethiopia has been placed at the lower level on the utilization of the opportunity provided by the developed countries as well as regional market opportunities for textile and apparel industry (AGOA, EBA and COMESA (2007). This is due to the low preparation of the country to exploit these opportunities and other challenges of the sector as incentives given to export on the contrary threatens the availability of cotton in the local market since investors move to exploit the incentive opportunity.

1.3. Objective of the study

1.3.1. General objective

The general objective of the study is examination of performance of Ethiopian textile industry.

1.3.2. Specific objectives

The specific objectives of the study are testing Ethiopian textile industry performance with respect to import/export of yarn, import/export of textile, and number of factories, employment for yarn production and weaving, inter country comparison and export services.

1.4. Significance of the study

Ethiopia being endowed with good climatic conditions that could be used for production of different types of crops and having a land size that could be equivalent to the fourth largest cotton producer in the world (Pakistan) could not produce sufficient raw materials for its textile industries .As a result significant amount of cotton is imported from abroad to satisfy the local demand of the sector.

At the same time the country has identified the textile sector as priority area to meet its GTP, creation of job opportunity, generating foreign income from the current (2013) USD 97.8Mn to USD 500 Mn by the end of GTP, to increase the share of Ethiopia from 0.16% from the current major producers, and its share in COMESA 8%, and import substitution. To this end the identification of problems within the textile sector with respect to its performance and recommendation of possible solution is hot issue at the moment and this study is expected to contribute a lot to meet those objectives.

1.5. Scope of the study

The scope of the study is examination of the performance of Ethiopian textile industry with respect to import/export of yarn, import/export of textile, number of factories, employment opportunity and assessment of challenges of the sector.

Methodology

Complete literature review and assessment of other research findings on the subject have been understand to understand the concept, performance and scope of the textile sector. Following literature review, interview questionnaires were designed; the identified institutions were visited to collect relevant data through interview. The interviews were conducted on the spot. After collecting the information, the genuinity of this information were counter checked to each other and used for further analysis.

1.7. Research Design

Descriptive survey method (tables, averages, and percentages) was used to describe performance of the measurements, identify problems, interpret, and qualitatively describe the event which enables to elaborate performances.

1.8. Sources of Data

Both primary and secondary data sources were used as a source of information. For this study primary data was collected from key information sources such as textile development institute and secondary data were collected from internet sources and other research papers.

1.9. Sampling Techniques

For the purpose of the study, institutions which have direct relation with textile sector (textile development institute, revenue and customs authority in relation with export/import, ministry of trade and industry and MOA) have been identified in advance and interviewed consecutively. Textile development institute and revenue and customs authority are the active respondents to the inquiry in which the others responded that it is agreed by the government that the textile case be handled by one separate institution the textile development institute which is currently on collecting and organizing data for the rest of the sector's performance.

1.10. Beneficiaries of the study

The beneficiaries of the study are yarn producers, textile producers, lending institutions, and investors and the others.

1.11. **Limitation of the study**

The main limitation of the study is the absence of sufficient data on the sector's performance.

1.12. Organization of the study

The study is organized under four chapters. The first chapter presents the introduction which includes the back ground of the study, statement of the problem, objectives of the study, significance of the study, and scope of the study, research methodology, design, sampling technique, source of data, beneficiaries, limitation of the study, organization of the study. The second chapter provides (the textile sector, textile development in Ethiopia, emerging opportunities, treats, problems and constraints). In chapter three discussions, interpretations, and lessons learned from the study are presented. In the fourth chapter conclusion and recommendations are delivered. Finally, list of reference materials are attached at the end.

Chapter II: Review of related Literature

2.1. The Textile sector

Import/Export performance of textile industry depends on the period of the market, location, competing firms, quality, and price of competitor's products. The External factors that affect the textile sector are related to market such as a country's location with international markets and other factors affecting import condition of the foreign countries. Internal factors refer to the supply side limitations of the country as infrastructures. Supply conditions are very important in determining the export potential of the country's economy. Countries with better supply conditions are expected to export more products than those with low supply conditions. Supply capacity of a country is affected by proximity to raw materials and factor related to costs such as capital availability, labor, and other resources. Besides resource availability, economic policy of a country and the institutional environment as commitment of employees can also affect the supply capacity of the country.

The supply capacity and the attempt of the country to meet customer's interest and foreign market access conditions can enhances the performance and the structural strength of the export sector. The quality and quantity of physical infrastructures are expected to favor or disfavor the roles on external trade since they can limit the progress of export at early stage of development of export, the macroeconomic stability and FDI.

2.1.1 Generalized System of Preferences (GSP)

The Generalized System of Preferences (GSP) is a U.S. trade program designed to promote economic growth in the developing world by providing preferential duty free entry for up to

4,800 products from 129 designated beneficiary countries and territories. GSP was instituted on January 1, 1976, by the Trade Act of 1974.

Congressional authorization of the GSP program expired on December 31, 2010. President Obama signed legislation to reauthorize the GSP program through July 31, 2013. GSP trade benefits went into effect 15 days after the President signed the bill (November 5, 2011) and will apply retroactively from January 1, 2011. Importers who filed their entries electronically, used the appropriate special program indicator for GSP (e.g. "A" or "A+"), and paid duty on GSP-eligible goods, will receive an automatic refund. For entries made without using the special program indicator for GSP you will want to contact the port where the goods entered and request your GSP status from U.S. Customs and Border Protection (CBP).

There was been an improvement with respect to market access conditions for developing countries during the past years , from which the generalized system of preference (GSP) allowed duty free import of goods from developing countries to US. Developed countries give special treatment for developing eligible countries for identified products to be competitive in the international market. It was first proposed by Raul Prebisch in the year 1964 and followed by the secretary general of the UN Conference on Trade and Development by the year 1968, the 2nd UNCTAD accepted the principle of a “generalized, non reciprocal, non discriminatory system of preference to favor developing countries. The main purpose of GSP program is to increase the export earnings of preference receiving countries, to promote their industrialization, and maintain sustainable economic development and good governance. It further reduced import duty, and it helps in the avoidance of reciprocal obligations on the side of the developing countries. The preference providers industrialized countries under the GSP scheme are, the EU, U.S Australia, New Zealand and Japan, others. The duty free entry or lower tariffs make it attractive for importers to import more from the eligible beneficiary countries. But the limitation from industrialized countries for selected import products limited the benefits of the programme.

The African Growth and Opportunity Act (AGOA) focuses the US market for all products originating from AGOA eligible countries for period allotted for it.

The African Growth and Opportunity Act (AGOA) was based on existing U.S. trade programs up grading the number of duty free benefits previously available under the Generalized System of Preferences (GSP to provide tangible benefits for African countries to initiate the countries to continue their efforts to US and build free markets. AGOA supports U.S. businesses by encouraging some economic and business development reforms to build strong market ties with US market.

The programme has eligibility criteria as free economic policy, multi party system, poverty reduction policy, combating corruption, child labor protection and human rights are some of the major criteria.

Ethiopia became one of those eligible countries which can use AGOA opportunity from 2001 in which it is benefited by exporting some products to the US market quota free and duty free. This Act has given Ethiopia an opportunity to promote the development of the textile industry. The tariff free access for U.S market for Sub Sahara region countries provides 7.5% competitive advantage when compared to the Most Favored Nations (MFN) performance in Asian countries. However, Ethiopia didn't fully utilize this opportunity due to poor quality and quantity of products, lack of diversification, customs bureaucracy and poor technology, absence of skilled manpower, logistics, and poor infrastructure.

A country's supply capacity is generally related to having suitable economic conditions and institutions that help attract investment and enhance efficiency of the business. Most SSA countries including Ethiopia have lack efficient trading capacity for taking full advantage of the AGOA opportunity to export their products to US. Ethiopian exports to US based on AGOA frame work, though still remains insignificant when compared with some other AGOA beneficiary countries, it is expected to grow significantly. AGOA remained dominant driving force behind the growth of the textile subsectors in many SSA countries.

Some SSA courtiers have benefited from the programme and there is a need to follow free economic policy, and development of professional experts to upgrade the country's industry production capacity. It also requires to organize functional export processing zones which has adequate infrastructure and with no interrupted utilities. Finally, it requires the establishments of support mechanism for a new, expansion and operational textile and apparel industry. Ethiopia is expected to improve the role of its textile industry in AGOA programme through formulation of incentive systems and supports the directly linkage to the production of domestic fabric factories. AGOA gives comparative advantageous for LDC exporters' through market access facilities. But from experience the LDCs are unable to realize this opportunity and they perform at a low level of utilization. This was due to low supply condition and the shorter period provided for the programme. As a result investors were less attracted to participate in the programme due to uncertainty. The complexity and some overlapping requirement of the rule of origin (RoO) also make it difficult for users.

2.1.2. Regional Market Access

One of the greatest potential market for Ethiopian textile products, but not fully utilized is the African market opportunity. Like EU and U.S. markets, the regional markets have special advantages due to Free Trade Agreement (FTA) among the regional member countries. The established Common Market for Eastern and Southern Africa (COMESA) was which replace the Preferential

Trade Area for Eastern and Southern Africa (PTA is established in Lusaka, Zambia in 1981. It currently has 21 member states.

Ethiopia is a signatory and a founding member of COMESA. The main purpose of this regional organization is promoting regional cooperation through trade liberalization and investment among member states which is expected to create fully integrated and internationally competitive regional communities, within which there could be free movement of capital, services, goods, and labor among member countries. Member countries of this group will benefit from the preferential tariff treatment for their exports and imports products.

It has two tariff systems which have two categories, the Free Trade Area (FTA) and the general tariff for COMESA member countries. The FTA has a plan to eliminate customs tariffs and has also applied the relaxation and elimination of quantitative restrictions and other non-tariff barriers gradually.

The FTA has an intention to removed tariffs for goods originated from their member countries. While the General tariffs programme tend to remove the general terms of trade by COMESA. As stated earlier even if Ethiopia is among those countries which established COMESA and it's participation is limited to some extent due to overlapping membership, payment delays, limited participation of private sector. In general, there is no adequate production, developed infrastructures, and poor trade facilities, have contributed to the low performance of COMESA.

As any SSA the Ethiopian export potential is threatened by poor development of infrastructure which is the main challenge to exploit the competitive advantage of COMESA and attract FDI. The improvement in infrastructure, transportation, and facilitation of the buearacratic chain will favor all participant countries to exploit this opportunity and build strong regional economy.

In textile industry on export market buyers do not simply compete on price. They evaluate a supply offer based on Price, Quality, Product, Response, and Ethics. The price is the cost paid to the supplier to have the product and quality is usually not as assumed, but it is a desirability of one product over the other that one product is more preferred than another. The price and quality of the products are seriously affected by the availability, price and quality of raw materials used. In the case of textile product, price, quality and the availability of raw cotton have a significant influence on the performance of the final product in international market. The study on Madagascar Cotton-Textile-Apparel value chain analysis has shown that the export of local quality raw cotton, poses a threat to the domestic textile industry export and to the national economy. The response in the total delay between placing of an order and receiving the goods is also an important issue in the international market. Moreover, textile consumption is seasonal in developed a country which makes response more sensitive. There are two aspects of response these are the delay length and the reliability of delay length. In many occasions, delivery reliability is more important than delay length. This reliability is considered as a factor to meet the promised delivery date or not. Besides this there are firm level problems for response, the infrastructural facility , quantity and quality, mainly transport has a great influence on the response.

Even if there is technological advancement, the textile industry still remains labor intensive worldwide. Hence its manufacturing is continuing to shift to developing counties from developed world due to low labor cost advantages. The labor cost for the textile industry is the most geographically distinct variable and it becomes one of the major factors for competition. The range is enormous, from over $10 per hour in the U.S. to 22 cents per hour in Vietnam. In the textile sector, the major cost is a labor cost which assumes greater significance in the production process. Ethiopia is considered one of the very favorably countries across the developing countries in terms of labor cost. In India the recent study on garment industry shows that, higher wage rate is one of the significant factors on export performance of the country. Currently

Ethiopia has a largest population in Africa which is next to Nigeria in population size and has more than 84 million people from which the proportion of the young people takes the major portion. This part of the population is ready to accept technological changes and easily trainable to be engaged in production. This condition would pave the comparative advantage of the Ethiopian textile industry in the international market.

The economy is liberalized economy, and the sectors in home countries have a comparative advantage in which they can export their products to other countries, while the importers are competing with foreign suppliers. The firm level competition is much sever for export performance than internal and external factors for export performance. The export performance of LDC with respect to textile export is not uniform some are successful while others are not as expected. Currently most developing counties try to facilitate investment climate to attract foreign direct investments in their respective countries. They provide tax holidays, import of duty free goods and subsidies. And there is also commitment for expansion of infrastructures and market preferences. The government of Ethiopia has also taken some measures to attract FDI in various sectors, so as to encourage investment and transfer of technical and managerial skills to assist the utilization of market access conditions. The investors are also been exempted from export taxes and provided with tax holidays up to 5 years. Ethiopia was able to attracted insignificant amount of FDI; 0.74% of the Sub Saharan Africa. The most recent experience in Ethiopian textile industry has shown that there is an increasing trend of foreign engagement by Turkey, Indian, Pakistan and Chinese investors.

The geographical trends in the production of textile industry shows a clear pattern of continues decline in the developed countries producers and a geographical shift of production from developed world to developing countries. Currently, the global textile production, employment, investment and trade is led by China. The cheap labor and as a result low production cost rapid technological changes fro production and distribution, contributed to continues shift of textile industry from developed nations to developing countries. The textile sector has been controlled by quota for more than 30 years between developed and developing countries. Experience shows that all countries provide protection for local industries before they open a door for foreign markets until the local industries mature and be able to compete in the international market. Customs duties, taxes, and other protective measures were always intended to liberalize productivity differences among competitors. Moreover, quotas were set to increase the participation of less competitive countries so that they could compete in the international market and be able to obtain economic and social advantages, as employment opportunity, possibility of attracting FDI, construction of infrastructure and generate foreign exchange.

2.2 Textile development in Ethiopia

Ethiopia has long years experience of textile industry. It produces traditional apparel (cottage industry) produced by hand loom to satisfy the needs of the people. These traditional apparels are made of woven cotton threads made by hand from twisted lint or yarn. . The activities were traditionally held by handloom weavers. This traditional cottage industry is inherited and continued currently, making an important contribution to satisfy local demand. The industry was introduced to Ethiopia long history began in 1939 with Italian occupation starting from 1935 to 1940 by establishing Dire Dawa Textile factory. Following this the imperial government established Akaki textile factory with Indian government in the year 1960. The sector remained constant without significant change during the durg regime. But during E.P.R.D.F the sector is identified as priority area sector to promote export and investment and developed policy to promote Ethiopian industrialization and export of the country so as to alleviate the poverty problem of the nation. The government has designed and implemented different incentive programs and schemes for the development of the sector. The government had set a first five years (2004/05-2008/09) textile industry development strategy as indicated by the plan of the government, to generate foreign currency by the sector and this industry's export was expected to reach USD 500 million by the year 2008/09 EFY.

To achieve the envisaged export target in addition to improving the productivity and product quality of the existing textile and apparel industry and to satisfy the plan of attracting foreign and domestic investors. Ethiopia's share in regional economic organizations as (AGOA, EBA, and COMESA) is insignificant World bank report (2013) and at the time, the contribution of textile to Ethiopian economy is as low as 5.04% of foreign currency which lower than other African countries because of low preparation to exploit these privileges.

Ethiopia is also the second from bottom to use the opportunity of AGOA from those countries which are eligible to use this opportunity, as South Africa 21%, Ghana 17%, Malawi 13%, Liberia 12%, Kenya 9.9%, and Ethiopia 8%, and Nigeria 5%.

Consistent with the above global and local textile industry development trend, textile industry has been identified as a priority area on the Ethiopian industry policy. The policy promotes industrialization and export of Ethiopia so as to solve the poverty problem of the nation.

Despite the Ethiopian economy originates from Agriculture, Industry, service, and manufacturing, the contribution of each to the national economy and development is not at the same stage of development. According to the World Bank report of 2013 G.C, the manufacturing sector contributed 14 % to the GDP of Ethiopian economy, from which the contribution of the textile sector is 5.04%. The low contribution of textile sector is caused due to some constraints observed in the sector as labor productivity problem, product handling problem, shortage of working capital, and other in which some of them will be dealt with in this literature.

Ethiopian textile industry is producing a large variety of products. Spinning firms produce yarn and sewing thread. Whereas integrated ginning mills produce a wide variety of products including yarn, fabrics (knitted and woven), canvas, school and traveling bags, blankets, sweaters, shawls, uniforms, towels, baby nappies and knitted garments. Apparel manufacturers on the other hand, produce various types of garments for both local and export market.

The Ethiopian textile sector is labor intensive (weaving, apparel, and knitting) and capital intensive (spinning dyeing and finishing) industries. Although the fabric production is more capital intensive than the apparel sector, it is still labor intensive. However, the fiber production is essentially capital intensive. Due to this even in the regional market (Africa) there is no significant supply of fabric and/or fiber to the regional market. As a result, Ethiopia could have no access to focus on its comparative advantageous labor intensive apparel industry unless it secures the supply of fabric.

The technological level of Ethiopian textile industry can be seen from two perspectives. The newly established industries bring relatively better technologies from abroad, which are prominent in textile production such as China, India, Turk, etc. The second one is old industries, which were established in the Imperial and Derge era, which have huge problems in terms of their production due to obsolete technology and this resulted in frequent breakage and lack of spare parts but they are vertically integrated (weaving spinning /knitting apparel) and there is no specialization in the industry chain. In addition they are not in the position of supporting the emerging apparel industries because most of the fabrics produced are consumed by the producers.

Modern textile manufacturing became a main component of Ethiopian textile manufacturing industry after Ethio Italian war. The Imperial era formulated strategies that were relevant to the development of the industrialization in Ethiopia in 1950 to 1974. An encouragement of the foreign capital investment with import substation strategy was the main direction of the textile industrial strategy. The policy gave many incentives to foreign investors and showed less concern for indigenous investment. As the result most textile industries during the imperial era, most of the manufacturing industries including textile and apparel were owned and operated by foreigners.

During the Dregs regime (1975-1991), the Ethiopian industries were operated under state led strategy and the government nationalized almost all private industries. The Derg regime industrial policy is similarity with the Imperial era in the basic theme, since both industrial policies focused on import substitution. During the Derge regime the textile industries were established with the objectives which focus towards public welfare such as creating employment opportunities, and import substitution perspectives. These kinds of directions protected the industry from external competition and in turn introduced inefficient resource utilization.

After the fall of the Derg regime in1991, The EPRDF has taken a wide range of economic liberalization policy measure. The Agricultural Development Led Industrialization (ADLI) of the country which includes ,the Promotion of the inter and intra sect oral linkages, Promotion of economic efficiency and growth of the country, Development of domestic technological capacities and capabilities for the promotion and development of medium capital manufacturing industries, Creation of domestic base technologies for the transfer, adaptation, and development of technology, favoring the advanced use of labor intensive technologies and local resources, to achieve the industrial competitiveness in an area of clear comparative advantages in exports, and Promoting balanced regional development.

The Ethiopian industrial development strategy has ranked the textile sector as the first and core sub sector because of the following reasons: first because textile and textile products are basic human need items which are demanded internationally by different countries. Second the sub sector needs more labor which is abundantly available at low cost in Ethiopia. Third the major raw material for this industry cotton main input of the industry is abundantly found in Ethiopia which creates conducive environment for agricultural production. Fourth the sub sector easily creates high backward linkages, with the agriculture which in turn creates job opportunity and more income for farmers/investors. Finally, in the long run it is assumed that the textile sector will initiate the establishment of chemical and other supplementary industry inputs which are currently being imported. At the moment the government has established textile development institute which provides technical support, to lead the industry, controlling and coordinating the development of the sector, and to provide support for the industry and speed up the development and competiveness of industry in the international market.

2.3 Emerging Opportunities, Threats, problems, and constraints of Textile Industry

2.3.1 Opportunities

There are opportunities for the development of the textile sector such as COMESA, AGOA, and EBA and it needs strategic thinking, long term planning and suitable policy formulation for the sector.

Opportunities for the textile industries are;

- The need for raw material access forced the industry to move from developed countries to lower cost regions were raw material, manpower, energy and water are easily accessible.
- Textile is global commodity and has increasing trend, because it provides a basic commodity for human need.
- The textile sector is identified as a prior area industry in many countries development policy, as the result each government provides various incentives. Which includes different investment attraction incentives, investment fund, export credit guarantee,

income tax holidays, duty free import of raw material, special tariff (free access to land, sea and air transportation services) and human resource development in the sector.

- The use preferential market access to U.S. EU, Regional (Africa) market through AGOA, EBA and COMESA.
- The Bilateral agreements made between importing countries and the Ethiopian government which provided legal background for Ethiopian government to use the opportunity given to AGOA.

2.3.2 Threats

- Threats are also facts that affect the country's competitive advantages in the international market. These facts can be treats which need to be combated and problems which need to be solved. The textile industry is also expected to face these treats :-
- The fact that many countries follow export oriented industrial development strategy and strong competition in the world market.
- Some countries Asian countries like china, and India, which have already established themselves in the international textile market and strengthened regional markets before Ethiopia, are expected to be treats to Ethiopia to enter the international market.
- The terrorist attack around the world which is difficult to be controlled by the investors is expected to be a treat and limits the participation of FDI on the sector.
- Due to fear of global warming cotton production may be retarded which will directly affect the sector.
- The Poor state of infrastructure facilities in Ethiopia and the fact that country lacks sea port could be a treat for Ethiopia.

- The rapid technological change and the financial inability of the country to periodically update these technologies could be counted as a treat for the sector.

- **2.3.3 Problems and Constraints**

- **T**he major problems of the textile sector are the absence of sufficient working capital for textile factories to purchase sufficient raw material for their annual production period to control the supply problem the sector.
- Despite Ethiopian cotton has preferable quality than others, still there is quality problem which arise from the supply chain of raw materials starting from cotton harvest.
- The inherited technical problems remained for long period of time due to obsolescence of the machineries and caused subsequent breakage and reduced efficiencies.
- Bureaucratic situation in relevant institution in import of raw material and export of products will reduce efficiency since it is time consuming and competes with the productive time of operators.
- The problem of power interruption in manufacturing of inputs and products has highly interrupted the efficiency of the sector.
- The sector lacks easy access The problem of power interruption in manufacturing to determine future market prospect of the sector.
- **Labor turnover –** Most Cotton farms were established on peripheral areas where one cannot get large number of settlement as a labor source and as a result cotton growers transport people from where they are abundantly found by providing them transport. In addition to this, after arrival at the farm site they provide them shelter, medication, and foodstuffs. After arrivals on the farm site, other cotton growers will provide additional payment to these laborers and take

them from the earlier farmers and as a result there is no stability particularly with daily laborers. This is the major problem currently prevailing on cotton farms.

- **Lack of ware house –** As described above raw cotton is the bulk product which requires much space for storage. If the grower does not have sufficient ware house that can accommodate his produce significant amount of the product will be liable to lose.

- **Poor level of automation:** Most of the current technologies are old and require continues maintenance and so these industries need to be replaced by the new one in order to be competitive in the international market. Labor productivity being coupled with new technology will increase the competitive ability of the sector in the international market.

CHAPTER III

3.1 Discussion, interpretation, and lesson learned

Over recent years there has been an increasing amount of interest in Africa as a continent with immense resources and potential. Ethiopia in particular has been singled out as a land of growth, investment and opportunity. Ethiopia grows some of the world's finest cotton and has a rich textile spinning and weaving history, yet it's importance on a global scale remains insignificant. With several government incentives in place, a priority given towards developing the textile and clothing industry across the value chain, a viable business environment and duty free market access to both US and EU, Ethiopia is now beginning to attract international buyers and investors. Having experienced approximately average GDP growth of 9.7% consistently since 2013 and a stable political framework since 1995, it still remains largely untouched. There are many countries in the world which produce cotton and the position of Africa's with respect to cost of production is shown as follows .in which Ethiopia is included in other Africa. The cost of production is relatively low when compared to rest of the world as shown on table 3.1 below.

According to the Head, Technical Information Section of International Cotton Advisory Committee, it is most expensive to produce a kilogram of lint in North America, followed by West Africa. The cost of production per kilogram of lint was the least in other Africa, US$0.80/kg. The world average c ost of producing for a kilogram of seed cotton is estimated to be US$0.34.

Table 3.1 Relative cost of production

region	Net cost/seed cotton	Net cost kg/lint cotton
North America	0.29	1.43
South America	0.31	1.01
Asia	0.36	0.94
West Africa	0.35	1.32
Other Africa	0.32	0.8
North America	0.19	1.23

Source: - ICAC

As shown on table 3.2 the share of revenue generated from the sector for the major producing countries is as shown below from which the share of Ethiopia is insignificant which is as low as 0.16% of the world major producers and much effort is expected to develop the sector.

Table. 3.2. Revenue earned by major producing countries and the share of Ethiopia

Country	Revenue	Percentage share (%)
USA	3,719,793,000	56.39
West African countries	994,048,000	15.07
Uzbekistan	867,692,000	13.15
Australia	705,720,000	10.70
Egypt	298,690,000	4.53
Ethiopia	10,407,944	0.16
Total	6,596,350,944	100.00

Source: - UNCTAD Statistics data

3.2 Inter country Comparisons

The cost of producing a kilogram of Seed cotton is different among countries within regions even if there are not many differences among regions as such. The cost of producing one

- kilogram of Seed cotton is US 14 cents/kg in Tanzania and
- US 12 cents/kg in Ethiopia US 76 Cents /kg in Nigeria
- US 55 cents/kg in Israel, Mexico (Sonora), Myanmar, Sudan (irrigated Baraka and Akola) and Turkey (GAP, Ege and Akdeniz).
- The data collected from 12 major cotton producing countries in the world representing various regions and production Systems indicate that it was most expensive to produce seed cotton in
- Turkey and Syria, US 57 cents / kg and US 53 cents/kg respectively.
- It costs US 36 cents, US 25 cents and US 29 cents to produce a Kilo gram of seed cotton in China (Mainland), India (North) and Pakistan (Punjab), respectively.

The net cost (total cost minus land rent and income from seed cotton sold after ginning) of producing a Kilogram of lint cotton showed relative differences among countries. It was most expensive to produce a Kilogram of lint cotton in Bulgaria. The cost of producing a kilogram of lint cotton was

- Over US 2 dollars/kg in Bulgaria and Israel (Pima). The net cost per kilogram of lint cotton in the USA was US$1.42/, US$1.52/kg in China (Mainland) and US$1.63 in Turkey (GAP). The net cost/kg of producing one kg of lint cotton was US$0.67 in Pakistan. Assuming the ginning cost in India is equivalent to the cost of production in Pakistan, the net cost in the North region of India is equated to be US$0.50/kg of lint cotton. The cost of production data from Kazakhstan, Tajikistan and Uzbekistan showed that the cost of producing one kilogram of lint cotton is the lowest in the Central Asian countries as a region as a whole.

3.3 Investment

Ethiopia is one of the oldest countries in the world, now the second fastest growing and the fourth largest economy in Sub Saharan Africa. From this point of view it shows that the role of the textile production sector will be very high and needs to expand more. The number of companies joining the textile sector is described as shown on the following table. The number of companies entering the sector are insignificant a shown on table shown below.

Table 3.3 Number of textile industry investment

Description	2002	2003	2004	2005	2006
Cumulative investment	24	25	25	30	30
Additional	-	1	0	5	0
Percentage (%)		4	0	20	0

Source: - Ethiopian investment office

3.4. Employment

One of the industrial policy issue of the textile industry for many developed and developing countries is the creation of job opportunities for their people due to the diversified nature of this industry that it has back word and foreword linkage. In Ethiopian case, textile industry is one of the top manufacturing industries in generating foreign earnings and creating employment opportunities. The government has planned to generate 40,000 jobs by the end of GTP, but the current number of employees in the sector is insignificant. Table 3.4 below indicates that the creation of employment opportunity of this industry has shown fluctuating pattern due to the actions taken by the government to privatize the sector during transition. During 2000/2001 the number of employs increase due to the fact that the government action to rehabilitate the sector. This situation continued to 2002 and the number of employs declined in 2003 during the transition for privatization of textile industries to private investors as a result of detaining some employs and then increased in the year 2004 the action of investors to strengthen their factories. After 2004 the growth is stagnant and similar due the fact that investors obtained sufficient employs for their industries and do not want to maintain more than the available number. The overall tendency of the table below shows that textile industry can maintain large number of employees and contribute much to job creation.

Table 3.4.Emplyeement creation by textile industry

Description	2000	2001	2002	2003	2004	2005	2006
No. Of employs	10,610	16,466	21,382	13,431	32,595	33,887	35,820
Increment	-	5,856	4,916	-7,951	19,164	1,292	1,933
% change	-	55.2	29.9	-37.2	142.7	4	5.7

Source: - Textile development institute

3.5 Production Capacity

The capacity utilization of manufacturing industry generally shows increasing trend while the capacity utilization of textile shows a declining trend with exception of the year 2002. The average capacity utilization of manufacturing industry is 65.2% while the average capacity utilization of textile sector shows 59.2% which means the industry is performing less than the performance of related industries which requires attention to promote the sector.

Table 3.5 Textile industry capacity utilization

Description	2000	2001	2002	2003	2004	2005	2006	Average
Manufacturing industry	53.8	67.4	68.3	66.9	65.9	67	67	65.2%
Textile industry	58.6	62.6	78.6	60.8	51.6	51.3	51.2	59.2%

Source: - Textile development institute

3.6 Import/Export performance

3.6.1 Lint cotton Import/export

Lint cotton is the separated cotton fiber from cotton seed to be twisted to form a yarn**.** This product can be tradable and can be exported or imported**.** The export and import performance of the product under Ethiopian situation is shown below**.**

Table 3.6 lint cotton import/export performance

Year	Export	Import	balance
2007/08	12,874,991	5,049	12,869,942
2008/09	5,052,095	1666	5,050,429
2009/10	2,714,832	586	2,714,246
2010/11	36,874	23	36,851
2011/12	2,439,494	208,383	2,231,111

Source: Ethiopian Revenue and customs Authority

The export trend of lint cotton has shown a continuous decrease starting from 2007/08 to 2010/11 and then it has shown a drastically increase change in the 2011/12 due to the fact that the government has lifted banning of lint cotton export in the same year and due to this export of the same commodity increased by 918 percent during the year which shows that Ethiopian lint cotton has high demand in the international market. The increase in demand for lint cotton from Ethiopia shows that the market opportunity for Ethiopian lint cotton is unlimited and invites for further investment. The amount of lint cotton import continuously declined from 2007/08 to 2010/11 and dramatically increased in the year 2011/12. The decline in import of lint cotton from 2007/08 to 2010/2011 is due to availability of lint cotton in the local market as the result of banned export of lint cotton. The increase of import in 2011/2012 implies that some spinning factories import quality long fiber length lint cotton and less availability of lint cotton in the local market is due to the lifted banning of export of lint cotton. Again the decline of import as compared to the previous year is relative but not as such different from previous years with exception of 2011/12. Generally, spinning factories can avail lint cotton from local production and import market.

Generally, the export/import balance shows that export exceeds import due to the organic nature of Ethiopian lint cotton. The rate at which the balance increases depends on the rate at which export exceeds the import volume of lint cotton.

3.6.2 Fabrics import/export

Fabric refers to any material made through weaving, knitting, spreading, crocheting, or bonding that may be used in production of further goods (garments, etc.). Cloth may be used synonymously with fabric but often refers to a finished piece of fabric used for a specific purpose. Fabric is made of fibers that are gathered from the different source, spun into threads and then they are woven or knit into fabrics.

Ethiopia has sufficient experience of export and import of fabrics to and from the rest of the world. Ethiopia mostly exports fabrics to the rest of the world through Turkish factories exporting their products to their integrated garment factory found in Turkey by the comparative advantage they get from cotton plantation in Ethiopian agro ecology and favorable temperature. As per the information obtained from Ethiopian textile development institute, the export of fabrics from Ethiopia to Turkey for the last five years grew at average growth rate of 54%.

Table 3.7 Fabrics Import/export

Years	Fabrics export (Kgs)	Fabrics import	balance
2007/08	802	796,679	-795,877
2008/09	1367	1,219,027	-1,217,660
2009/10	4968	1,773,040	-1,768,072
2010/11	1791	1,446,080	-1,444,289
2011/12	1812	2,603,236	-2,601,424

Fabrics export continuously increased from 2007/08 to 2009/10 which could be attributed to the banned lint cotton and yarn export. Because of these Ethiopian producers obtain sufficient yarn in the local market to produce fabrics as the result export of fabrics increased during the years and at the same time import increased continuously up to 2009/10 due to preference of better quality in local market and illegal trade. When the government lifted banning in 2010/11 the export volume of fabrics on the contrary declined, since there was no sufficient yarn in the country to produce more as the result of lint/yarn export and at the same time importers abroad can produce fabrics of their own using the exported yarn from Ethiopia. The fabrics import decreased in the year 2010/11 since fabrics export is decreased and increased the availability of local fabrics in the local market as a result fabrics import decreased in the same year. As shown in the table above, Ethiopia imports significant volume of fabrics due preference of the customers for better quality and illegal trade as a there is excess import of fabrics than our export .Therefore, it requires improving the quality of local fabrics and strengthening the strategy of controlling border illegal trade. Generally, the export performance has shown that the export show increasing trend up to 2009/10 due to favorable export situation and declined there after due to excess local demand in the country. At the same time the import trend also increases due to preference of better quality.

CHAPTER V

4. Conclusion and recommendations

4.1 Conclusion

Ethiopia has planned to generate foreign exchange earnings of USD 500 Mn by the end of GTP, but currently , the country is far behind the planned target and its export earnings from textile is USD 97.8 Mn as per MoFED report of 2013. Ethiopia's earning is much low when compared to major cotton producing countries in the world, which is as low as 0.16% of the total revenue generated by the sector. The cost of production in Africa still remains the cheapest in the world which is US 0.80 cents/kg of lint cotton. At the same time labor cost excluding land rent is as low as USD 0.34 cents /kg for seed cotton production. As per the information obtained from textile development, the number of employees engaged in the sector is much behind than the planned target. It has been stated that the industry has backward and forward linkage, so as far as foreword linkage is concerned chemical industries have to be installed to save foreign currency that could be paid to import them. The number of factories joining the sector is at infant stage and needs to work on to attract more investors.

It has been investigated that Ethiopia didn't utilized the opportunity given by AGOA and COMESA countries and still there is a gap that the country has to utilize this opportunity. Moreover, the country has to diversify its export products to exploit the opportunity of AGOA. Ethiopia has to play significant role expected of it to strengthen ties among member countries, so that COMESA member countries could be economically strong to make the region among recognized regions which can have political, economical and can influence market share. Among member countries, Ethiopia has a share of as low as 8% from COMESA when compared to other member countries. Even if the export/import balance of yarn is positive there is an import of lint cotton which needs to be substituted by local product. To favor local fabrics factories and to promote local product demands the strengthening of control of illegal trade is very important which affects local production as well as earnings of the country. The number of textile industries is much behind the required number of industries.

The nature of textile sector is labor intensive which require low startup capital and has a tradition of beginning of industrialization for most countries in the world. This paper generally tries to examine Ethiopia's potential with respect to textile production and its benefits from the sector from regional and international markets. Ethiopia has large number of working population, but the employment share of the sector in manufacturing is insignificant even much lower when compared to the government's plan to create job opportunity from the sector. Despite Ethiopia has suitable land for production of raw material and favorable policy environment for investment, the export performance of the sector as compared to other countries is not significant. The sector is constrained by insufficiency of working capital and infrastructural facilities. The improvement in liberalizing the economy and the government's provision of different incentives to attract more investors, the number of factories that joined the sector are as such not prominent and it needs to be examined**.** Since Ethiopian cotton products has comparative cost advantages and it is believed that the sector would be attractive for investment. Generally, the country is not in a position to utilize the potential of the sector which needs attention since it is historical fact that textile industry is the base for industrialization. Furthermore, there are many countries which follow export oriented development strategy and are already established themselves in the international market and Ethiopia is expected to compete with them and requires much attention to build the potential of the country. The rapid technological change and poor infrastructural development in Ethiopia is expected to threaten the sector and also it requires attention to this end.

4.2 Recommendation

- It has been observed that Ethiopia has favorable condition for textile production, but not benefited much from the sector and the country has to try to avoid the treats and problems identified in order to exploit these opportunities.
- In export of lint cotton care must be taken because when quality lint is exported the local industries will be left with inferior quality lint from which the fabrics produced out of it will be inferior there by affecting the industry 's well as foreign earning of the nation.
- Textile industries have to be obliged to maintain their operational records which are the bottleneck for analysis and predict the future fate of the sector by the firm and other stake holders.
- The newly established textile development institute has to be strengthened and try to solve the problems of the sector with concerned government bodies for import of raw material and to export of products.
- To improve labor productivity training and incentive system has to be developed to increase production and reduce production cost.
- Similar to textile development institute chemical dyes which are imported from abroad have to be installed in Ethiopia.
- The government and the institute have to provide information on market access and the performance of the sector worldwide, so that participants could adjust themselves as per the conditions to be prevailed, tax system, market entry mechanism, trade conditions.

- Producers have to have knowledge of importance of quality and persistence that have equal weight as price by the eyes of customers.
- Working capital is the accelerating force of production and the means of obtaining it has to be facilitated.
- Ethiopia has to diversify its export products to exploit the opportunity given by AGOA.

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