

Study on Export Competitiveness factors for Ethiopian Clothing Industries

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ABSTRACT

Clothing Industries will provide a paramount contribution to upgrading the economy of Ethiopia mainly due to availability of cheap labor, preferential markets, and an industrial development strategy. Despite the above opportunities, clothing export in the country is insignificant compared to other African countries. The research objective is to identify factors that affect export competitiveness of the Ethiopian clothing industries. The research focuses on sector wide external factors beyond individual firms. Data was collected from primary and secondary sources to investigate the external factors that affect export competitiveness of the Ethiopian clothing sector. The researcher identified some of the factors that could challenge the export competitiveness of Ethiopian clothing industries. Loose supplier's integration, low access to inputs locally, limited market linkages and high trade cost due to lack of port facilities and complex customs procedures are few of them. On the other hand, political stability and a safe investment climate contribute positively for clothing exporters. In general, high trading cost due to the above limitations made the industry less competitive in the export market.

Keywords: External factors, Clothing industry, export, competitiveness and labor

1. Introduction

The textile and clothing industry is one of the earlier large-scale economic activities that led the industrialization process centuries ago. Similarly, certain industry segments continue to play a key role in the initial industrialization process of most countries in the world.

Many developed nations benefited from textile and apparel industries to boost their economy. This is mainly due to: The industry serves a basic need of nearly all humans and usually fulfils some or all of the domestic

demand, and different aspects of the industry's production activities have been adaptable to a wide range of available resources. For example, when capital and technology are available, more technologically advanced textile and clothing production occurs.

On the other hand, when a country has neither of these, certain segments of production (small scale textile production or apparel assembly) often thrive because of other abundant resources such as labor (Dickerson, 1999). The above two points can be taken as reasons for wide distribution of Textile and

Clothing Industries throughout the world. For many countries, the textile and clothing sectors provide the preliminary stage of economic upgrading or diversification away from the dependency on primary commodities (Naumann, 2005).

Clothing Industries in Ethiopia, while they are in their infant stage, can provide a paramount contribution in the upgradation and diversification of the economy of the country as the above stated reasons are supported.

Ethiopia's industrialization strategy has given top priority to the clothing sector in addition to other sectors such as meat, leather and leather products industry, agro-processing and construction industries, and to small-scale enterprises (IDSE, 2003). These sectors get top priority due to their nature which gears towards use of natural resources and their being labor intensive.

1.1 Statement of problem

Currently global sourcing of clothing products is more competitive than any time before as different clothing manufacturers in developing countries emerge in export market. Ethiopian clothing industries' level of export competitiveness is not precisely measured and competitive advantages are not explored.

1.2 Objective of the research

The main aim of the research was to identify external factors that hinder export performance of Ethiopian clothing industries.

1.2.1 Specific objectives:

- To identify key inefficient areas towards export performance of the sector
- To find out the factors which causes low export competitiveness

1.3 Limitation of the study

The results of this study focuses on the data collected from Ethiopian clothing companies

where other neighboring countries case is only seen from secondary source. Generalization of the factors to other countries context might be misleading.

2. Review of related Literature

2.1 Evaluation of value chain in Ethiopian clothing industries

Supply of inputs: the clothing industries in Ethiopia are facing the biggest challenges in the supply of raw materials and accessories. This is mainly due to the low capacity to produce the required quantity and quality of raw materials at the right time. Systems followed in the manufacturing processes, skill of manpower at operator and managerial levels, and the capability to produce at the quality requirement of customers are at minimal level.

The inefficiencies in textile fabrics, yarns, trims and accessories supply capacity of domestic manufacturers are mainly resulting from a failure to clearly communicate customer requirements to all stakeholders in the supply chain, and primitive production techniques and technologies.

Ethiopian clothing industries have two main sources of raw materials: locally produced and imported ones. The sources of local inputs are the products of the country's textile and fiber industries which include cotton fabrics, nylon fabrics, acrylic yarn, cotton yarn, woolen and waste cotton blankets, and sewing threads. Though the capacity of local raw materials and accessories suppliers are low at the moment, efforts are being applied to improve their competitiveness. The main inputs that are imported consist of threads, buttons, zippers, labels, polyester, synthetic fabrics, nylon, wool etc. Generally, except for some types of trims and accessories, most are imported from international manufacturers (UNIDO, 2002 P.59, EAPA, 2002, P. 77).

Production and marketing decisions: lack of marketing information systems hamper

decision making at different levels by different players in the value chain in clothing industries exports. Most producers in Ethiopia are not market driven or have insufficient information on market requirements for their products (Export processing zones authority, 2005)

2.2 Clothing Exports in Ethiopia

Cotton-to-Clothing industry exports have shown steady growth since 2001 to date. The cotton-to-clothing value chain in Ethiopia offers substantial opportunities in both regional and international markets. This can have a huge impact on the development of the economy since the sector employs over 517,000 people, with the bulk of employment coming from the informal sector. However, both production and supply chain inefficiencies, along the cotton-to-textile value chain prevent enterprises in Ethiopia from becoming a global player, especially in the face of fierce competition post-Quota. The clothing sector in Ethiopia has considerable potential to produce a wide range of products for both domestic and export markets. Besides these, the country has easily trainable low-cost labor force and has a location advantage due to its proximity to the Middle East and Europe. However, investment in the sector has been hampered in earlier times by the difficulties associated with securing land for production. With the recent nomination of the clothing industry as a “strategic industry” some of these constraints are easing. Government incentives, including subsidized air transport, land, access to financing and tax incentives play an important role in the sector but there is a question of sustainability. The main threats for the sector are lack of raw materials, poor market awareness and capability to market search, low collaboration with supply chain partners and low productivity to compete in the face of giant international players.

2.3 Building Productive Capacities of Ethiopian Clothing Industries

Ethiopia has adopted market-oriented economy since 1991, which plays a crucial role towards globalization. An efficient network and transport system, which enables the exploitation of economies of scale and to reduce a country's vulnerability to shocks, is essential to promote and sustain economic growth. Moreover, it facilitates increasing volume and efficiency of trade and widens the market. Lack of access to transport networks restricts organizations from market participation (in local and export), decision making processes and constrains their economic opportunities as well as limits their access to social services.

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The predominance of smallholder agriculture in Ethiopia indicates the importance of good access to markets and transshipment centers for their product and input supply. As Ethiopia faces lack of access to local and international markets, road infrastructures and transport services should be upgraded in order to create a link to regional, national and international markets. Statistics indicates that though road transport is the main means of transport in the country, 60% of farmers are estimated to be more than half a day's walk from all-weather road. (Ministry of Finance and Economic Development, January 2006). Recently the construction of roads to link the rural area with the cities and towns is a primary focus of the government and a lot is being done.

3. Methodology of the research

3.1 Data collection methods

The research is conducted through primary and secondary data analysis where the main data sources are:

Interviews with concerned bodies (factory managers in textile and clothing supply chain and government bodies (Ministry of Trade and Industry, customs authority); Questionnaires completed by concerned staff members of different firms in textile and

apparel sectors; secondary data from different sources, different studies on world and Ethiopian textile and apparel sector.

3.2 Sampling techniques

In this study different clothing manufacturers and other supporting institutions and government offices were selected randomly as sources of both primary and secondary data. Of fifty major clothing industries in the country, twenty clothing companies were surveyed. The total number of respondents addressed with questionnaires were 100 out of them 80% successfully returned the response.

3.3 Data analysis techniques

The data is analyzed based on quantitative and qualitative data analysis techniques. Qualitative data analysis was carried out based on interviews and group discussions while quantitative data was analyzed from completed questionnaires. The survey was carried out to rank the importance of the different external factors using a Likert scale. Finally the conclusion and suggestions were made based on the results from the data analysis.

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4. Findings of the research

The research was aimed to investigate the external factors which affect the export performance of Ethiopian clothing industries. The main factors studied in the research are:

- Raw materials related: Access to local and imported inputs.
- Investment related factors: Political stability, ease of doing business, good governance, corruption, strategic location.
- Skilled labor availability and labor productivity.
- Infrastructure related factors: power, transport and communications, port facilities.
- Trade related factors: Preferential market access, transaction cost and access to information, communication technology.
- Export incentives and efficiency of financial institutions.

Problems related to imported inputs

Table1: Evaluation on factors affecting access of imported inputs

Factors	No. of respondents		
	Not at all	To some Extent	To an important degree
Delay in customs procedures	2	1	5
Lack of strong relationship with foreign suppliers	1	2	5
Cost of imported inputs	1	4	3

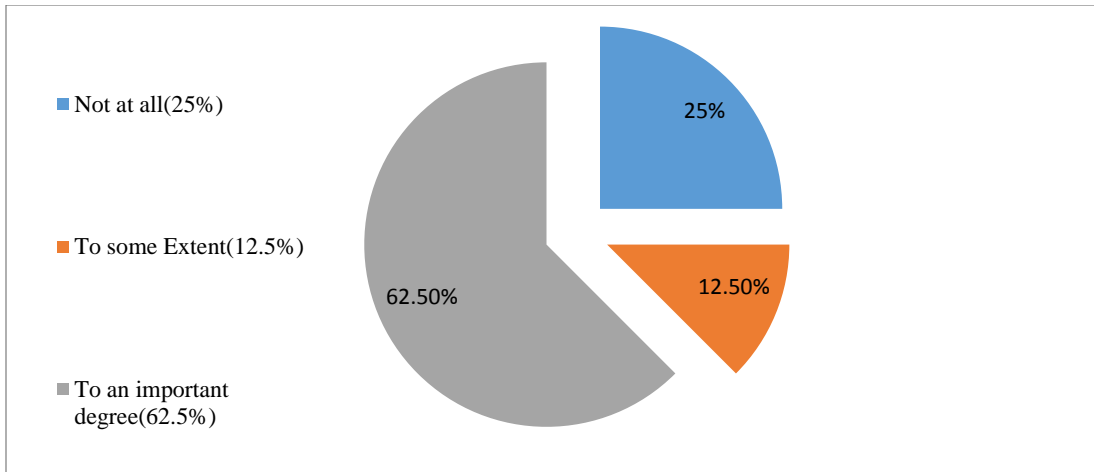


Figure 1: Effect of custom clearing procedures on access of imported inputs

Figure 1. above shows that most firms have serious problems with delays in customs clearing procedures for imports to be used for export orders. The survey results show that from total 8 organizations surveyed, more than 62.5% of the firms face challenges in the custom clearing procedures for imported inputs. This shows that dependency of

clothing industries on imported inputs and inefficient procedures to access them increases an overall trading cost of Ethiopian clothing manufacturing sector. Therefore it is critical issue to strengthen the backward linkage in the supply network and improve the customs procedures.

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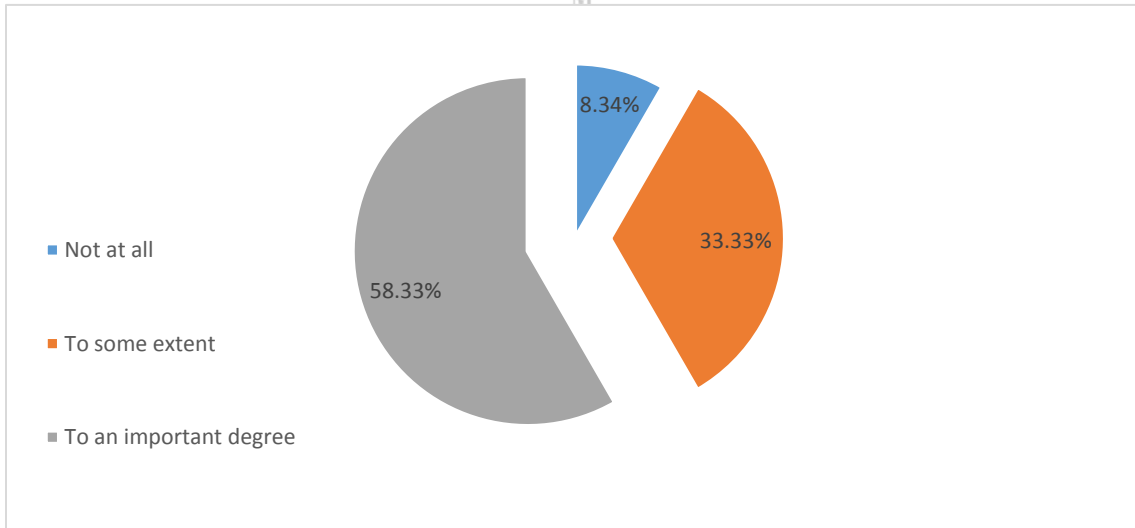


Figure 2: Effect of relationship with foreign suppliers to the access of imported inputs

The study from figure 2. above, 58.33% of the firms admitted the impact of relationship with suppliers is remarkable. This shows lack of strong relationship with foreign suppliers has serious impact on access to imported

inputs. Due to absence of strong international marketing linkages and suppliers partnership clothing exporters in Ethiopia have challenges on input supply to enjoy the global market opportunities.

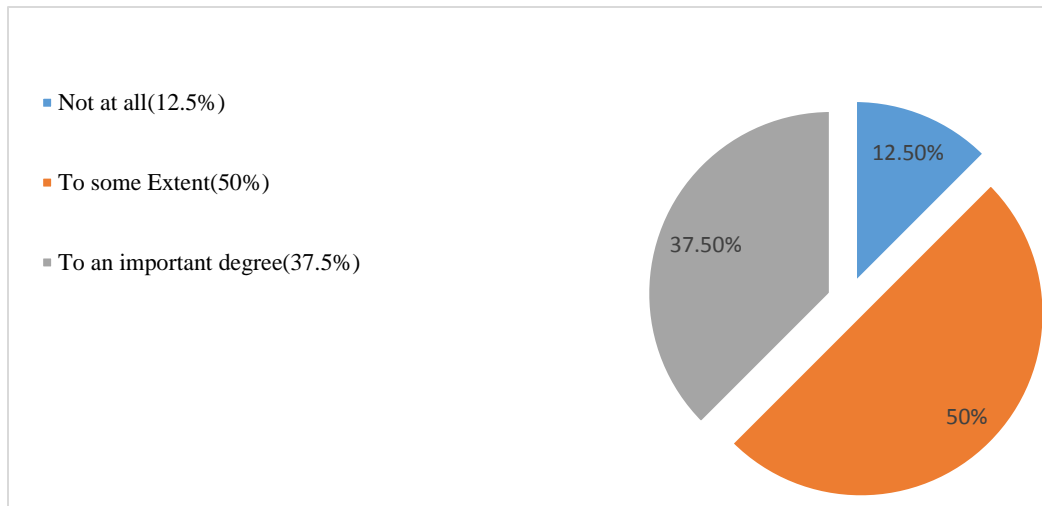


Figure 3: Effect of cost of inputs on the access of imported inputs

Cost of imported inputs is higher as transportation and customs related costs are added. Figure 3 showed that 50% of the total firms surveyed assure a significant influence of cost on using imported inputs.

Problems related to local Inputs

Access to local inputs is one of the prominent challenges for apparel industries export

J competitiveness in Ethiopia. The results discussed below in table 2 showed some of the reasons the possible solutions briefly.

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The quality performance of domestic input suppliers is very poor as a result there is a challenge to compete in export market.

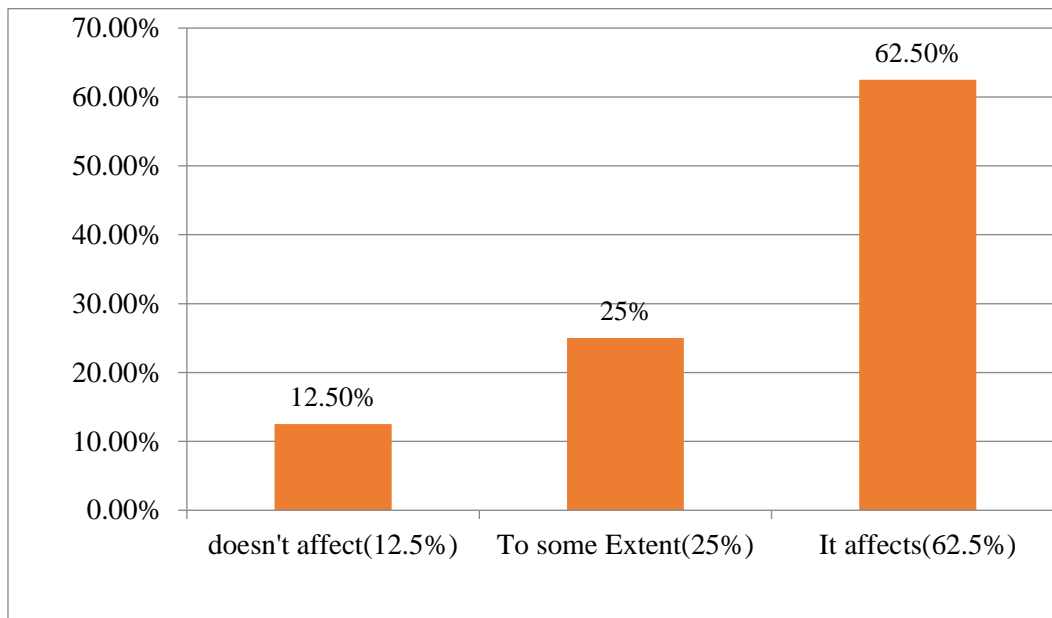


Figure 4: Effect of quality on availability of local inputs for export

One of the main problems which seriously hinder use of local inputs for export is inferior quality to meet customer requirements. The survey of 8 organizations to evaluate the

impact of quality of inputs showed that 62.5% of the respondent organizations confirm the effect of quality to insufficient access to local inputs.

Table 2: Evaluation of respondents on the effect of reliability of local suppliers on the access of local inputs

Factor	Number of respondents		
	Not effect	Somewhat	Has effect
Reliability of domestic suppliers	1	3	4

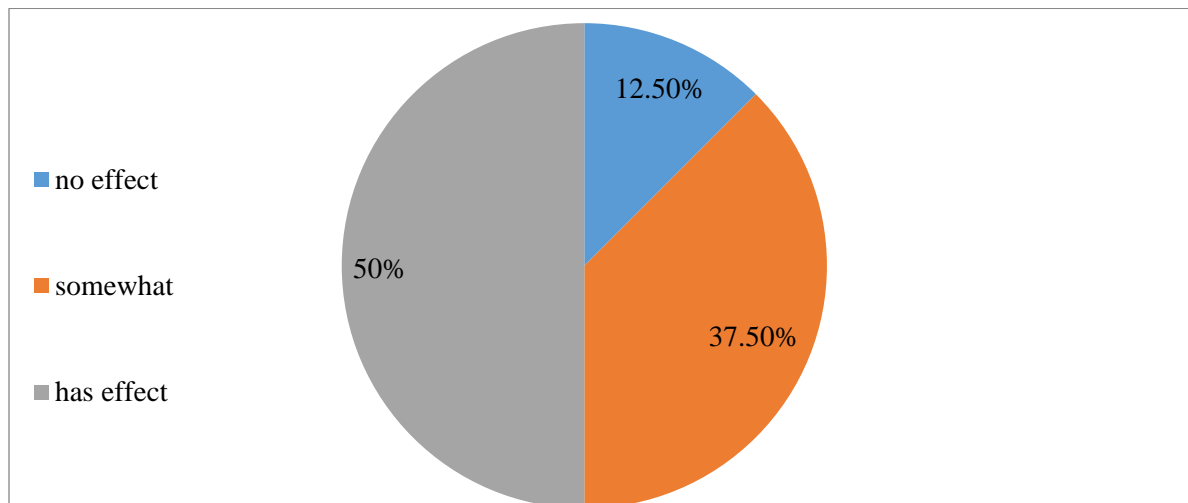


Figure 5: Effect of reliability of domestic suppliers on access to local inputs

In general, local input supply in Ethiopia at the moment fails to be competitive in quality and reliability of supply as compared to imported inputs. This is mainly due to input supplier's inefficiency to reduce their

operational cost, failure to understand the supply needs of other stakeholders in the supply chain such as quality and delivery issues, underutilized and low level of technologies and production techniques.

Table 3: Effect of labor productivity on export performance

Factors	No of respondents		
	Not at all	To some extent	To an important degree
Effect of labor productivity	1	3	6

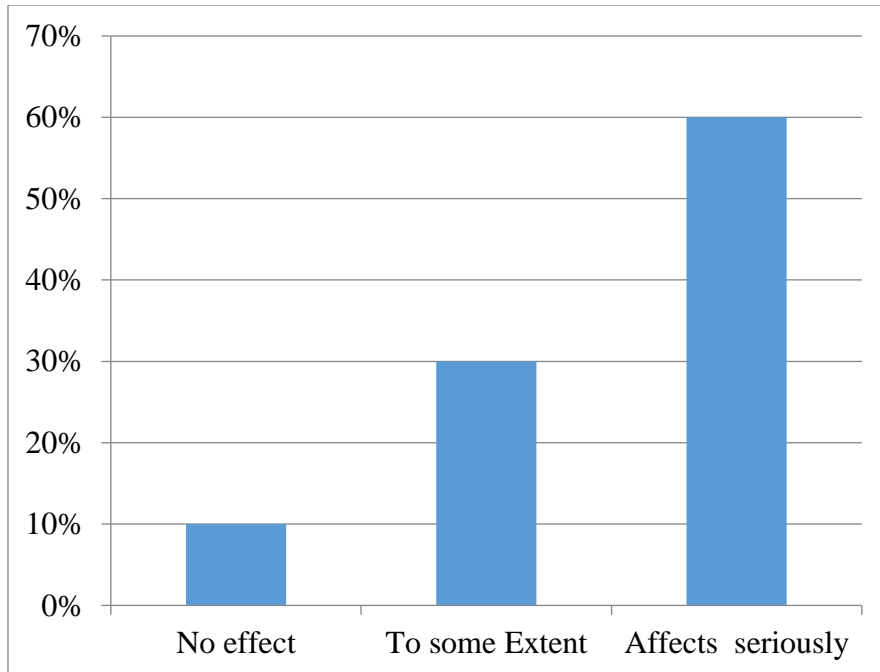


Figure 6: Effect of labor productivity on export performance

Poor Labor productivity is one of serious factors which affect export competitiveness of Ethiopian Clothing industries. The above figure shows out of 10 surveyed companies 60% of them confirmed that poor labor productivity in the country affects export performance.

Problems Related to infrastructures
 Infrastructure related Factors in Ethiopia increase trading cost as a result the competitiveness of Exporters drastically decreases.

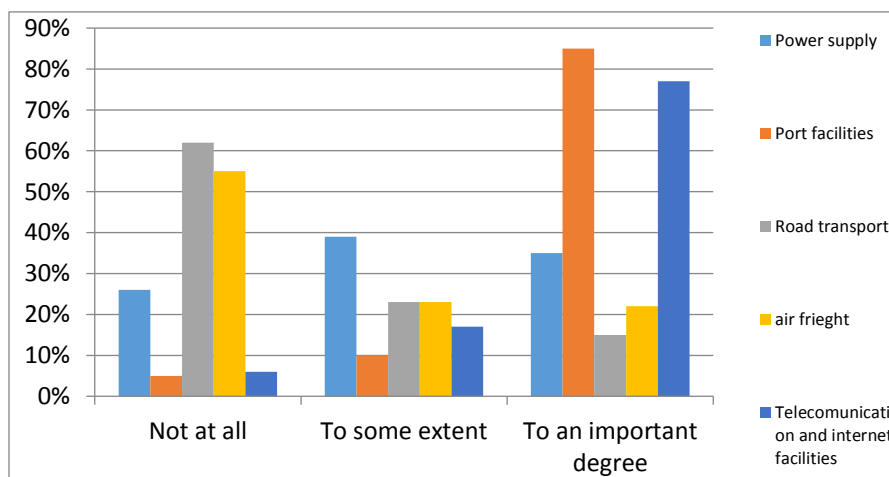


Figure 7: Effect of infrastructure on export competitiveness of clothing industries

As can be seen from figure 7 above, out of 10 respondent organizations (85% of the surveyed firms) confirmed that the main

external factors (infrastructural challenges) which affect export performance are lack of port facilities.

In addition to this secondary data survey shows that High port tax and complex customs transiting procedures have increased Ethiopian cost of trade. According to a shipping company in Addis Ababa, the custom application fee for 20ft container is as high as 240 USD in Ethiopia and 15 USD in china [5].

78% of surveyed firms stress a serious effect of telecommunications and internet facilities on export trade. These infrastructural challenges hinder the market penetration, information communication frameworks with trading partners in international market. As can be seen from the survey result, the port facility is a major problem that hinders export performance in Ethiopia as it increases trade cost (cost of shipment). Among most other SSA countries Ethiopia is one with higher cost of trade related to border. Besides to this facility lack of privatization in information technology sector in the country causes telecommunication facilities and internet connections costly and non-reliable.

Road transport in the country being one of the main means of transportation is now growing at a faster rate through a serious attention from ERSDA.

The political stability of Ethiopia is too promising to any scholars to invest in the clothing, agriculture and other related sectors. The country is one of SSA countries with good governance and investment friendly policies to appreciate investors in different manufacturing sector [7].

Factors Affecting effectiveness of Government incentives for export

Ethiopian tax rate is so high as compared to other sub Saharan countries. According to 2002 version of income tax law ,income Tax rate for companies in Ethiopia has been reduced from 35% to the current 30%.there is no specific preferential income tax rate for export companies which don't encourage investors.

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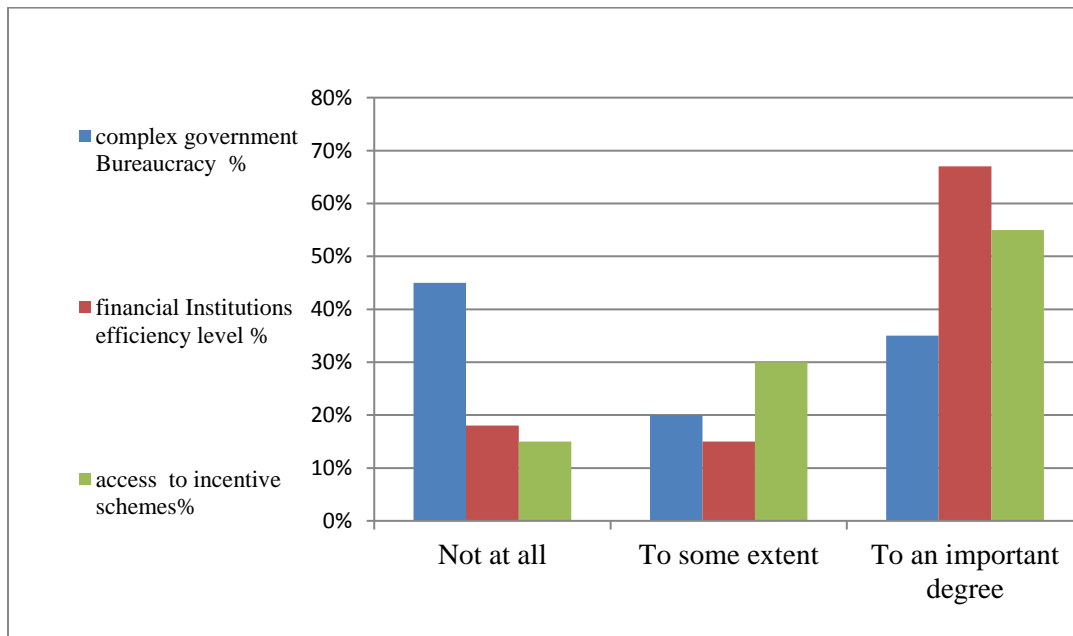


Figure 8: Factors related to government incentive schemes and their effect on export market access.

As can be seen from the above figure 8, the government incentive has significant effect

on the export competitiveness of clothing firms.

Table 4: comparison of Income Tax Rate for exporters in SSA countries

Countries	Income tax for exporting companies	Remark
Ethiopia	30%	Higher income tax rate also affects profitability of clothing exporters
Lesotho	15%	
Kenya	Exempted for 10 years (25% after expiration of 10 years period)	
Mauritius	15%	

(Source: China Textile Planning Institute of Construction, study report on the development strategy of Ethiopian cotton/textile/clothing sub-sector)

Factors related to preferential market access utilization

In efficiencies to fulfil the requirements of different international trade zones results in poor utilization of the preferential market access to a nation, Which is clearly seen in Ethiopia where its volume of export is lesser

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than other benefiting countries. Ethiopia is authorized to several preferential market accesses like AGOA(USA), EBA(EU), COMESA(Africa) but the benefit achieved is a minimal due to poor competitiveness in cost, capacity, on time delivery, meeting quality requirements which are crucial to Export markets.

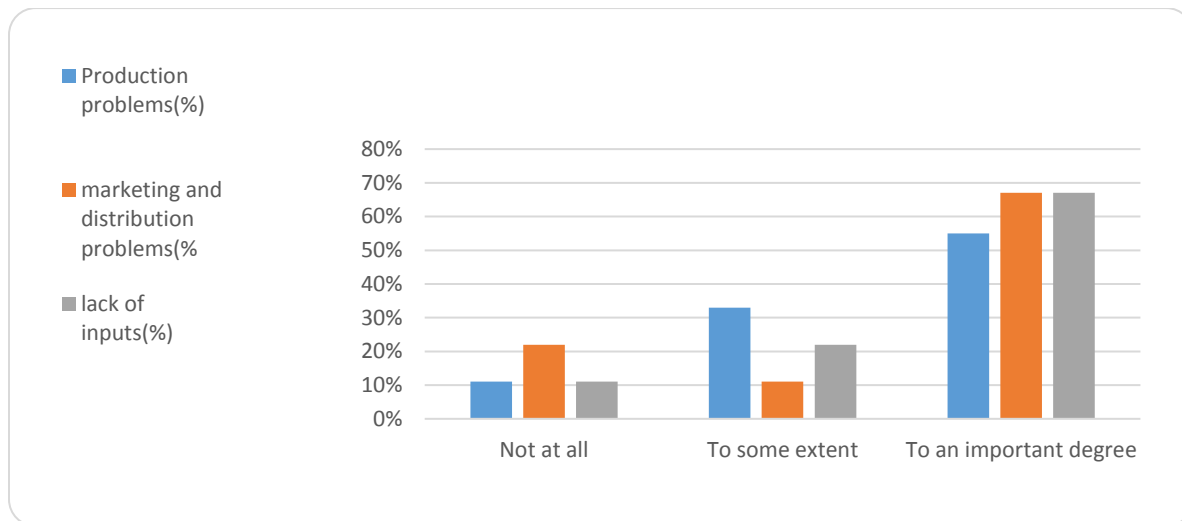


Figure 9: Analysis of factors which affect preferential market access

The study attempts to explore the peculiar problems of Ethiopian clothing firms in relation to the full utilization of the existing preferential market access in relation to production, marketing and distribution and input related issues. 67% of surveyed firms affirm lack of inputs and distribution and

marketing of outputs limiting their full utilization of PMAs since they are not in a position to compete with other competitors who have advantages in sourcing inputs in a competitive way from local and neighboring countries.

As can be seen from the figure, more than 50% of surveyed firms considers production related problems are causing serious impact not to fully utilize the PMAs.

In general all the factors are seriously addressed as main challenges not to enjoy full benefit from PMAs.

Table 5: Analysis of factors related to input and infrastructures

Factors	Result description
Access to Inputs	<ul style="list-style-type: none"> ➤ Among the total interviewed firms 60% replied insufficient inputs due to poor quality of inputs and lack of strong relationship with suppliers affect export performance of clothing industries. ➤ Lower access to local raw materials and accessories due to less capacity of local firms to meet quality, quantity, design and delivery requirements to clothing manufacturers ➤ Lack of varieties and inaccessibility in raw material and accessories ➤ Non reliable foreign input suppliers, and customs clearing delays
Infrastructures	<ul style="list-style-type: none"> ➤ Around 78% of Respondent organizations confirm poor access to telecommunication and internet facilities affect market access of clothing exporters. ➤ Ethiopian telecommunication and internet connection is costly. Due to absence of privatization in the sector sustainability and cost are the main challenges for export competitiveness. ➤ More than 85% of interviewed firms confirm lack of own port facilities increase trading cost clothing exporters. ➤ Being a land locked country, cost related to import /export (transport cost up to port and port payment) increase exporting expenses

Table 6: Analysis of factors related to investment and market linkages

Factors	Result description
Investment friendliness	<ul style="list-style-type: none"> ➤ Political instability index rank (107) is better than neighboring countries Kenya (110) and Sudan (118) & Business environment rank (72) is better than neighbor country Kenya (101), which means better investment opportunities. ➤ The country ranks better than its competitors(Kenya, Bangladesh) in ease of doing business(107) and business Environment(72) which favors future export growth in apparel sector <p>In general investment friendly business environment and better politically stable governance since 1991 signifies future potential to export market growth.</p>
Market access and trade cost	<ul style="list-style-type: none"> ➤ 67% of surveyed firms affirm lack of inputs and distribution and marketing of outputs limiting their full utilization of Preferential market access ➤ Poor capability of manufacturers to find out international buyers due to poor international linkages. ➤ Poor access to Information communication technology ➤ Higher trade or transaction cost ➤ Lack of strong buying agents to help in approaching international buyers and facilitate export order fulfilments.

Table 7: Analysis of Factors related to Manpower and export incentives

Factors	Result description
Man power	<p>Labor productivity:</p> <ul style="list-style-type: none"> ➤ 62.5% of the respondents confirmed that poor labor productivity in the country affects export competitiveness in clothing industries. ➤ Labor productivity of Ethiopia at 11 shirts per day is lower than Kenya (13) and India (16).
	<p>Labor skill:</p> <ul style="list-style-type: none"> ➤ Limited access of training and academic institutions and mismatch between the skill of manpower trained and industry requirements cause insufficient access to skilled and semiskilled manpower.
Export incentives	<ul style="list-style-type: none"> ➤ 67% of the respondent organizations confirmed that the main causes of inefficient preferential market access utilizations are lack of required inputs and marketing and distribution inefficiencies. ➤ Income tax in Ethiopia is 30% while in 25% Kenya, 15% in Lesotho and Mauritius.

The overall result of the research summarized in Table 4, 5 and 6 shows that:

Infrastructures:

- Power is cheaper compared to other SSA countries
- Road sector, though it is the main means of transport has low density
- Telecommunication and internet facilities costly and non-reliable.

Ethiopia is 97th in the world ranking of communication and transport facilities comparable to Kenya and better than Bangladesh but much far from India, China and Mauritius.

Investment friendliness:

- Political stability: political instability index (5.1) Ethiopia's rank in political stability (107) better than USA political instability index (5.3) and rank of 110.
- Border Administration: Ethiopia ranks(87), Kenya(107) and Bangladesh(101)
- Business Environment: Ethiopia(72), Kenya(101) and Bangladesh(110)

Therefore investment friendliness in the country could be considered satisfactory when compared with its competitor neighboring countries.

Market access and Trade cost:

- Poor network distribution to ICT in almost all SSA countries reduces their instant response to global market. Networked readiness index-2007/8 Rank SSA countries from the bottom including Ethiopia.
- Inefficient marketing relationship with international buyers, absence of buying agents and lack of raw materials cause industries not to fully utilize Market access

5. Conclusion

The export performance of apparel industries in Ethiopia is still in infant stage where the labor productivity, availability of inputs, capacity utilization in product development and production operations, infrastructures, marketing capabilities, capacity to meet quality and delivery dates are among the main issues which need to be improved. Though the country has several potential competitive edges towards clothing export market, the current scenario doesn't allow the sector to fully utilize its advantages.

Clothing industries are poor in export competitiveness due to limitations in infrastructural facilities, trade and transactional inefficiencies, lack of port and related facilities, weaker financial institutions and internal inefficiencies in production and management. Therefore, to see the sector being competitive in international and domestic market, investment on the whole value chain needs to be done. Improving labor productivity through training and incentive systems, conducting market research to satisfy target customers and improvement in infrastructures and trade facilitation are among the measures which need to be taken.

6. Recommendations

To enhance Ethiopian clothing industries export performance external trade and infrastructure related costs and internal production and marketing related costs have to get reduced and investment incentives have to be implemented.

The government in general should help;

1. To the growth of textile and supporting institutions to achieve sustainable source of inputs. Because quality of supply
2. Invest on infrastructure and other trade related issues to reduce trading cost
3. Privatization of Textile, Clothing and other supporting institutions which will

improve quality and cost of goods and services.

4. Reducing bureaucratic and corrupted services in public sectors to facilitate trade and reduce transaction related costs.

Clothing industries should improve their:

- Research and development for new methods of production to reduce cost of manufacturing in the meantime to improve price competitiveness of products
- Product development skills and capacity utilization to improve the quality, productivity and design varieties and flexibility to reach customer requirements.
- The government policy towards import duties should be revised and domestic manufacturers should get safeguard to produce competitive inputs for clothing industries.
- Collaboration with supply chain partners from both upstream suppliers and downstream customers to respond customer requirements.

Clothing industries should improve their internal and external capabilities to be competitive in export market.

Internal Factors: Implementing modern manufacturing techniques and quality management systems, improving labor productivity and upgrading marketing and managerial skills will assist the firms to produce competitive products.

External Factors: upgrading Infrastructural capabilities, creating conducive business environment, privatizing Textile and clothing and other supporting institutions, ensuring good governance at national and international levels, introducing incentive schemes to attract investors will promote the firm's competitiveness by reducing trading costs and easily reaching international market.

In general Building productive, human, institutional and infrastructural capacities is

demanding to make globalization work for Ethiopian Industries.

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