

## Opportunities and Challenges of African Growth Opportunity Act (AGOA) on Ethiopia Foreign Trade Development: The Case of Textile & Apparel Sub-Sector

TEFERRI ZEWDIE<sup>1</sup>

General Manager at GM Furniture, Senior Business Consultant

HAILEMARIAM ZEWDIE<sup>2</sup>

Adama Science and Technology University

### Abstract:

*Ethiopia is one of the Sub-Sahara African (SSA) countries which experienced for Africa Growth and Opportunity Act (AGOA) which allows Sub-Saharan African countries to export qualified products to the U.S market free of tariff and quota. Since 2001, Ethiopia has been utilizing this opportunity by exporting different products, including the textile and apparel products, to US market. And yet, the textile and apparel sub-sector has not fully able to utilize the AGOA like other some SSA countries. Six respondents among those textile and apparel exporters under AGOA, five respondents from Ethiopian Textile and Garment Association, Ethiopian Textile Industry Development Institute, Ministry of Trade (AGOA*

---

<sup>1</sup> Tefferi Zewdie has hold his B.A degree in Accounting from Addis Ababa University 1994 and earned his M.A degree in international Business Management from Greenwich University. He has served in various prestigious organization Ethiopian Airlines, Ethiopian Telecommunication as Regional manager and senior accountant and business consultant. Now he is working as a general manager at GM furniture private factory. His research interest is to solve challenges associated; Foreign Direct Investment, taxing, employment and managerial issues.

<sup>2</sup> Hailemariam Zewdie has hold his B.A degree in geography and environmental management from Debu University in 2006, and M.A degree in population and socio-economic development planning from Adama Science and Technology University. He has served as a lecturer in different universities and published a journal article, "Socio-Economic Impacts of Migration and Remittances: Examinations of Households in Gohatsion Town" in *Journal of Sustainable Development in Africa* Vol, 17 No.8, 2015.

*Representative), AGOA Wega Plus and Ethiopian Inland and Custom Authority (Preferential Trade Desk) were chosen and interviewed and secondary source of data were also applied. The data collected were structured based on opportunities and challenges that can influence the competitiveness of the sub-sector. The study result discovered, the challenges, such as poor financial market, shortage of raw materials, lack of infrastructure, old machineries, and poor firm's international market strategy and so on, that the exporters has been facing in using AGOA schemes. It is clear such factors that discourage the competitiveness of Ethiopian textile and apparel sub-sector. In contrast, a huge potential of factor endowments, AGOA duty free market access, the Ethiopian government support are the encouraging factors that prompt the sub-sector's competitiveness. This study reflects on Ethiopia's experience under AGOA thus far, examines the opportunities and challenges of the Ethiopian textile and apparel industry in achieving the maximum benefits out of the African Growth Opportunity Act, and makes a number of recommendations for both Ethiopian and U.S. policy makers to improve AGOA.*

**Key words:** Africa Growth and Opportunity Act, General System Preference, Everything but Arms, Textile and apparel, Ethiopia

## **1. INTRODUCTION**

The AGOA is a non-reciprocal preferential trade program that the US offers to 49 sub Saharan countries (Williams, 2015). The objective of the act is to foster trade and investment between the United States and Sub Saharan African countries by reducing and eliminating tariffs on selected export products (USITC, 2012). Requirement for AGOA preferences is based on a set of conditions contained in the AGOA legislation. In order to qualify and remain eligible for AGOA, each SSA country must be working to improve its economy as well as some of its socio-political subjects like the rule of law human rights and respect for core labour standards and the like (AGOA 2015).The

review of the country is done annually by the president of the United States. The act has been amended or re-extended a number of times and as a result the trade legislation has been categorized by phases. AGOA IV was set to expire on September 30, 2015 but President Barrack Obama signed a ten year extension on June 29, 2015 After the US congress passed new AGOA legislation (AGOA, 2015).

Ethiopia has been one of the beneficiaries of this act following the enactment of the act since may 2000.As a result Ethiopia has been one of SSA countries to export to the USA market within the last decades and one of the leading countries to form a National Response Strategy and Establishment national AGOA centre to better utilize the opportunity act at (NAGOAC,2013).The leading sectors in Ethiopia's export to the US market include garment and textile, leather products and horticulture and agro-processing (AGOA, 2015)

The country's textile and apparel industry is currently under growing a major expansion program and its government is implementing a number of prudent macroeconomic policies designed to support that growth. This has helped to place the country even higher on the radar of sourcing exports. According to USITC (2015) report the export performance of Ethiopia textile and apparel has increased, on average, 51% annually for the last decades.

With several government incentives in place, a priority given towards developing textile and apparel 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.

At current the textile and apparel sector consists of around 130 medium and large scale factories, of which 37 are foreign, owned in 2014 the export size of the sector mounted to around 113 million USD and employed 37,000 workers. The target set for 2020 is to realize and export growth of 1 billion

USD. The sector now represents 6% of the country's total export values with ambition to grow to 22% in 2020 (USITC, 2015).

Even though Ethiopia has been utilizing this opportunity by exporting different products including the textile and apparel products to the US markets, the textile and apparel sub sector has not fully utilized the AGOA agreements like other some SSA countries. In other words, the sub sector has still existing at the lowest level of competitiveness.

According to USAID (2010) report Ethiopian textile and apparel sub-sector export performance under AGOA illustrated a rising tendency over recent years, the sub-sector still classified with its lowest level of competitiveness as well as ranked under the lowest level among other countries utilizing the AGOA benefits. This means Ethiopia has an extremely lower utilization rate, with a much smaller percentage of apparel exports under AGOA. Generally, those qualified countries can use third country textile inputs for their AGOA-eligible exports.

And yet, Ethiopian manufacturers has a comparative advantage in domestic production of raw materials (cotton, silk), the country stable political and business environment, government support and investment incentives. However, if we are compare the Ethiopian exports to other country under AGOA still low.

Thus, this study analyzed the opportunities and challenges that affect the competitiveness of Ethiopian textile and apparel subsector under AGOA. In general, the study investigated and analyzed the positive and negative factors that affect the competitiveness of the subsector, and identify implications to investment that improves the sectors competitiveness.

Furthermore the study is relevant and timely given the opportunity act has been extended for another ten years by the United States legislature body and there are issues that need to

be recognized and addressed by all involved parties in order to better utilize the opportunity for the coming ten years particularly on fostering the foreign trade .this study provides, based on updated data ,additional inputs on AGOA's contribution on foreign trade and the challenges and prospects that are associated with the framework. It does so by combining macro and micro level analysis of AGOA driven foreign trade in Ethiopia.

## **2. LITERATURE REVIEW**

### **2.1 Overview of the Ethiopian Textiles & Apparels Manufacturing sub-Sector**

According to USITC (2015) report, Ethiopia with a population of 96, 6 million is the second-most populous nation in Sub-Saharan Africa after Nigeria. Ethiopia's economy is primarily based on agriculture(46% of GDP) but over the last decades the government has been determined to diversify the exports with a priority set for strategic sectors like light manufacturing, textile and apparel sub-sector.

The sector is part of the governments Growth and Transformation Plan (GTP) which started in 2010/11 to transform the nations from agricultural dominated into a manufacturing economy with aspirations to become a middle income nation in 2025.

### **2.2 What is AGOA?**

African Growth and opportunity act is a Generalized System of Preferences trade agreement that is part of United States trade and development act of 2000. AGOA was signed in to law on May 18,2000 but it is not the first preferential trade agreement that is given by the United States to Sub-Saharan Africa (AGOA,2015).The United States has other Generalized System Preference trade agreement with Sub-Saharan African

countries before AGOA was enacted in 2000 and these GSP trade agreement are still operational.

Many trade acts have their own rules and regulations. In similar manner, AGOA has different rules, regulations and criteria's for countries and product eligibility in addition. AGOA has been restructured from its earlier version in 2000 and has come to be known as AGOA I, AGOA II, AGOA III and AGOA IV ([www.agoa.info](http://www.agoa.info)).

The most recent AGOA extension until 2025 was signed in to law on June 29, 2015 by President Barack Obama. The aim of African Growth and Opportunity Act is to help SSA continue their efforts to open up their economies and build free market by offering tangible incentives through trade and investment.

The legislation that contains the AGOA amendment's also provides for several other areas of US preferential trades including the Generalizes system of Preferences (GSP),and is titled as the 'Trade Preferences Extension Act of 2015' (US consensus 2015).

The original AGOA legislation indicated that a country's eligibility for AGOA depend on three major requirements(1) having established ,or are currently making progress towards ,a market- based economy, the rule of law, the elimination of trade barrier ,economic policies that reduce poverty, system to combat corruption and protection of workers right ;(2)not engaging in activities that undermine US national security; and (3) not engaging in gross violations of human rights or support of terrorism. For the country to become AGOA beneficiaries, the President defined that the country fits these criteria (Schneider and Lewis, 2012).

Therefore with this liberal reform spirits, according to USITC (2014) report on AGOA trade and investment performance, AGOA approves entrance of approximately 7,000 SSA produced items to the United States market and the

product items includes crude oil and petroleum, minerals, apparel and textiles leather and leather products, automotive components, food products and steel items. The report further states apparel provisions requires 'U.S visa' for the products and countries that seek to export apparel products must first establish effective visa systems via US embassies in their respective countries in order to prevent illegal transshipment and use of counterfeit documentation. However, the rules of third country fabric provision and the requirement of the 'US VISA' for some products like garments have created a slowdown of apparel exports (Williams, 2015).

## **2.2 Ethiopian Textile and Apparel sub-Sector under AGOA**

Among any economic partnership agreement's Ethiopia engaged in, AGOA is the most generous market access opportunity. AGOA takes a key position in the current well performing Ethiopian economy in a way that it is triggering development in one of the key industrial sector- i.e. textile and apparel which is believed to have a chain effect of the development of other industries by initiating greater employment and value addition on agricultural products like cotton.

The study of USITC (2009) has acknowledged the Top 10 SSA countries in reference to their comparative advantage for the sub-sector. According to the report, Ethiopia is the selected as the most preferable locations for viable potential for production of textile and apparel by doing expansion or through Greenfield investment or other measures.

According to ETIDI report (2011) after Ethiopia has enjoyed AGOA scheme, there were only two exporters, namely Garment Express PLC and Adey Abeba Yarn S.C, in 2001. If we are looking the 2001 exporting performance of the two companies were 72,160 and 84,553, and in 2002 one additional

exporter, namely Nazareth Garment share company, started and the share company had exported value of exports (in USD) 22,250. Since 2004, the number of exporter increased to 7 including the first two exporters. In 2009, the number of exporters those export to us reached 15.

If we are looking the export trend to US under AGOA, the numbers of exporters have been increasing year by year. But on the other hand some exporters have started exporting and after a year they have stopped participating in foreign trade. There a lot of reasons for this. Some are explained ahead. Nowadays, the number of textile exporters is increasing dramatically in the year 2015 as the result of AGOA

## **2.4 Opportunities and challenges of the Textile and Apparel sub-Sector**

According to Rahel (2007) Ethiopian textile sub-sector is, next to food/ beverage & leather industry, the third major manufacturing industry. The country has favourable conditions such as untapped land, good weather, and plentiful water resources, for cotton production.

Furthermore, Ethiopia has a large population with cheap labour force. And also there is a great support of the government to the textiles and apparel sub-sector.

On the other hand, the sub-sector faced some major challenges to utilize AGOA privileges. According to Hiwotie (2010) lack of access to international information and technology, lack of skilled labour due to social instability, high cost of inputs, lack of local insufficient textile and accessories suppliers, and infrastructure problems are major challenges that affect the competitiveness of the sector.



### **3. METHODOLOGY**

The study employed qualitative methods in attempt to identify challenges and opportunities relating AGOA foreign trade in Ethiopia. According to Rubin et. al. (2006) the qualitative method has involving the process of coming up with detailed or in-depth description on the specific phenomena. The researcher used the qualitative research method. The use of qualitative method supports the case study this is in line with the purpose this study.

#### **3.1 Sample selection and Justification**

The study selected Ethiopian textile sub-sector as the core area of the research. The researcher selected this sector in mainly reasons. To start with, the Ethiopian textile and apparel industry is the prime manufacturing industry, only subsequent to the food processing, beverage and leather industry. Secondly, among the qualified products Ethiopia is exporting under AGOA, such as agricultural products, forestry products, Footwear, Minerals and metal, the textile and apparel products constitute the major share and much of the AGOA successes. Thirdly, the country textile and apparel export performance under AGOA has been increased noticeably in last year's.

On top of that, according to the United State International Trade Commission (2009) report, Ethiopia has 1.1036 million square kilometers and productive land, favorable weather conditions, and copious water resources which are exceptionally appropriate for planting cotton. And yet, the Ethiopia textile and apparel sub-sector's level is categorized as very low rank in reference to the sector competitiveness. Accordingly, the researcher selects the sub-sector.

### **3.2 Sampling procedure**

The sampling technique followed a ‘principle of purposive sampling’ in such a way that those industries, experts, managers, representatives that have a direct link to the purpose of the study were selected. Accordingly, the study selected six Ethiopian textile and apparel exporters and five respondents from Ethiopian Textile and Garment Association, Ethiopian Textile Industry Development Institute, Ministry of Trade(AGOA Representative), AGOA wega Plus and Ethiopian Inland and Custom Authority (Preferential Trade Desk) were selected as the key participant of the study.

### **3.3 Data collection Instruments**

This paper entirely depends on primarily and secondary data. The major primary data collection tools that used by researcher is semi-structured interviews. All interview questions has administered to respondents in their offices. In regarding to the secondary data collection tools, researcher used published reports, research papers and relevant documents that collected and sited from concerned offices such as Ministry of Trade, Ethiopian Investment Agency, Ethiopian Chamber of Commerce, Ethiopian Textile and Garment Industry Association, & Ethiopia Textile Industry Development Institute.

Subsequently, an interview was undertaken in their office with selected respondents including various experts who are working in export related activities, Marketing Managers, General Manager, sectors’ managers, ETGAMA Manager, ETIDA Marketing Directorate, Ministry of Trade AGOA representative and Ethiopian Custom & Revenue Authority (Rule of Origin Office).

## **4. RESULTS AND DISCUSSIONS**

This study is aimed to analyze the prospects and challenges of AGOA on Ethiopian foreign trade development, the case of Ethiopian Textile and Apparel sub-sector. The analysis and interpretation was grounded on data generated from Ethiopian textile and apparels exporters and responsible government officials and other stakeholders such as USAID/VEGA-Ethiopia AGOA Plus experts.

### **4.1 Socio-Economic Characteristics of Exporters**

#### **4.1.1 Ownership and geographical distribution of textile enterprises**

As the result of the restructuring commenced by the Ethiopian government in past years, ownership of the industry has diversified. Because the government had took different measures in centre of privatization. This measures yielded positive impact in foreign trade development by increasing in the inflow of overseas and domestic private investment into the textile and apparel sub-sector, various type of ownership, such as public company, privately owned company, private limited company; individual enterprises etc.

Broadly, Ethiopian enterprises are categorized into public and private who are participating in the sub-sector. Most government owned enterprises are large scale, playing primary roles and located in densely populated medium and big cities due to the labour intensively nature of the sector (ETIDI,2011).

#### **4.1.2 Output and Products**

Ethiopia's textile and apparel sub-sector hold both medium and large enterprises. If we are looking their main activities majorly participating in the activities of spinning, textile formulation, colouring, finishing and sewing.

In Ethiopia main product of the textile and apparel sector is 100% cotton textiles. All manufacturers' enterprise fabricates one product choice. The product categories include cotton yarn & fabrics, bed sheets, blanket, knitwear etc. But the source of cotton yarn is local handlooms (ETIDI, 2011).

#### **4.1.3 Supply of raw material and accessories**

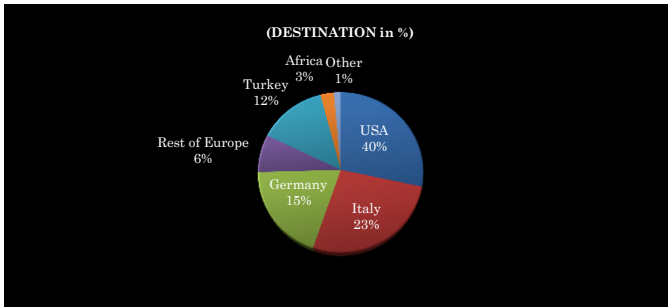
Cotton is a raw materials used by textile enterprises which grown broadly in Ethiopia and it is presented from local suppliers. But some important materials that used for producing textile such as dyestuffs, wool, chemical yarn, and chemicals etc are imported abroad (USICT, 2009).

Availability of cotton and encouraging conditions for cotton cultivation can accelerate the expansion of the industry. On the other hand, some imputes those imported from abroad can be producing by other local factories. Means these can be a good opportunity for other investors.

#### **4.1.4 Export Market**

Ethiopian textiles and apparel products have different international market access by Ethiopian government signed different unilateral agreements and preferential trade such as AGOA, COMESA and as interest of the exporter in any continents. Among any economic partnership agreement Ethiopia engaged in AGOA is the most generous market access opportunity.

As the graph reveals U.S takes a key position in the export of the Ethiopian textile and apparel products. Ethiopia exported textile and apparel products to different countries throughout the world. But the lion share is exported to U.S.



**Figure: Ethiopian Textile and Apparel exports by destination**  
*Source: ETAGAMA, 2015*

For instance, According to the (USITC,2015) bulletin report shows Ethiopian textile and apparel exporters has been exported to and earned 60 million USD in Ethiopian 2003 budget year (2010/11).The economic development in textile and apparel sector show an enormous growth and totalled 160 million USD export amount was earned in 2014/15. Ethiopia's textile and apparel export is mainly targeted at USA under AGOA, European and African markets.

#### **4.1.5 Marketing System of textile and apparel products**

Most textile and apparel manufacturers have participated in the domestic market than export market. Ethiopian textile enterprises are usually distributed their products, such as blankets, by private small traders to the local market. But the exporting activities are largely holding by the companies themselves. On the hand, imported textile takes a significant amount of the local consumption. These markets dominated by thousands small-scale traders and in some big trading companies.

#### **4.2 Opportunities that Grant Competitiveness for Textile and Apparel sub-Sector**

Ethiopian textile and apparel sub-sector has comparatively an enormous essential factor conditions that encourage the sector

competitiveness under AGOA. Major opportunities are explained below.

#### **4.2.1 Country Business Environment**

According to Tadesse, H. (2009) the business environment in any given country influences the cost of doing business. During the last decade, the country has recognized a record of economic development in stable macroeconomic climate. In the last several years, the country economy raised at an annual average rate of 5.8 per cent and around 10% GDP growth over the past five years. The exchange rate is obviously stable, and the budget deficit as a percentage of GDP has declined to acceptable levels.

Since the establishment of a federal system of government and parliamentary democracy, Ethiopia has been at peace and political stability. It is a major concern for businesses deciding whether to invest in textile and apparel input production facilities in the country or to buy textile and apparel inputs produced. Macroeconomic steadiness, the economic transformation and policy restructuring has secured the foundations of potential for development, creating a favorable climate for Ethiopia, which currently offers foreign investors ([www.unctad.org](http://www.unctad.org)).

As the key informant interview with Representative of AGOA in Ethiopia revealed that the government has been implementing fertile business environment so as to utilize the opportunity under AGOA's framework.

Chief among the government business environment reforms have been large public investment in infrastructure and power generation; creation of industrial zones with dedicated infrastructure and special incentive. (USITC, 2015)

The country's textile and apparel industry is currently under-growing a major expansion program, and the government is implementing a number of prudent macro economics policies

designed to support that growth. This has helped to place the country even higher on the radar of sourcing exports.

#### **4.2.2. Abundant Cotton Potential**

One promising aspect of Ethiopian Textile and apparel investment is cotton availability. The area under cotton cultivation in this period was reported to be 120,000 hectares. However, Ethiopia has 3 million hectares of land suitable for cotton production. This is almost equal to the amount of land under cotton cultivation in Pakistan, the fourth-largest world cotton producer. Presently only 4% of this area is under cotton cultivation.

Local cotton cultivation has developed to a certain scale and has made most important role to satisfying the sub-sector requirement of fibre. Ethiopia has a huge area of irrigated farmland which is especially appropriate for planting cotton. To sum, there is also immense prospective for further expanding the cultivation and increase the present yield in volume and quality.

#### **4.2.3 Abundant cheap labour resource**

Labour is an additional essential concern in the manufacturing of textile and apparel inputs. Because the production of most textile and apparel inputs is required more labour. Thus, the country has a population of more than 96 million, and with cheap cost of labour. These can supply adequate labour force for the development of labour intensive textile sub-sector. This can privilege cost competitiveness for the producers that enhance the competitiveness of the exporter (Hiwotie, 2009).

#### **4.2.4 Ethiopian Government Support through policy and incentives**

Ethiopian government Growth and Transformation Program (2015) clearly stated that the manufacturing sector such as

textile and apparel sub-sectors taken as a major sector to the growth of industrialization and to encourage export. In the next five years, the government has a strategy on textile and apparel sector to get a big domestic market share and to develop the competitiveness of the sector in international market.

The Ethiopian government took major reforms gradually that leads the country to exercise market-oriented reform. These measures can encourage the private sector, deregulating strict control over the economy etc. On top of that, by giving a big attention for value of the export promotion, the government has presented different types of export incentives. In general, the Ethiopian government has created an attracting business environment for the development of textile sub-sector.

It is highly unlikely international investor in competing African countries could say the same. One of the reasons behind the safe environment is the existence of a stable and progressive government that is working hard to attract investors.

#### **4.2.5 Growing trend of domestic textile**

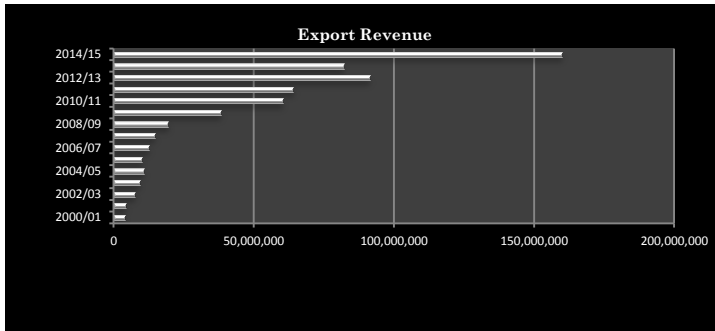
During the interview, all respondents agreed that the trend of the domestic demand is at increasing rate. It is predictable that local textile demand will boost at an annual rate of 5%, and the great and constantly growing home market will motivate the expansion of textile and apparel sub-sector (Rahel, 2007).

#### **4.2.6. Easy access to International Market (Preferential Market Accesses)**

Preferential market access can creates different international market opportunities to Ethiopian textile sub-sector. Among, African Growth and Opportunity Act is one of the preferential market accesses that create access for Ethiopian textile and apparel with duty and quota free.



Ethiopia exporters have access to international market by using different means. Due to this opportunity, Ethiopia textile and apparel export and become a significant for Ethiopian foreign trade development. The following the last 14 years data explain more about the country foreign trade development in textile & apparel sub sector.



**Figure 2: Trend of Ethiopian Textile & Apparel Export**

*Source: International Trade Center (2015)*

As the figure reveals the Ethiopian Textile & Apparel Export Data to Europe, US, Africa etc between (2001- 2014) has shown an increment.

#### **4.2.7 Establishment of Ethiopian Textile and Garment Association (ETGAMA)**

Ethiopian Textile and Garment Manufacturers' Association is a state-run union of the Ethiopian Textile and Garment Industry. Re-established in 2003, ETGAMA working to stand for the concern of its members. The association mainly engaged in firm's capacity building, local & international market connection, provide information and be activist in policy-related affairs ([www.face2face.com](http://www.face2face.com)).

Most respondents have the same opinion that, the establishment of Ethiopian Textile and Garment Association (ETGAMA) has notably support the producers to increase their competitiveness under AGOA. ETGAMA played vital role by providing marketing information and promoting the Ethiopian

textile and apparel sub-sectors overall performance to the world.

#### **4.2.8 Establishment of Ethiopian Textile Industry Development Institute (ETIDI)**

The Ethiopian Textile Industry Development Institute is established on June, 2010 to provide the required developmental supports to those who have been engaged in the textile sector business.

According to the institute officials the institute tries to originate different policies, and programs that encourage and speed up the improvement of the sub-sector, organize and broadcast company profiles to facilitate the growing the textile and apparel sub sector, advice investors desiring to engaged in textile and apparel industries on the selection of technology, negotiation, construction, erecting, and commissioning, preparing and conducting practical trainings on technology, technical matters, and other aspects, cooperate with government and private institutions with a similar projects locally and abroad, conduct market studies and so on.

Before establishment of ETIDI, there were any institutions working in a position to develop different policies in related to textile sector, organized and broadcasted textile company profiles, and advice investors. And also no institution before participated in the selection of technology, negotiation, construction, erecting, commissioning and so on. So, ETIDI can play a major role for development of the sector. During the interview exporters agreed about the significance of ETIDI for textile and apparel sub sector development.

#### **4.2.9 Existing Support from US government through USAID/VEGA-Ethiopia AGOA plus Program**

VEGA – Ethiopia’s program is an export promotion program which aimed to increase and encourage Ethiopia’s export

market to the United States, under AGOA and other international markets. The program was signed into law on May 18, 2000.

According to VEGA Ethiopia AGOA+ Program (2009) report the program will realize these goals in the course of the following three major project activities:

- A. Strengthen business organizations and associations to propose services to their members to be allow getting enhanced benefit of AGOA trade opportunities.
- B. Offer firm level support to companies with possible to acquire return of AGOA trade opportunities.
- C. Organize trade missions, private sector (firms) invitational travel to the U.S. to participate in key trade shows.

To sum, the particular rationale of the program is to encourage trade and industry development through export trade between United States, Ethiopia & other countries, and doing a business linkage services; informational services related to the opportunities afforded by, as well as the technical requirements to trade under AGOA; and technical assistance to enterprises, including firm-level expert volunteers to help firms overcome capacity and quality constraints, and intermediaries such as business associations.

During the interview the USAID officials underlined, the project involved in the following major activities that enhanced the competitive advantage of Ethiopian exporters.

- I. Holding AGOA awareness raising events for firms, chambers of commerce, and sectoral business association.
- II. Developing corporate profiles for exporting companies
- III. Facilitating the participation of Ethiopian firms in U.S. trade shows
- IV. Delivering technical assistance to Ethiopian firms to improve competitiveness in the global market place

- V. Organizing reverse trade missions and similar events between Ethiopian firms and the Diasporas community in the U.S. as well as U.S. buyers.
- VI. Providing training on international marketing in general and how to trade under AGOA specifically.
- VII. Providing demand driven business counselling to companies.
- VIII. Help companies and associations develop websites as well as standard marketing materials.

### **4.3 Challenges Inhibit Competitiveness of Ethiopian Textile and Apparel sub-Sector**

Although AGOA has given its beneficiary countries unprecedented access to the U.S. market, the opportunities presented by the legislation have not been utilized to their fullest potentials, and likewise the challenges it poses have not been overcome. Some challenges are:

#### **4.3.1 Shortage of Raw Materials (other than cotton) and Apparel Accessories**

Except for cotton, and some wool, Ethiopian producers of yarn, fabric, and other textile inputs import nearly all raw materials, including manmade fibres, dyes, and chemicals. Therefore, the cost and efficiency of producing textile and apparel inputs are affected by the ease and cost (such as tariffs and transportation) of importing raw materials.

An in depth interview made with a firm involved in AGOA exporting textile and apparel sub-sector answered when he asked about the availability of inputs: He boldly responded as follows:

I am a supply in a textile company. I don't want to buy local yarns. I would love to contribute to the industry. But the level of quality of available yarn is insufficient for me to ensure the final product demanded by our clients.

As the interview indicates exporters have scarcity of raw materials so they are forced to import from abroad for processing and then exporting again.

According USICT (2009) report Ethiopia has a competitive advantage in the production of cotton. In fact Ethiopia has about 2.3 million hectares of land good for cotton cultivation. Only about 3% of this is cultivated at the moment. Thus the chance for the expansion of the cotton plantation is a potential advantage for the sector. Presently the cotton shortage is at its highest and the cotton price is sky rocketing. The cotton produced domestically is not enough for the local textile factories. This is another bottle neck for the textile factories to run at full capacity.

According to respondent the quality is often compromised by contamination, particularly from polypropylene that contaminates the cotton from the picking bags and bale wrap. Polypropylene results in defects in the cotton yarn or fabric after the dyeing process. Besides contamination from polypropylene, the quality of some cotton is compromised by factors such stickiness resulting from insects. Sticky cotton, in particular, can cause irregularities in the yarn production, including yarn breakages.

Ethiopia is doing some success in growing organic cotton for use in downstream yarn and fabric production. Producing locally has an advantage to have a local supply of cotton for use in textile and apparel inputs, the duty savings on U.S. imports of apparel made of cotton, available through AGOA duty preferences, are significantly less than the duty savings for apparel that is primarily of manmade fibres (USITC, 2009).

According to some respondents, the existing suppliers of raw cotton have no capability to convey the required quantity and quality on time. On top of that, some materials such as label, button, zipper, and package materials, in addition silk, nylon, polyester, & Lycra are imported abroad.

### **4.3.2 Lacks Specific Technical Knowledge & Low Labour Productivity**

Labour is a major important consideration in the production of textile and apparel inputs. Many SSA countries, including Ethiopia, have identified the lack of skilled labour as an inhibiting factor. The production of most textile and apparel required skilled labour. The labour pool generally must be more educated and have specific technical, marketing, design, and/or managerial skills. Some foreign investors employ expatriates to fill these positions, which can also add to the cost of production if the firm must pay room and board for the employees (Kaplinsky and Morris, 2008).

Wage rates in Ethiopia are reported to be lower than in most neighbouring SSA countries and low-wage labour is widely available; however, labour skill levels are low and absenteeism is high, resulting in low labour productivity. But this the existing cheap labour force lacks specific technical knowledge, i.e. machines repairs, spinning, weaving, marketing skills and so on (Tait,2007).

As per the finding from the key informant interviews with the representative of AGOA shortage of technical staff is one of the challenges across the exporting industry to effectively carry out the planned activities.

### **4.3.3 Age of Existing Plant and Equipment**

The age of existing plant and equipment can affect not only the cost of production, since older machinery is less productive than newer equipment, but also the quality and variety of products manufactured.

According to International Textile Manufacturers Federation data, Nigeria, Ethiopia, Tanzania, Zambia is using old technologies where the quality is not good for international market. In addition using outdated equipment and machinery can be a big problem. Because lack of both skilled technicians

and spare parts is a big problem in sub-Saharan Africa. Delays in servicing machinery and receiving spare parts often result in idle machinery.

The in-depth interview made with one firm suggests that one of the major challenges in utilization of AGOA is lack of new and modern machinery in the textile and apparel sector. As the firm pointed out that lack of new machinery is the problem of many firms and made them inefficient and incompetent in exporting products to abroad and he responded as follows:

‘I invested in a textile plant recently with some fairly new machinery. However, I cannot be more competent and efficient as I want to be. So at the end of the day, I often operate under capacity.’

Much of the machinery and equipment in the textile and apparel sector is old and unusable because of a lack of spare parts, resulting in underutilized industrial capacity (USITC, 2009). It has affected the competitiveness of the sector to battle with other country exporters.

#### **4.3.4 Poor Financial market**

Investments in a new plant and equipment can be affected by cost and availability of capital. Additionally, firms need access to working capital to cover operating costs such as purchasing raw materials and financing the business.

According to COMESA (2009) report, COMESA countries such as Ethiopia, Eritrea, Djibouti, Burundi, Sudan, Kenya, Libya, Comoros, Seychelles, Congo, Madagascar, Uganda, Egypt, Malawi, Rwanda, Swaziland, Zambia, Mauritius, and Zimbabwe have problems accessing financing, and the cost of capital in COMESA countries is generally greater than 10 percent.

According to Tensae (2006) the existing Ethiopian financial market is in a position to supply the working capital

for current operation expansion project. It is difficult to work on at full capacity in lack of financial support for all exporters. This also can lead to unable to utilize the existing full capacity and unable to react for the international market requirement. In most financial institutions there is unclear working procedures of the financial market and lack of international banking system knowledge of banking institutes.

#### **4.3.5 Relatively Poor Infrastructure**

According to USITC Report (2008) poor infrastructure is another challenge that affects adversely the competitiveness of the sub-sector under AGOA. Even if the Ethiopian government doing an aggressively infrastructure development throughout the country still some problems affect the exporters in some infrastructures feature. Infrastructure includes power supply, telecom service, roads, domestic quality of packaging, sea and air transport.

For instance, the Ethiopian textile sub-sector mostly uses the port of Djibouti for export and import and this leads to inviting extra cost and the country positioned as a lower levelled road quality and density. Due to this factor exporter faced to high transportation cost to use the port of Djibouti. On the other hand, the poor telecom service and the interruption of power are affecting the production activities. Nowadays, the telecom service availability is become well and the power problem is trim down progressively. Respondents complain that road transportation problem to the port along with various constraints increase their cost of competitiveness. An interview made with industry firms about the infrastructure he described as follows:

‘Overall I feel happy regarding the effort and support made by Ethiopia government in textile and apparel sector. However, I have to point out that by the time I transport my production to Djibouti, the expensiveness and unreliable transportation reduces my competitiveness. This is crucial point, and the situation must be improved for us to really benefit from all the advantages AGOA has to offer.



Not only Ethiopia, most SSA countries also face severe challenges concerning the current state and development of their infrastructure. Infrastructure constraints not only raise the cost of existing production, but also deter significant new investments in capital-intensive yarn- and fabric-producing industries. Such infrastructure constraints include unreliable and costly electricity; insufficient supplies of clean water and lack of waste water treatment facilities for textile finishing operations; and poor road, rail, and port infrastructure (ITC, 2009). In general, every infrastructure problems that faced the exporters, adversely affect the competitiveness of the exporters under AGOA as compared to other eligible countries.

#### **4.3.6 Large Retailers' Influence on the Global Apparel Industry**

According to USITC (2009) report the existence of global supply chains for textiles and apparel has yielded in retailers progressively more controlling their supply networks, and in increased concentration of retailers' global buying power. The sourcing decisions of these large buyers affect the entire textile and apparel supply chain. Retail buyers choose these apparels based on the price and variety.

Asian textile and apparel producers and transnational firms (often based in Hong Kong and Taiwan) generally have well organized large scale production compared to those of SSA producers. This creates a competitive advantage for Asians firms.

Industry sources indicated that it is difficult for SSA producers to be cost competitive in the production of yarn, fabric, and finished apparel compared with many of the large Asian suppliers, without duty-free preferences under AGOA, such as Bangladesh, India & China, most textile and apparel exports to the United States likely would not be cost competitive (Kaplinsky and Morris, 2008).

Strong retail rivalry pushes buyers to give attention on low prices and short delivery times. Shorter delivery times permit retailers to make choice on colour, styles, permit for more exact forecasting and the amount of orders required for the selling season. However, retailers' desire for shorter lead times may also reduce the competitiveness of Ethiopia apparel exports vis-à-vis other suppliers that are able to respond more quickly.

#### **4.3.7 Poor integration between raw material basis and industrial production**

According to MEASURE-Ethiopia (2009) the other major problem which affects the competitiveness of the sub sector is the deprived combination between raw material basis and textile and apparel production. Because the poor assimilation could derive for low productivity and high transportation cost.

#### **4.3.8 Lack of Established and Clear Strategy**

The United States International Trade Commission (2009) report underlined, most textile and apparel exporters don't have well and clear established foreign trade development strategy that shows their future directions to utilized the AGOA opportunity. Most firms doing their business on customers focused demand locally.

#### **4.3.9 Very Poor International Promotion**

In addition, most respondents agreed that they are doing poor international marketing and promotional activities done in the past years to promote the textile and apparel products in US market and also in other foreign markets. Some investigations made by international trade commission indicated that the US small business are not that much aware about Ethiopian apparel products.

Any firm must work strategically to promote their products to get a market share in the international market. To

survive and to beat the rivalries doing international standard marketing and promotion is mandatory. Therefore, the sub-sector is obliged to works strongly to promote the products abroad.

## **5. CONCLUSION & RECOMMENDATIONS**

The study was undertaken to examine the issues that influence the competitiveness of Ethiopian textile and apparel sub-sector under AGOA. The study has tried mainly to examine and evaluate the opportunities and challenges of Ethiopian textile and apparel sub-sector.

### **5.1 Conclusion**

This research has tried to assess the opportunities and challenges of Ethiopian foreign trade development under AGOA treaty for the textile and apparel sub-sector. It is remarkable that assessing and understanding of constraints and challenges and correcting them would improve the competitiveness of Ethiopian textile and apparel sub-sector under AGOA.

Thus, the researcher concludes that even if there are many challenges that affect adversely the competitiveness of exporters for Ethiopian foreign trade development under African Growth Opportunity Act (AGOA), the support of the government is the major viable advantage of the sub-sector. The government has been exercising its efforts of economic restructuring, infrastructures deployment, and catches the attention of investors which are one of the potential means to increase the competitiveness of the sector in the foreign trade development.

On top of the government support to enhance the utilization of AGOA scheme, US government has set up an office, namely USAIS, to assist the textile and apparel exporters. ETGAMA and Textile and Leather Training Institute

has played an important role in promote the sector and conduct some related trainings for the sub-sector. It is the opinion of the researcher, the Ethiopia textile and apparel sub-sector becomes a dominant sector to enhance the Ethiopian foreign trade development under AGOA.

## **5.2 Recommendations**

To enable Ethiopia better take advantage of AGOA while meeting the challenges and seizing the particular opportunities described above, the study offer the following policy recommendations

### **Enhancing competitiveness**

A number of measures should be implemented to reduce transaction costs and increase productivity. Among the key issues are infrastructure development, better transportation systems, trade facilitations and worker training. Additionally, exporters require capacity building in the area of market research, product development and supply chain management.

### **Building domestic and regional supply chains**

Measures such as conditional incentives for exporters that procure raw materials and intermediate inputs from beneficiary countries in key regional economic communities should be considered. As a sit for African Union and regional leader, Ethiopia should aggressively pursue the growth of intraregional and intra-continental trade and the development of regional supply chains, as platforms for strengthening international export competitiveness.

### **Development assistance**

U.S. development assistance should target AGOA-related constraints, including infrastructure development, trade logistics and value chain development in order to promote

production capacities, diversification and greater program utilization. In particular, the U.S. could provide technical assistance to strengthen and develop domestic and regional supply chains.

### **Addressing uncertainties**

The benefits of Ethiopia has received under AGOA should be enhanced and sustained with a longer-term view. Depending on the industry, it can take years for a business to recoup its initial investment and start to make a profit. Therefore, it is important for AGOA to maintain a longer time frame that will allow investors to invest in Africa and begin to reap gains from those investments.

### **REFERENCES**

1. Adnaw, A.(2010) *Impact of supply chain management practices on competitive positioning of Ethiopian Textile firms*, South Africa.
2. AGOA (2008) *Comprehensive Report on U.S. Trade and Investment Policy toward Sub Saharan Africa and Implementation of the African Growth and Opportunity*, USA.
3. AGOA (2010). *Fact Sheet on AGOA*, USA.
4. AGOA (2015).Information Resource on the African Growth and Opportunity Act, accessed on October, 2015.<http://www.agoa.info/>
5. Bahiru, A. (2008) *Determinants of the performance of the Garment Industry in Ethiopia: The Case of Addis Ababa*, Ethiopia.
6. Bede, U. (2007) *Preferential Trade Agreement as Path to Economic Development: the Case of Nigeria's Response to AGOA*, USA.

7. CIA World Fact book (2011) *Ethiopian Country Profile*, USA.
8. ETIDI (2011) 'Likakit', Volume 1, No 1, Addis Ababa, Ethiopia.
9. ETIDI (2011) 'Zena Likakit', Volume 2, No1 & 3, Addis Ababa, Ethiopia.
10. Hruy, T. (2011) 'Textile Sector', Fortune News Paper, August 14, 2011, Volume 12.
11. John, S. & Nebil, K. (2011) *An Enterprise Map of Ethiopia*, London.
12. Kaplinsky and Morris (2008) *Do the Asian Drivers Undermine Export-oriented Industrialization in SSA?* USA.
13. ITC (2009) *Sub-Saharan African Textile and Apparel: Inputs: Potential for Competitive Production*, Washington DC.
14. LaRRI (2007) *an Assessment of the Africa Growth and Opportunity Act (AGOA) and its Implications for Namibia*, Namibia.
15. Laura, P., Mekalia, P., Mwangi, K. & Stephen, K. (2010). *a Decade (2000-2010) of African - U.S. Trade under the African Growth Opportunity Act (AGOA): Challenge, Opportunity and a Framework for Post AGOA Engagement*.
16. Maliti (2005) *Rise and Fall of African Textile Industry*, USA.
17. MEASURE: Ethiopia (2009) *The Enterprise Development Diagnostic for USAID/Ethiopia*. Journal of Business, Austin Associates, Inc.
18. Rahel, A. (2007) *Opportunities and Challenges of Development for Africa in the Global Arena AGOA: The Case of Ethiopian Textile Sub-Sector*, Amsterdam.

19. Tadesse, H. (2009) *Ethiopian Investment Climate and Opportunity*, PPT, Addis Ababa, Ethiopia.
20. Tait (2007) *Potential for Ethiopia's Garment and Textile Industry*: Addis Ababa, Ethiopia.
21. Tensae, B. (2006) *Competitiveness of Ethiopian Garment industry: response to export market, Master Dissertation*, Adiss Ababa.
22. OTEXA (2011) *Total Imports into the U.S. of Textiles and Apparel from AGOA-beneficiary Countries*, USA.
23. USITC Report (2008) *Ethiopia's Infrastructure Effects*: Addia Ababa, Ethiopia.
24. USITC (2009) *Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production*, Washington.
25. USITC (2015).Ethiopia Textile and Clothing Value Chain Roadmap. Addis Ababa, Ethiopia.
26. Wolde, B. (2006) *Ethiopia's Accession to the WTO with Emphasis on Foreign Market Access*, Addis Ababa.
27. Wiliams,W.(2015) AGOA's Reauthorization Beyond 2015: Issues and Opportunities for Discussion. Leadership Africa USA, Washigton DC.
28. VEGA Ethiopia AGOA+ Program (2009) 'Prepared for the United States Agency for International Development (USAID)'. Quarterly Performance Report (January - March 31,2009).
29. UNCTAD (2008) *World Investment Report 2008*, available at <http://www.unctad.org>. (Accessed on August 03, 04, & 10, 2011).