



# Export Performance of Industrial Parks after Ethiopia's De-Listing from AGOA

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FIRST CONSULT

 **THE BRIDGES**  
PROGRAMME

## Context

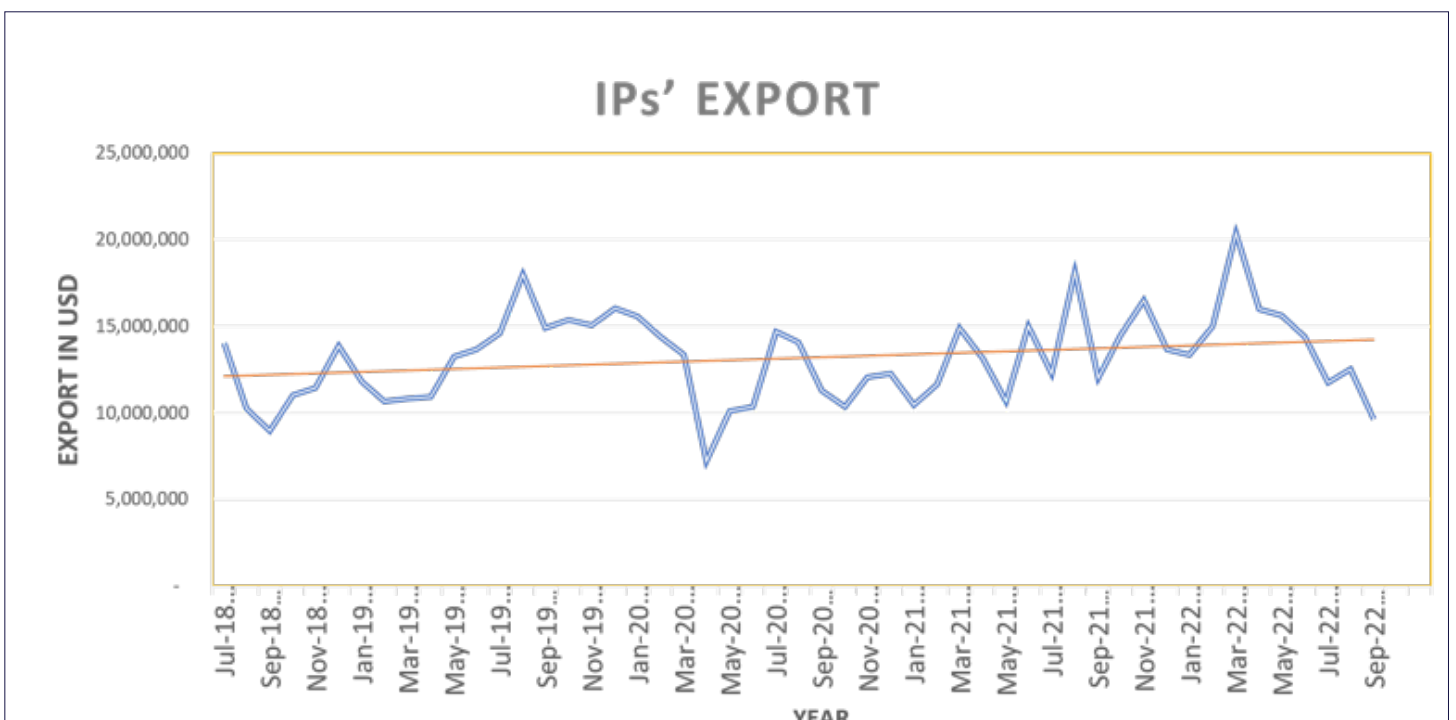
The Ethiopian economy has been for over a decade one of the fastest-growing economies in Africa with policies supporting high-productivity in the manufacturing sector. In recent years, the government invested billions of public funds to build and maintain a network of industrial parks (IP). This, coupled with the availability of a largely untapped labor, attracts big international brands. This strategy has enabled the activation and productivity of the large labor capacity, enhanced employment, facilitated transition into an industry-based economy, and has attracted FDI into the country.

The US African Growth Opportunity Act (AGOA) privileges have offered a valuable competitive advantage to Ethiopia's exporters and have helped make Ethiopia one of the leading Sub-Saharan African exporters of apparel to the US. Under the AGOA benefits, Ethiopia brings in about \$100 million in cash annually and relieves millions of dollars of duty otherwise payable without it. AGOA furthermore directly generates employment for more than 50,000 people, mostly women working in the textile, garment and apparel factories that export to the US. Garment

manufacturing in Ethiopia is the largest beneficiary under AGOA and over 80% of workers in the sector are young women.

As can be inferred from the graph below, there was a slight and short-lived decline around the time of discussion of AGOA expulsion (December 2021 and January 2022). Factories in the IPs say that they were facing drastic falls in revenues. Managers of Best Garment, an Indian Company operating inside Hawassa IP, mentioned that the company was not able to compete in the US market after January 2022, which continued for two months after that. The income they were getting was barely covering salary expenses. As such, Best was planning to exit the Park following PVH, another major company. EPIC Apparel was also struggling to remain afloat, forcing it to lay off over 1,200 workers. Albeit the challenges and laying-off of workers, the export performance of the industrial parks has been growing and March 2022 has registered the highest export from IPs of the last four years.

The objective of this assessment is to identify the reason behind the increase in export performance of IPs despite the expectation of reduced export due to AGOA suspension. It also tries to identify whether the current export



performance can be sustained. After thoroughly looking at the export performance data of IPs from the Ethiopian Investment Commission (EIC), five factories with the highest export in March 2022 were interviewed. In addition, a new entrant to the Debre Berhan Industrial Park was selected for the survey since its entry after the AGOA suspension was unexpected. As such, the assessment attempted to recommend ways forward for interventions by BRIDGES and/or other stakeholders.

### **Current climate investment**

The assessment looked into the current investment climate in industrial parks. Most of the investors in IPs are focused on finding other markets for their export besides buyers in the US. As mentioned above, some of the factories are leaving the parks while others are entering. The new factory that entered Debre Berhan IP is at pre-export stage. The factory came to Ethiopia planning to export to the US market. However, it changed the plan after Ethiopia's suspension from AGOA privileges and is now looking for other buyers in Asia and Europe.

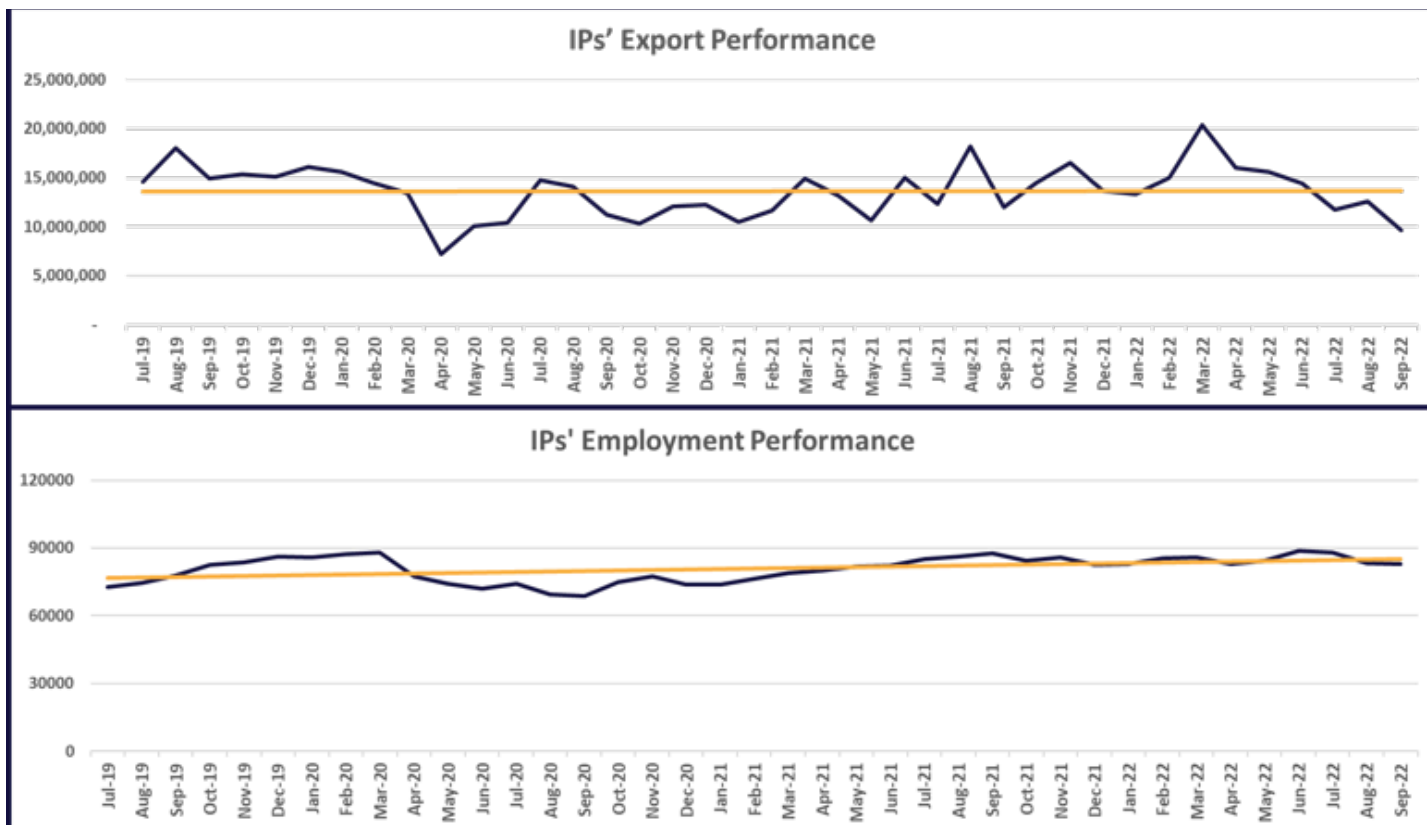
In general, the effect of AGOA on factories is becoming clear nowadays. The number of employees in Hawassa IP has decreased from 36,000 to 25,000 between January and July 2022. A factory in Bole Lemi IP mentioned that they are not initiating letting go of workers from their end but have totally stopped new hires and they are letting go of employees that are taking long seasonal leaves. Following this decision, the factory's employees have decreased by more than 40% after the AGOA announcement.

The major sectors that are affected by the suspension are garment and leather sectors. One of the textile producing factory in Hawassa IP mentioned that the factory has not been affected by the suspension since their market destination was not the US in the first place. The factory indicated textile factories are not affected by the AGOA

suspension. The factory's major buyer (90%) and long-term partner is PVH and it supplies products to PVH in Ethiopia and in other African countries. Hence, even though their biggest buyer has left Hawassa IP, they are still supplying to PVH factories in other countries and the same goes for other textile factories. As such, there is no challenge for them and also for other textiles manufacturing firms in the parks – especially compared to those in the garment sub-sector.

### **Export performance and workers' productivity**

Considering the contribution of AGOA to Ethiopian economy, there was supposed to be a decrease in export and employment by factories in IPs. This is because most of the factories in IPs have been exporting to the US. For example, 85% of exports from Hawassa Industrial Park in 2020 were to the US market. As mentioned above, there was a slight and short-lived decline around the time of AGOA expulsion. After January 2022, export performance of IPs started to increase and March 2022 registered the highest export from IPs in the last four years despite the suspension in January. This is because factories had orders they received before the suspension which they had to meet. On the other end, workers were afraid of being laid-off after they heard about the suspension. Previous challenges related with punctuality, turn-over, and strikes decreased as a result. The factories (that needed to meet orders) used this new-found efficiency in workers to increase production. Therefore, workers' productivity increased generally. However, after the factories met their previous orders, their production declined. The graph below clearly explains the change in productivity of workers.



The above graph shows the change in employment and export from July 2019 to September 2022 for all industrial parks. It is clear that there was little change in employment when the export increased significantly in March. This, coupled with key informant interview (KII) indications, is proof of the short-lived workers' productivity. The plant manager of one of the factories in Hawassa Industrial Park emphasized the increase in workers' productivity. He mentioned that workers used to produce 2,000 trousers/day before January 2022. By the time the interview was conducted (April 2022), they produced 3,000 trousers/day. This is a 50% increase which took place within the past year. The manager also mentioned that there is no issue with regards to market. They are still able to get orders from the US market despite Ethiopia's suspension from AGOA privileges. The graph also shows that employment in IPs declined overall following the decline in export performance of factories. Except for two factories in Hawassa Industrial Park, no factory left the IPs after the suspension. But most have changed their plan to expand production.

### Current challenges

Workers' productivity could not be sustained due to significant decrease in production and export after March 2022. The number of employees did not decrease except in one firm. The assessment also looked into other challenges the factories are facing. In this regard, the most important challenge mentioned is the directive passed on the use of foreign exchange (Forex). Factories are allowed to use only 30% of the forex they earn from exports. This is becoming a challenge for the factories according to the respondents. On the other hand, some factory representatives feel the government's lack of support in responding to the AGOA suspension. Despite the impact of AGOA on employment and export of IPs, there seems to be a communication gap between the government and IP factories. This challenge was also confirmed by the Investors' Association in Hawassa Industrial Park. On the other hand, all factory representatives and key informants mentioned that there was no challenge related to workers. After the suspension, workers have

become more efficient and previous challenges have significantly decreased.

## **Conclusion**

After Ethiopia's suspension from AGOA privileges in January 2022, the performance of IPs decreased for a while. But March 2022 registered the highest export from IPs in the last four years. This was unexpected considering the increase in price of products as a result of suspension from AGOA. However, the assessment has found that this was a short-lived increase and it was a result of factories' intention of meeting orders they received prior to the suspension. The increase in export was also a result of increase in workers' productivity. As a result of the suspension, factory workers have become more productive and previous employee-related challenges have decreased significantly. Furthermore, factories are trying to sustain production, stay in the country and get orders from the US and other markets. In this regard, the support of the government is crucial to help factories achieve this plan and continue making Ethiopia a manufacturing hub.

BRIDGES is a Mastercard Foundation – Young Africa Works programme implemented by First Consult. We are working to support and create jobs and medium, small and micro enterprises by unlocking the job-creation potential of industrial parks and other big enterprises in Ethiopia.

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