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The Rising Flow of FDI in Ethiopia: A Critical Perspective on the Textile and Apparel Industry

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Abstract

This article analyses the increasing flow of Foreign Direct Investment in the Textile and Apparel sector in Ethiopia arguing that it has been mainly motivated by the promise of profit to accumulate wealth at an unprecedented scale. The main findings of the article reveal that Ethiopia provides cheap labor with the lowest pay in the world, easy access to land, and privileged access to high-income markets around the globe. Besides, the labor policy regime, cheap electricity-power supply, and tax-related benefits sum up the supplementary policy milieu for capital accumulation in the Ethiopian textile and apparel sector.

Keywords: Ethiopia Textile Industry • Capital Accumulation • Working Poor • Reserve army of labor

Abbreviations: FDI: Foreign Direct Investment; IMF: The International Monetary Fund; WB: The World Bank; GTP: Growth and Transformation Plan; LDCs: Least Developed Countries; COMESA: Common Market for Eastern and Southern Africa: UNCTAD: United Nation Conference on Trade and Development

Introduction

It is very normal in the age of neoliberalism to see that influential global institutions such as the World Bank (WB) and the International Monetary Fund (IMF) are encouraging Foreign Direct Investment (FDI) and presenting it as an incentive for developing countries to achieve their economic growth and development objectives. As a result, countries in many parts of the developing world have liberalized their economies to make their macroeconomic environment investment-friendly and enhance their competitive advantages in the manufacture of certain products. African countries have been involved in this process for a quite long time. Being a continent with immense potential-natural resource endowments-but with low savings and financial resources for investment, it has been attracting the interest of global capital in various sectors of its economy.

Being one of the countries with a shortage of capital for investment, in recent times, Ethiopia has been attracting FDI in the various sectors of its economy. In 2015, the Ethiopian government has developed a five-year development plan called the Growth and Transformation Plan (GTP) for the second time-2010/11 to 2014/15 and 2015/16 to 2020/2021-to increase the share of the manufacturing sector in the national economy and thereby move the country towards industrialization. By identifying promising manufacturing sectors, particularly in labor-intensive manufacturing industries, where the country has been deemed to have an enormous advantage, the plan aims to drive the country towards industrialization and bring about a structural transformation in the national economy. The main objective of the Government of Ethiopia is to diversify its economy to increase its foreign exchange reserve, create jobs for the alarmingly increasing youth population, and enhance the revenue collection from the domestic economy. According to research by the World Bank Group, since the start of the first Growth and Transformation Plan (GTP I) in 2010, FDI flows to Ethiopia have increased at an average rate of almost 50% per year, reaching $2.2 billion in 2015 and $3.2 billion in 2017. Although it has shown a slight decline, Ethiopia still receives a substantial amount of FDI in 2018 and 2019, 3.6 billion and 3.3 billion respectively. Among others, commercial agriculture and manufacturing industries including leather, and textile sectors remain major areas of the international capital interest in the country [1-4].

Considering that job development is one of the government's priorities in the face of dramatically growing population figures, over 105 million in the current estimate, textile manufacturing remains the focus in this regard [1]. Companies that have been looking for an alternative production base from India, Bangladesh, China, Pakistan, and Turkey have been floating in the country in recent years. Besides, multinational fashion companies like H&M, Guess, J Crew, and Naturalizes are now seeing promises in Ethiopia and have begun to outsource production in the global value chain from this new center. The main driving force behind the flow of textile and apparel companies into the country was the need for lower production costs and maximum profits. Asia was an attractive destination and especially Bangladesh but, due to increased labor costs and strict labor regulations, textile manufacturers began to shift their production overseas [2,5,6].

Against this backdrop, it is a well-reported tale that FDI provides the recipient countries with a growth boost. However, there is a critical strand as well which argues FDI leads to the exploitation of the already poor. Having an inherent drive for profit accumulation, capital aims at exploiting the opportunities by taking advantage of the situation of the poor nations in the developing world [7]. This article then looks critically at FDI's flow into Ethiopia. In doing so, it examines the determinants of the global restructuring process that has led in recent years to the emergence of an export-oriented textile and apparel industry in Ethiopia.

The Global Restructuring of Textile and Apparel Industries

Capital mobility in emerging economies is related to its opening up to global capital and offering mega benefit. For mobility to happen, it is important to give Capital the prospect of expanding by reducing production costs as well as substantial demand for its production (ibid.). With the implementation of quota on the international market, Bangladesh, for example, became the hub of the development of clothing in the 1970s as manufacturers and buyers, many from the Newly Industrializing Countries (NICs), including Taiwan, South Korea, and Hong Kong, looked for small, low-wage sites

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that were still 'quota-free'. During this time, several entrepreneurs from quota-restricted countries formed sub-contracting relationships with some of the ready-made garment factories in Bangladesh to take advantage of cheap labor and lack of quotas. The sector did not take off, however, until the government made reforms to the domestic policy climate by liberalizing the economy to draw the country's FDI further (ibid). Pushed by the WB and the IMF to open up the economy, Bangladesh declared an export-led development plan that the private sector should take the lead in the early 1980s. A variety of direct export incentive schemes were placed in place through the development of export processing zones through the supported FDI flow. Bangladesh has since been one of the world's largest exporters of garment products [8,9].

The new trend in the global restructuring of the clothing industry's position in Ethiopia has much to share with the Bangladesh case. Although the East Asian countries, including Bangladesh, have been significant FDI host countries over the past three decades, some of them are gradually losing their competitive edge due to increasing labor costs, higher land costs, and more stringent regulatory enforcement. Ethiopia has been drawing FDI in this sector as a result of the aforementioned growth in Asia. The flow of FDI in this sector is also enhanced by Ethiopia's privileged access to the world's high-income markets. Also, "cheap" and abundant labor adds to its attraction as an FDI host country (ibid.). Besides, the flow of textile producers to Ethiopia is also boosted by the collapse of the Trans-Pacific Partnership (TTP), which has given most East Asian countries privileged access to the US market. According to Barrie, the end of TTP has led to a further reduction or withdrawal of Chinese, Korean, and Taiwan investment in Vietnam opening up their migration to Ethiopia, which enjoys the privilegeofduty-free benefits in the world's largest market centers. Last but not least, the Government of Ethiopia is promoting FDI through the construction of export processing zones (EPZs) in different parts of the country by providing lucrative investment incentives to textile and clothing investors [6,10,11].

Trends in the FDI Inflow in Ethiopia

Ethiopia's industrial policy has been attracting a substantial capital for the development of its manufacturing base. This progress is a result of the country's industrial growth policy planned by building EPZs. By using EPZs as a springboard for participation in Global Value Chains (GVCs), this country can become the largest FDI host economy among African(LDCs) [4].

According to the 2019 UNICTAD World Investment Report, Ethiopia has eighteen industrial parks built especially to attract FDI in the manufacturing of export goods (Figure 1).

Thus, the country has begun to attract large FDIs in recent years because of the rising number of industrial parks. The Industrial Parks are special economic zones that offer investors unique incentives in various sectors including the country's much-needed textile and apparel industries (Figure 2).

As reported in the UNICTAD 2015 World Investment Report, the expansion and growing flow of FDI in the textile sector is made possible in Ethiopia due to the low wages paid to the sector’s workers and access to cheap electricity. Besides these, preferential treatment on exports of apparel to the United States through the African Growth and Opportunity Act (AGOA) has also led to the increasing interest of Asian manufacturers. This, in turn, has resulted in the country drawing up a significant level of FDI in the sector, $1.2 billion in 2014. In 2015, Africa received FDI totaling 7.8 billion dollars. Among this, Ethiopia has received a 2.2 billion investment. In this year, the textile and clothing companies from Bangladesh, China, and Turkey seeking alternative production bases for exports to the European Union (EU) and North America have invested billions of dollars in the country particularly because of the country’s’ privileged exports under the African Growth and Opportunity Act (AGOA) and Economic Partnership Agreements (EPAs) [12].

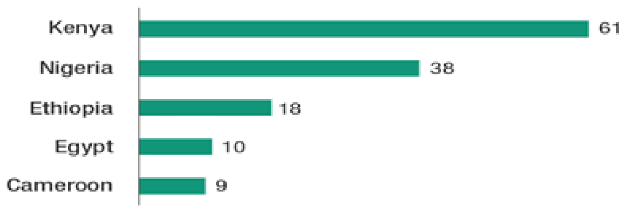

Figure 1. Number of Industrial Parks by country.
Source. UNICTAD World Investment Report 2019

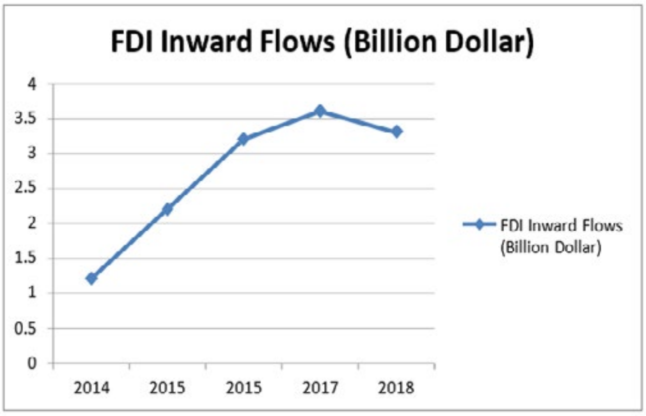

Figure 2. FDI Inward Flows in Ethiopia, 2014-2018.
Source. Researcher’s computation using UNICTAD World Investment Report 2015, 2016, 2017, 2018, 2019

Flows to Ethiopia increased in 2016 by 46 percent to $3.2 billion, fuelled by infrastructure and manufacturing investment. This figure accounts for nearly half of this particular year's overall investment inflows into landlocked African developing countries. In 2017 East Africa gained 7.6 billion dollars in FDI. Ethiopia has absorbed nearly half of this $3.6 billion volume, and is now the second-largest FDI recipient in Africa after Egypt, despite its smaller economy. In 2017, US apparel suppliers (Calvin Klein and Tommy Hilfiger), China (Giorgio Armani and Hugo Boss), and Dubia (Giorgio Armani) all established their factories in Ethiopia. Most of those companies are located at the Hawassa Industrial Park (HIP) flagship.

Though the investment flow decelerated compared to 2017 in 2018, Ethiopia has received a whopping $3.3 billion in FDI. Still, this number makes the country the largest host economy of FDI among African LDCs. According to the 2019 UNICTAD World Investment Report; due to its newly developed industrial parks, the country has accumulated this amount of investment.

The report further states that, within a few years, the country has been able to generate nearly 50,000 jobs through its EPZs, with a high proportion of jobs going to women, but questions are being asked about the quality of jobs created by the industrial parks.

Factors Driving the Inflow of FDI in Ethiopia

Currently, Ethiopia attracts foreign investors ' interest in the textile and apparel sector. History clearly shows that global businesses are all going out to places that give them the utmost advantage to make a profit and accumulate unprecedented wealth. According to Foster, companies are continuously striving for the lowest possible costs globally to increase their profit margins and strengthen their level of monopoly within a given industry and it is this continuous search for a low-cost position and higher profit margins that have led to the beginning of the expansion of foreign direct investment in the world. Looking at the current trajectory of FDI growth in Ethiopia, it may be possible to mention various determinant elements including cheap labor, low priced land lease, ease access for the international market, the minimum cost of energy, and massive tax incentives. Each factor has its explanatory potential for expanding FDI in this country. The following section, therefore, discusses each of the elements in brief [13].

Reserve Labor Army and Cheap Labor Cost

Borrowing from W. Arthur Lewis's famous article "*Economic Development with Unlimited Supplies of Labour*", Foster et al. argues that

"In third world countries with vast, seemingly "unlimited" supplies of labor, capital accumulation could occur at a high rate while wages remained constant and at subsistence level. This was due to the very high reserve army of labor and population growth [13,14]"

The growth of FDI in Ethiopia's textile and apparel sector is a clear proof of the concept stated in the citation above. It is primarily the existence of a massive reserve labor army coupled with absurd salaries in the sector that makes Ethiopia a preferred destination in this sector for global capital. As Luxemburg argues, one of the fundamental conditions for capitalist accumulation is an offering of living labor that capital can mobilize to meet its demands. In other words, capitalism needs a non-capitalist environment to appropriate wage labor, which makes accumulation possible. Gelb compare current Ethiopia with the China of the 1980s, which offered global capital with the young, abundant, and well-educated labor force required by the textile and apparel industries. Ethiopia now has an estimated 110 million people, and 65 percent of its population is under 25 years of age. Besides that, women's unemployment rate is around 50 percent. This profile has made the country an ideal destination for the sector that largely relies on the availability of abundant young women who can cope with the sector's intense working conditions. In terms of wage, the wage in Ethiopia is significantly lower compared to countries that already host significant FDI in this sector and other potential destinations [5,15,16].

Against this backdrop, in recent years, the global textile and apparel industries have established a new frontier for low-paid labor in Ethiopia, according to numerous reports, with wages increasing in Asia. Entry-level garment workers in Ethiopia typically earn a base salary of only$26 a month, making Ethiopian employees the lowest paid, by far, in the global supply chain of clothing [16].

The figure above indicates that Ethiopia is at the bottom of the wage scale paid to textile and apparel industries workers. The main reason for such low salary levels in the sector is the lack of a minimum wage policy for the country's private sectors. Because of this, the $26 salary per month is the wage standard manufacturers determined by their association. Besides, having an inherent drive for profit accumulation, capital aims to exploit opportunities by taking advantage of the situation of developing world poor nations. The current situation overall has degraded the workers in the sector to the state of slavery (Figure 3) [16].

Easy access for land

As Akter explicitly puts it, easy access to land with minimum lease payments is another important incentive for the global textile industries investing in Ethiopia. The land used to construct the industrial zones in different parts of the country is usually made accessible by removing farmers from their lands (de-peasantization). In addition to the land used for the construction of industrial zones, the government recently pointed out that it has 2,6 million hectares of land made available for the production of cotton and fibers and efforts are being made to tempt investors to invest in the cotton farming industries. This process of removing farmers from their land-dispossessing them from direct access to means of production to produce raw materials for the rising textile industries is quite similar to the idea called "Accumulation by dispossession" by David Harvey. However, in the era of neoliberalism and the situation where labor is already abundant on the market, as is the case in Ethiopia, dispossession, and displacement are not automatically related to rendering the farmers dependent on jobs in the industrial sector. Instead, primitive accumulation includes land plundering to produce materials for industrial commodity production [1,17-19].

Besides that, developers enjoy land access at a reasonable lower lease pace. The country offers investors land access on a leasehold basis of up to 99 years. Additionally, the lease price is the lowest in the world with around $1-2 per square foot in the Central Business Zone (Addis Ababa), which the Investment Commission says a "promotional rate" for developers of industrial parks. Regional states have opportunities more favorable than the capital city. In Hawassa city, for example, a land lease with zero charges for factories and residential quarters is provided for up to 80 years [2,20].

Privileged access to high-income markets

One of the key drivers in this sector's global production center relocation is the potential market access for companies from their new production center. As already discussed, the question of quota in the international market in the 1970s and 1980s was one of the reasons behind the global textile and apparel companies move to Bangladesh. Similarly, the preferential international and regional bilateral trade agreement Ethiopia has signed has been playing a crucial role in the country's move to be one of the leading textile and apparel hubs in the world. In this regard, the African Growth and Opportunity Act (AGOA), which the American Government renewed in 2015 for another decade and the Duty-free access to the European Union (EU) through preferential treatment of the European market under the ACP-EU Lome Convention are notable. The exports from Ethiopia are also entitled to duty-free entry into Canada and preferential duty status to Japan under bilateral agreements signed by between the two countries [17,21].

Ethiopian products have duty-free access to 23 African countries through the Common Market for Eastern and Southern Africa (COMESA), apart from the aforementioned big market places. In general, the unrestricted entry of goods into the world market as well as the minimum tax obligation offer better incentives for the capitalists to invest in Ethiopia. This, in turn, makes the manufacturers make high profits on their investment and reduces the time of acquiring a return on their investment.

Supplementary Policy Milieus for Capital Accumulation

Speaking of the vision of making Ethiopia the leading manufacturing hub in Africa's textile and apparel industries, Ethiopian Prime Minister's Industrial Policy Advisor, Dr. Arkebe Oqubay, said that "It's a challenge, but one we are confident that we can do it. We believe that if Vietnam can do it if Bangladesh can do it, we believe Ethiopia can do it even better ". In addition to his claims, the owner of a Chinese company called JP textile,

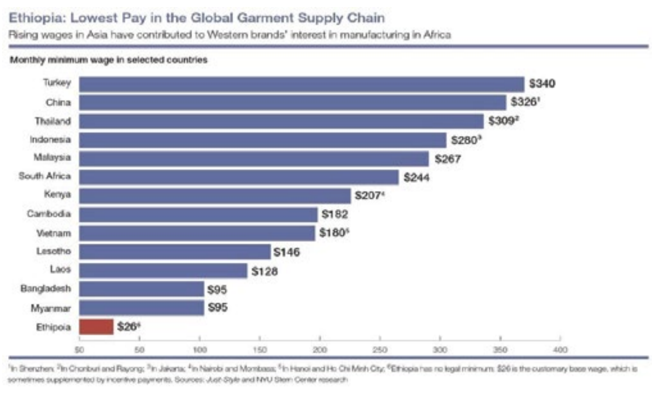

Figure 3. Monthly minimum wages in the textile and apparel industries in selected countries.

Source: Barret, P.M. and Baumann-Pauly, D. (2019). Made in Ethiopia: Challenges in the Garment Industry's New Frontier. New York University Stern Center for Business and Human Rights which has 12 years of experience in manufacturing fabrics in Bangladesh and is currently beginning to manufacture textiles in Ethiopia, also affirmed that investing in Ethiopia is "even better than Bangladesh". Practically, capital hunting for a better opportunity to accumulate wealth is not a hidden reality. One can logically ask, however, how could Ethiopia do it better than Bangladesh or Vietnam, and what makes it a better place to invest in this country? Presumably, to win the race in attracting FDI, Ethiopia must offer a better environment for accumulation than its other competitors. Cheap labor and land, as well as access to raw materials and the international market, plays a central role as capital looks for new ways to increase its profitability. The discussion above briefly touched on these issues. But what else might call a global capital "race to the bottom," in its decision to invest in Ethiopia, apart from these factors which are considered important for capital accumulation? Among others, favorable labor policies, cheap electricity, and massive tax holidays are key to the interest of investors in planting their factories in Ethiopia. These are the strategies by which the state uses its power to reassign profit to the capitalist classes and facilitate the process of accumulation. Thus, the discussion below provides a brief explanation of additional factors that encourage investment in Ethiopia's textile and apparel sector [22,23].

Labor policy

The growth of Ethiopia's textile and apparel sector is also down to the country's virtual lack of labor market protection. As one of the countries with the world's lower labor union density, labor cannot negotiate for better wages, and any attempt will be cracked by the authoritarian state security apparatus in defense of international capital. Apart from this, what makes excessive labor-force appropriation possible is the country's lack of minimum wage for the workers in the private sector. Making the space more favorable to capital, the government has not set any minimum wage level and companies areexpected to negotiate at the lowest possible wage level with the workforce. Thus, this kind of policy framework has allowed the manufacturers to pay as low as $26 per month for their employees. Ironically, the government argues that the Workers are not going to the factory threatened with a gun in their heads. The fact on the ground, however, is that the state is hostile to workers ' rights, and remains the vanguard of capital. This, in effect, shows that the government is attempting to ascend the industrialization ladder by retaining a competitive edge by abolishing labor rights, at the return on the capital gain. This, in turn, opens up a favorable environment for international capital, whose profitability depends on labor-force exploitation. Overall, the lack of adequate protection for the textile and apparel industry employees has facilitated the growth of FDI in the sector [23-25].

Cheap electricity-power supply

Another extraordinary incentive given to textile sector investors is extremely low-priced access to electricity. The country has the cheapest electricity price in Africa [5]. Even if grid failure and power outages are serious problems, the government has set up an independent power station for the industrial zones to ensure their reliability (ibid).

The figure above shows that Ethiopia's electricity price is just $3.5 cents per kWh, making it the lowest in the world. For example, even compared to $9 cent in Kenya, the country provides investors with an absolute advantage in providing cheap electricity. This, in turn, enables investors to make a better profit than doing business in other countries in the world (Figure 4).

Tax-related benefits

Ethiopia's government tax cuts have been one of the main rewards packages that have led to unprecedented foreign investment flow rates over the last five years. The benefits include preferential trade agreements that can offer investors up to nine years of income tax holidays, export tax exemptions, and duty-free imports of machinery, equipment, and building materials. This privilege gives investors a massive pledge to accumulate profit while reducing the taxes that could be generated domestically to run the state affairs. Given that the country relies heavily on foreign aid and a loan to run the state's functions, this much incentive seems absurd.

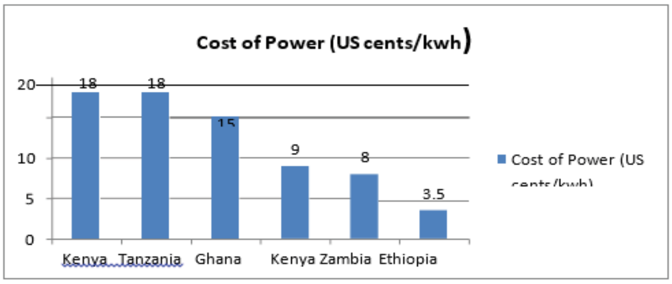

Figure 4. Cost of power in Comparator Countries
Source: Mihretu and Llobet (2017).

However, the incentives for the capital, which innately focus on maximizing profits, are huge opportunities that most need to be tapped into. Ethiopia, for example, has lost $1.85 billion in corporate tax benefits in 2015 according to the IMF survey [26,27].

The same study estimated that tax exemptions on capital goods and income tax holidays alone in 2010 may have cost Ethiopia around 3 percent of GDP. These types of tax incentives are a form of public expenditure which reduces in particular the national budget allocation to be spent on other pro-poor projects. Overall, caution and rationalization are required while providing tax incentives for foreign investment in general, and particularly for the textile industries.

The fate of Ethiopian workers in the textile industries “Race to the Bottom” The workers in the textile and apparel industries have to deal with a continuing problem. That is, the workers would have to work and live on miserable wages in poor conditions that do not bring them out of the poverty trap. In most of the world's leading apparel-exporting countries, the pervasiveness of declining real wages and persistent poverty for garment workers raises concerns that export-led development strategy creates a situation where the rising tide lifts all boats in most countries implementing such strategies. Similarly, studies by Gelb show that salaries in Ethiopia's textile and apparel industries are extremely small, just over $1 a day on average. Given the current level of wages, it could be said that the workers are underpaid or almost unpaid. This, in effect, shows that a worker at this wage level cannot meet their basic needs [28].

Sometimes, manufacturers say that wage rates rise as labor productivity increases. However, the Bangladesh experience shows us that even the relocation of textile industries started about four decades ago and that the country has become one of the world's leading exporters of clothing products, the wage level remains significantly low, tempting people to describe it as 'modern slavery' [29]. This means that whatever increases in productivity rates, the higher the number of reserve labor army the slower the rise in wage level would be. Against this background, there is no guarantee that the labor situation in Ethiopia will not face the same prospects. The nation has a population of over 110 million and over 65% are under 25. A great deal of labor supply means that the prospect of wage growth is still minimal. The absence of minimum wages and the large workforce waiting on the wing to find employment would drastically decrease the salary rates. Thus, capital will continue to replicate and accumulate wealth through the super appropriation of labor. In general, although the growth of the textile and apparel industry continues to increase formal employment, it does not automatically bring employees out of poverty. Finally, the expansion of jobs in the textile sector can initially make the very poor less poor, but give workers restricted opportunities to make more progress towards an income that provides them with a minimally decent and secure standard of living, thus it would not lift them out of the poverty situation [30-37].

Conclusion

The driving force behind foreign capital's mobility is its desire to make a profit. To secure maximum profit, it moves from place to place by relocating its center of production to where it could produce the cheapest.

This global trend in production center relocations is very common in the textile and apparel industries. This article attempted to address the current trajectories of this sector being repositioned into Ethiopia. It emphasized the continuous appropriation of peripheral capital through low labor wages and easy access for land and the international market has been driving force behind the sector's relocation to Ethiopia. The article also pointed out that by providing a conducive policy environment for massive profit, Ethiopia has entered the path of marking its name among countries destined to be the future textile and apparel sector sweatshop in the world.

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