

ARBETSRAPPORTER
Kulturgeografiska institutionen
Nr. 951

Made in Ethiopia
Challenges and opportunities in the
emerging textile industry in Ethiopia

Clara Alderin



UPPSALA
UNIVERSITET

Uppsala, juni 2014
ISSN 0283-622X

ABSTRACT

Alderin, C. 2014. Made in Ethiopia. Department of Social and Economic Geography, *Arbetsrapportserie*, Uppsala universitet.

The textile industry is one of the worlds most geographically mobile industries, where Transnational Corporations (TNCs) are seeking for low-cost production. Starting in the 1970s suppliers in South East Asia have increased enormously. However during the recent years TNCs have started to outsource production to Africa, and more specifically to Ethiopia.

The aim of this paper is to examine the emerging textile industry in Ethiopia. The paper identifies central actors and discusses the development of a competitive textile industry, by looking on the challenges and opportunities to become a new location for textile production. The paper also examines the how Corporate Social Responsibility (CSR) has been initiating and introduced in the Ethiopian textile industry.

The results show that Ethiopia has access to human labour, raw material, governmental support and therefore potential to strengthen its position on a global market in the coming years. This paper is a contribution in understanding the emerging textile industry and highlighting the development within Ethiopia. The empirical research is based on a fieldwork in Ethiopia during the winter of 2013/2014, with a Minor Field Study stipend from the Swedish International Development Cooperation Agency (SIDA).

Keywords: Textile industry, Ethiopia, Cluster, Corporate Social Responsibility, Transnational Corporations

Supervisor: Johan Jansson

TABLE OF CONTENT

1. INTRODUCTION	4
1.1 Aim and research questions	4
1.2 Limitations	5
1.3 Abbreviations	5
1.4 Disposition	5
2. THE GLOBAL TEXTILE INDUSTRY	5
2.1 Ethiopia	6
3. METHODOLOGY AND METHOD	7
3.1 Research design and choice of topic	7
3.2 Interviews and observations	8
3.3 Critical reflection on method	9
4. THEORETICAL FRAMEWORK	10
4.1 Global production network	10
4.2 Cluster theory	11
4.3 Corporate Social Responsibility (CSR)	13
5. RESULTS	14
5.1 Actors in Ethiopian textile industry	14
5.2 Production factors in Ethiopian textile industry	17
5.3 CSR in Ethiopian textile industry	21
6. ANALYSIS	23
7. CONCLUSION	27
REFERENCES	29

1. Introduction

The textile industry has been one of the most dynamic and geographically mobile industries globally (Dicken, 2011). The industry is made up of complex global production networks and due to the possibilities of minimising the costs of production, many companies (from H&M to local brands) use suppliers located in developing countries. During the recent years Transnational Corporations (TNCs) have started to outsource textile production to African countries, one of them is Ethiopia.

Since 2010 the Ethiopian government has put effort to improve, support and expand the textile industry, both in serving the domestic market but mainly with the aim to export and be competitive at the global market (TIDI, 2014). Ethiopia has potential of building a textile industry with governmental support, offering low-cost production, raw material and with a growing young population eager for jobs (Responsify, 2013).

The textile industry is used as a bridge for development, because it integrates the agriculture with the industry. It is labour intensive, starting from cotton cultivation to fashion product, many people get employed. From all these things Ethiopia can be benefited. A critical thing is unemployment, but it will be solved by industrialisation. Poverty's reason is unemployment so I think when you get employment you can survive. That's why textile industry is a key to reduce poverty (Addisu Ferede, Scientific director IOTEX Bahir Dar University, 2013).

The textile industry is considered to be one of the first steps into industrialization and give opportunities for employment and increase the possibilities for global trading (Gereffi, 1999). Increased integration into the global economy is one of the best ways for developing nations to improve the standards of living and reduce poverty levels through economic expansion, job creation and higher income (Fosu, 2011, p. 115). One TNC outsourcing to Ethiopia is the Swedish company H&M, who started their production in 2013 (Veckans Affärer, 2014). *I think there is a huge potential in sub-Saharan Africa in terms of production. We have started production on a small scale in Ethiopia and will see how it goes. It's very interesting.* CEO of H&M Karl-Johan Persson states (Dagens Industry, 2014).

At the same time the interest in Corporate Social Responsibility (CSR), has increased enormously. CSR has a growing importance in all businesses and in textile particularly, due to the complex supply chain. Companies often define their own CSR policies where issues as workers rights, environmental consideration and safety issues are settled. Demand from TNCs towards factories has become increasingly common (Pruett, 2005).

1.1 Aim and research questions

The aim of this paper is to illustrate the emerging textile industry in Ethiopia. The paper will map and study the relevant actors in the textile industry and discuss the challenges and opportunities for Ethiopia becoming a competitive textile industry. In addition the paper will focus on the role of Corporate Social Responsibility (CSR) and how it has been introduced and initiated in the Ethiopian textile industry. To answer the aim of this study I will use the following research questions.

1. Who are the primary actors in the Ethiopian textile industry?
2. What factors does Ethiopia have to become a competitive textile industry?
3. How has CSR been initiated in the Ethiopian textile industry?

1.2 Limitations

This paper analysis actors within the textile industry in Ethiopia. Due to the size of the paper I have only chosen to focus on the largest actors. In order to exemplify one TNC I chose H&M, because it is one of the initial Swedish companies outsourcing production to Ethiopia.

CSR is a wide concept that can be described in different ways and include various aspects of social-, environmental- and financial responsibilities. However I have chosen to have a general debate of the concept of CSR and how it is initiating in the emerging industry, rather than analysing each of these aspects in detail in the supply chain.

1.3 Abbreviations

CSR	Corporate Social Responsibility
ETGMA	Ethiopian Textile and Garment Manufacturers Association
IOTEX	Institute of Technology for Textile Garment and Fashion design
TIDI	Textile Industry Development Institute
TNC	Transnational Corporation
TVET	Technical Vocational Education and Training programme

1.4 Disposition

This thesis is divided into seven sections. Initially I will describe an overview of the textile industry globally and Ethiopia as a country. Thereafter I explain my choice of methodology, followed by the chosen theories I have used to portray my results. The empirical description is divided into three sections where I intend to answer the three research questions in each section. I firstly map the actors in the Ethiopian textile industry; secondly I present factors in order to for Ethiopia to become a competitive textile industry. Thereafter I examine how CSR is initiated in the Ethiopian textile industry. Finally I discuss my findings in an analysis and end with a conclusion.

2. The global textile industry

Textile manufacturing is accessible to establish in most countries, even at low levels of economic development because it is a labour intensive industry (Dicken, 2011). Hamann et al. (2008, p. 108) states that due to labour insensitivity, the textile industry therefore has a significant impact on alleviating poverty. Relocation of production has changed dramatically globally. Until the 1960s and 1970s, textile production was mainly domestically manufactured in Europe. This shifted in the 1980s when production started to be outsourced to South East Asia. During the 1980s and 1990s China dominated the textile manufacturing which employ around 3.6 million people (MacKinnon & Cumbers, 2007). Countries aswell as China and India have demonstrated that international integration makes potential for a growing

capability of poverty reduction in developing countries. The economic growth and poverty reduction in Sub-Saharan countries is however extremely different from the rest of the developing world. The region is the poorest in the world, despite the rich amount of natural resources, where the low economic performance and widespread poverty in Sub-Saharan Africa is often blamed on the low level of economic integration into the world economy (Fosu, 2011, p. 115).

During recent decade more African countries have started to produce textile for export. There are different perspectives on which direction and what the challenges and opportunities of the African textile industry are. On one hand Traub-Merz (2006, p. 9-10) are stating that the African textile industry is in a major crisis due to the global competition, and international agreements are disadvantaging African textile exports. Sheresta et al. (2008, p. 5) on the other hand present that Sub-Saharan Africa can be considered as a territory with massive potential because of all the vital resources and cheap labour, compared to other regions in the world, even south East Asia. Source of Africa an international newspaper argues that;

Africa is internationally perceived as the next sourcing destination for textile and leather production. With access to the raw material, large and growing population, strong government support and increasing international investments, the textile and leather industry got the potential to compete with Asia (Source of Africa, Responsify News, 2013).

Even though countries, such as Ethiopia that have assets needed, the textile industries located in developing countries have been afflicted by exploitative production processes where hard working conditions is usual. It is not uncommon to work 12-14 hours a day, sexual harassment rates are high and a lack of union labour connections are usual (Dicken, 2011). Production cost in developing countries can be inexpensive due to low salaries. According to Dicken (2011) labour costs are the most significant production factor in the textile industry and globally the labour cost-gap is increasingly getting wider among countries. The main advantage of low-labour-cost producers lies in the production of basic items, rather than fashion garments.

In textile manufacturing, there are diverse steps in the production, which can be divided into four categories; product development, sourcing and buying, production and distribution and retailing. Textile production consist of four main levels of processes; fiber and yarn processing, fabric manufacturing/finishing, garment manufacturing and retailing (Cao et al., 2008). Different processes are divided between different factories, where one example of organising the textile supply chain is called *vertical integrated chain*. A vertical integrated chain (same as vertical integrated factory) is defined as a process controlled by one single company or functional entities of an enterprise. The company owns both a textile and a garment factory and therefore does not have to buy fabric from a third-party (Cao et al., 2008).

2.1 Ethiopia

Developing countries that are rapidly integrating into the global trade system are among the fastest growing economies in the world, one such example is Ethiopia. Ethiopia is one of the

largest and most natural resource rich countries in Africa. With a population of almost 90 million people, 65 % are youths and the population is continuously growing (Globalis, 2014). Even though the country has a developing economy, Ethiopia remains one of the poorest countries in the world, ranking 169th out of 177 countries on the Human Development Index and 105th out of 108 countries on the Human Poverty Index (ETI report, 2010). Almost half of GDP revenues come from agriculture, which accounts for 85 % of the population employment. Ethiopia's main export commodity is coffee. The country also exports sugar cane, cat (narcotic plant) and cotton (World Factbook, 2013).

During the past decades there have been several of regime changes in Ethiopia, where the most essential was in 1991 when the communist regime fell apart after years of violating human rights. The country has never been colonized and is today ruled by an ethnic-based coalition led by Hailemariam Desalegn, prime minister of Ethiopian People's Revolutionary Democratic Front (EPRDF). The regime is accused of being an authoritarian regime and have been internationally criticised for still violating human rights (Globalis, 2014). In 2009 two new laws were passed which increased the possibility for the government to control the society. One law that prohibits foreign support for human rights work and another anti-terror law, which has limited the freedom of speech and legal rights (Landguiden, 2014).

The Ethiopian government has through its agricultural development led an industrialization economic policy where the government has implemented new policies and strategies. One strategy is prioritising the textile industry, where the choice is made due to rich natural resources, as raw cotton, power supply, as well as a high population of youths. The country also has a tradition of weaving textile production. Additionally Ethiopia has a rich textile spinning and weaving history (TIDI presentation, 2011). In 2010 the government initiated the Textile Industry Development Institute (TIDI) with the aim to support and strengthen the textile industry in textile, garment and the cotton sectors. Job creation is essential for the people in Ethiopia with its fast growing population needing job opportunities. The textile industry in Ethiopia is expanding rapidly, in 2012 the textile export grew 28 % and employs over 40'000 people. TIDI is expecting to earn US\$250 million from textile exports in the coming year, from July 2013 (TIDI, 2014).

3. Methodology

In this chapter I explain and discuss the chosen methods used in the study.

3.1 Research design and choice of topic

This thesis is based on a Minor Field Study (MFS) funded by the Swedish International Development Cooperation Agency (SIDA). During nine weeks of field studies I collected data in Ethiopia in the winter of 2013/2014. The choice of country for data collection was motivated by different criterias. Beside a personal interest in the textile industry, H&M started to outsource their first production in Ethiopia 2013, which made it an interesting and a current topic. I have therefore chosen to exemplify H&M as a TNC in Ethiopia in this paper. Due to the development where large TNCs move parts of their production from South East Asia to

other locations in the world and in this case Ethiopia, I thought that there could be some originality in my work since there is not written much about the textile industry development in Ethiopia. I was likewise familiar with a Swedish company, Responsify and got interested in their work since they have a core business of working with CSR in the textile industry in East Africa. Responsify was founded with a demand from clients interested in sustainable production in East Africa, where long term relationship with suppliers and better control over social and environmental aspects are possible. Core to their business model is sustainability, in terms of social, ethical and environmental aspects. Responsify offers services to companies by providing information, social audits, quality inspections and set up strategies for a business driven CSR work in Ethiopia (Responsify, 2013).

3.2 Interviews and observations

This thesis is made with a qualitative approach where I have conducted interviews and done observations in order to collect data. Valentine (2005, p. 111) states that interviews can be seen as a, *conversation with a purpose*. Though, each interview varies according to interests, experiences and views of the interviewees. The advantage using interviews as a method is that it allows respondents to raise issues that the interviewer may not have expected, which gives the material a deeper picture of the research problem (Valentine, 2005). I chose to do semi-structured interviews, by selecting several themes to discuss in an interview guide. Aspers (2011) state that semi-structured interviews give opportunities for a spontaneous conversation throughout an interview.

The role of Responsify in the paper can be seen as a *gatekeeper*, as Valentine (2005) describes, a contact providing information necessary for the research at the initial stage in the fieldwork. Thereafter *snowballing* has been influencing the choice of respondents. The term describes using one contact to help you recruit another contact, which in turn can put you in touch with someone else (Valentine, 2005, p. 117). Snowballing was suitable for my research due to my position as a student in a new country and with limited connections.

To understand the emerging textile industry, I did interviews with different people at various positions. I conducted interviews with CEOs, managers and workers at textile factories. Governmental representatives, one intermediary (Responsify), teacher and student at TVET education and one scientific director at the leading textile university IOTEX in Bahir Dar. I also met one representative at the Swedish embassy who is in charge of business collaboration and one textile expert with experiences from both companies and factories world wide. I recorded and transcribed all my interviews in order to analyse my data. Some of the respondents have asked to be quoted anonymous. From these interviews I present my findings in the empirical section in chapter 5, divided into three sections answering each research question.

In addition to the interviews I have made observations. Observation is a method for the researcher to study *what* is happening and to understand events in the environment. Aspers (2011) argue that the researcher first studies the overall picture and then continues by focusing on the details. Observations are often combined with conversations and questions, to greater understand the place of study (Aspers, 2011). Observations were suitable for my research in order to get an overall picture of the country and to understand the production

processes in the textile industry. I made two specific observations at factories, Yirgalem factory in Addis Ababa and MAA Garment & Textile in Mekele, where I also made interviews. During my observations I got a deeper understanding of the working environment and the different sections in the production. Throughout interviews I could therefore relate to my observations and formulate questions regarding the production process in factories.

3.3 Critical reflection on methods

Mullings (1999, p. 337) argues that by our own, class, nationality and racial attributes, a researcher's knowledge is shaped by her positioning as well as the location in time and space. These are all factors that influence how the world is viewed. As this study is based on research in Ethiopia there are limitations involved. These relate to cultural differences and language difficulties. For my understanding of the culture and mentality, all different kinds of experiences have been a part of my study. Being a "ferenji", a white person from abroad in Ethiopia, means that everyday life is about people interacting with you on the street since there are few foreigners in the area. This is an important aspect due to my feeling of being treated differently, than the local Ethiopians. Therefore there are ethical considerations that I have been taking into account in my research, where one aspect is being an outsider. There are different perspectives as to whether a researcher has greater challenges as an outsider or insider (Mullings, 1999). In my case as an outsider as a white, young Swedish woman and not belonging to the group, I have met difficulties in language, cultural meanings and traditions. Therefore the result of being an outsider might have limited the amount of information that was shared with me.

Other ethical consideration has been about power relations and reflexivity, since the results and analysis presented are dependent on my understanding, interpretation of the answers, situation and context. Aspens (2011, p. 66) explains that problems may occur between the subject and the researcher in relation to expectations and knowledge. Therefore it has been important to identify power relations and to have a reflexive approach being an outsider. Reflexivity in research can be described as a process of being constantly self-conscious of the research process and analysing your own situation as researcher. Dowling (2005) states that power cannot be eliminated from the research since it exists in all social relations. One way to identify power relations and have a reflexive understanding was to recognise *business elites*. Many of the respondents I interviewed can be considered business elites. Mullings (1999) presents the term being usual in economic geography, when the researcher often conducts interviews in environments where much information comes from managers and CEOs and where it can be a challenge trying to get in contact with them. In order to get an interview it was important to explain my research and present how my study could gain the Ethiopian textile industry. It was a way to connect with the respondents more easily.

Validity refers to the issue of whether or not, one or many indicators that are devised to gauge one concept really measure it. By choosing interviews and observation as method, the analysis is therefore an individual reflection of the research area. Reliability refers to the regularity when measuring a concept and how it would be the same results if the study was conducted again. In quantitative research, the researcher often identifies whether or not the result in the study can or cannot be generalised (Bryman & Bell, 2007). In this research there

is a limited amount of literature concerning textile industry in Ethiopia, due to that the industry is in an early stage of development. The ambition of this thesis is not to give a full picture of Ethiopia, though I will present an overview of the emerging textile industry from the chosen sources in order to answer my research questions. Therefore there is no greater generalizability nor high reliability in my work, it can rather be seen as a field study in Ethiopia. The paper can be seen as an initial research and provide information for further studies about the Ethiopian textile industry.

4. Theoretical framework

To understand the Ethiopian textile industry in a global context, this paper will use a theoretical framework based on economic geography literature. *Global production network* describes the role of TNC in a global trading system and *outsourcing* is described to understand *why* international companies choose to locate their textile production in Ethiopia. *Industrial upgrading* explains how local production can benefit by advancing production.

Cluster theory is explained to firstly map the existing actors in Ethiopia and secondly to identify factors, which make clusters competitive. *CSR* is explained to understand how the concept is introduced into the textile industry in Ethiopia.

4.1 Global production network

Production, distribution and consumption of goods and services are primarily organised within *global production networks* and coordinated by TNCs (Dicken, 2011, p. 532). Global production networks of TNCs are geographically widespread and corporations therefore connect at different places and have an international division of labour. Global production networks an important perspective to understand the relationship between TNCs and host regions where regional actors need to match their assets, for example in labour and knowledge (MacKinnon and Cumbers, 2007).

TNCs have become one of the dominant actors within globalisation and are central to the global economy. In a global competitive market, the main goal for TNCs are most often to increase the surplus value through raising the productivity of existing operations, by finding low-cost production locations, develop modern technology or change to new form of organization structures (MacKinnon and Cumbers, 2007). Although domestic firms are involved in textile production, the industry's globalization has been primary driven by firms in developed countries (Dicken, 2011). The textile industry has become important in many developing countries and as a result, the local firms have expanded. The consequences of TNCs involvement in developing countries are many, where some examples point out that it can help the local economy by bringing jobs, skills and knowledge. Furthermore it can be the key to connect a local to global networks (MacKinnon snf Cumbers, 2007). The primary structural change in the textile industry is that the production supply chain has become increasingly dominant by multiple retailing chains, such as Tesco and Primark (Dicken, 2011).

Outsourcing is a frequent tool within global production networks for companies to develop an effective competitiveness, where they seek to organize specialized skills with the aim of increasing economic profit (Sharpe, 1997). Su (2013, p. 23-24) states that there are two main reasons for the increased outsourcing in the textile industry. First due to that textile companies are more competitive globally and second that the efficiency of the global textile supply chain has increased. Therefore one of the methods for companies to improve their competitiveness is to manage in the globally extended textile supply chain through worldwide suppliers. The way that a company outsources their production, affects the production, marketing, distribution and financial strategies (Su, 2013).

What is important to stress is the fact that outsourcing in an unfamiliar environment also contains many risks. The quality of the local labour force and the capabilities of the local management can be challenging. TNCs are affected in their operations, characterized by their own culture that reflects their country of origin (MacKinnon and Cumbers, 2007). There are many cultural differences between the host region and the TNC. As MacKinnon and Cumbers (2007) discuss, investing in an unfamiliar environment makes it difficult to translate information and control the quality of labour force and how the local management are working. Also there is a lack of political and social resources in some developing countries, such as in Ethiopia, where there is a limitation of independent labour unions, democracy, employment-, health- and safety legislation, which can be problematic.

Other aspect of global production networks is *industrial upgrading*. When new low-cost producers are entering the global market, in labour-intensive markets, such as manufacturers, firms in developing countries are under pressure to improve their performance and increase their competitiveness. When TNCs place orders that must meet stringent specifications and technical expertise, it enables local firms to compete more effectively in broader markets (Dicken, 2011). In order to respond to this kind of challenge Humphery and Schmitz (2002, p. 1017) suggest that the industry needs to upgrade, to make better products and make the process more efficient. Industrial upgrading functions at different levels. At factories it can be described as; *Industrial upgrading involves moving from cheap to expensive items, from simple to complex products, and from small to large orders* (Gereffi, 1999, p. 52). Local producers learn from global buyers how to improve their production processes, and to manage consistent high quality and to make a more effective process. This industrial upgrading is particularly important for local producers who are new in the global market (Humphery and Schmitz, 2002).

4.2 Cluster theory

Ethiopia has a clear attempt to promote the textile industry in order to be export oriented and become competitive at the global market. Michael Porter (1990) debates that the national competitive advantages are created through localised internal processes in a country, called clusters (Dicken, 2011, p. 200). The cluster theory was introduced in the 1990's by Porters work, *The Competitive Advantage of Nations* (1990).

Porters theory of an industrial cluster was originally formed to explain why some industrial clusters were exceptionally competitive in some countries and have been discussed by different researchers such as Dicken (2011), Malmberg (2002) and Hallencreutz (2002).

To explain how economic activities are linked to each other, Porter uses a *cluster chart* of an industrial cluster. This emanates from one *core product*, (for instance textile). Surrounding this product, there are different actors who serve and support the core product. These are; *Specialized inputs*, which are products or services that are specific for a cluster ability to produce competitive primary products, for example education. *Machines and technology*, the technology needed to produce the core product. *Supporting services and commodities*, different types of activities that direct or indirect affect or support the cluster, such as institutions. *Related industries*, industries that are related to the core product, such as cotton cultivation. *Clients*, who are significant actors buying the core product (Malmberg, 2002).

In the cluster theory Porters argues that a cluster can only be successful if there is a cluster dynamic, which he explains with the so-called *diamond model*. In this model relation between six factors is analysed, explained by Malmberg (2002) and Dicken (2011), which are;

Factor conditions, are general factors such as access to labour, education, capital, raw material and infrastructure. These factors are mainly not made by nature, but created by individuals and are unique location factors, which are hard to copy and created over long time. Often different actors and institutions creates the factor conditions together. Dickens (2011) states that the most important factor condition includes the levels of skills and knowledge of the country's population and the provision of sophisticated physical infrastructure, including transport and communications (Dicken 2011, p. 200).

Demand conditions, companies that have local customers who place challenging requirements, have the greatest chance to achieve international competitiveness. These so-called "sophisticated clients" formulate strict demands on the quality of products and therefore force the companies to improve their products.

Related and supported industries, are related activities such as suppliers and companies in related businesses in the local environment. The existence of competitive sophisticated suppliers can contribute to innovation and upgrading of new services.

Firm- strategy, structure and rivalry, are local competitors in the same or related businesses tend to stimulate development.

Chance, is explained as occasional occurrence of innovation or historical accidents that create entrepreneur innovation.

Government, Porter does not see government as a competitive deterrent in the diamond, although he acknowledges that the government influence the other deterrents (Malmberg, 2002).

However, Malmberg (2002) states that the government has a further role in the cluster development. First in designing the arena by supporting infrastructure and education, and second to create rules, through watching competitiveness, regulations, act as a sophisticated client throughout the labour- and capital market and tax system. Wolfe and Gertler (2004, p. 1076) discuss the role of national institutions in clusters. *There is a strong interdependence between the economic structure and social institutions that comprise the cluster. The institutional context of the cluster defines how things are done within it and how learning transpires.* National institutions also play a leading role by taking strategic decisions for a country. Regional economies take decades to develop, by linking firms to regional assets and

attracting investment to the cluster, assisting flow of ideas, information and resources among firms and other supporting institutions (Wolfe and Gertler, 2004).

Since Porter introduced the cluster theory other researchers have used the term but there have been different perspectives of the concept of clusters. The main confusion has been around functional coherent industrial system and a geographical delimited agglomeration. A functional coherent industrial cluster is where companies are bind together through different types of relations. In geographical delimited agglomeration, companies or industries in the same sector are located closely to each other (Malmberg, 2002; Dicken, 2011). Malmberg (2002, p. 15) state that the contemporary discussion, the concept of cluster both describes the functional and the geographical agglomerated industries. The textile industry in Ethiopia can rather be seen as a functional coherent industrial system, since there is no agglomeration within Ethiopian textile industry but there are relationships among the actors in the cluster within the country.

It is important to note that Porters theory is based on a western context, as it mainly describes industries in developed countries. Clusters in developing countries have different conditions and potentials. Hamann et al. (2008, p. 101) states, *In developing countries clusters are generally more successful if they have trade network linking them to international markets. The relative absence of such networks in East and South Africa is an important constraint in this regard.* This statement show that cluster are dependent on TNCs as trading links in order to success. Hamann et al. (2008) also argue that more social and environmental consideration can play a significant role in being a competitive cluster, a perspective that Porter does not mention but do deepen the discussion of competitive clusters in a contemporary discussion.

4.3 Corporate Social Responsibility (CSR)

Global production networks coordinated by TNCs raise important questions, especially regarding relationships between corporations and suppliers and the treatment throughout the network. Social-, environmental- and financial responsibility has become increasingly essential, often explained as Corporate Social Responsibility (CSR). Even though the debate of CSR has increased enormous during the past decade, it appeared already in literature in the 1930's. The first book that today is seen as the pioneer in the field on CSR was, *Social Responsibility of businessmen*, by Bowen 1953. He stressed that businesses not only have to be profit maximizing but also saw companies as social agents with a greater responsibility towards the society (Chi, 2011, p. 839; Vogel, 2005).

There are several of definitions of CSR, though many include social-, environmental- and financial responsibility (Chi, 2011, p. 837). Per Grankvist uses the explanation:

Financial responsibility – is about a company running its business in order to be lucrative and there through take responsibility towards the stakeholders. *Environmental responsibility* – is about a company running its business in an eco-friendly way and by its existence and operations not be a threat to mother earth in short term nor long term consideration. *Social responsibility* – is about a company running its business in a way which characterize a person as a good member of society with consideration and

respect towards other citizen's health and wellbeing, regardless if they are friends, employees, suppliers, business associates or customers (Grankvist, 2009, p. 17).

In businesses, these aspects have to be implemented together to be considered as a progressive CSR work. However CSR in a global supply chain is widely debated and the role of TNCs responsibility in a global production network. Coe et al. (2007, p. 102) state that; *Buyer-driven chains and brand-name merchandisers (eg. Adidas, Nike and the Gap) play a central role in establishing and controlling productions systems, usually located in export-oriented developing world countries.* Meaning that TNCs have a responsibility to control their supply chain in developing countries.

Vogel (2005) strongly debates that CSR provides benefits to some firms by protecting or improving their reputation. The rights and conditions of workers in the supply chain have become to be one of the biggest focuses of modern CSR. As mentioned in the background, hard working conditions in factories with long working days, low security at factories, sexual harassment are conditions often debated in the textile industry (Pruett, 2005).

Friedmann has delivered the main critic towards the concept of CSR, where he proclaims that the social responsibility of business is only to improve its profit. Even though many CSR promoters acknowledge Friedmanns idea, they now deliver a similar idea; responsible business practice is a must to ensure improved profits (Vogel, 2005, p. 26).

The objective of this paper is not to analyse the concept of sustainable development, however it is important to clarify the concept of sustainable development in relation to CSR. In 1987 the definition of sustainable development was created at the United Nations World Commission on Environment and Development, and was later publish in the "Brundtland report, Our common future". In the Brundtland report Sustainable Development was defined as, *Development that meets the needs of the present without compromising the ability of future generations to meet their own needs* (Utting, 2000, p. 1). By connecting sustainable development to CSR it becomes clear that they are closely linked together, and where CSR is a tool for corporations to work with the process of creating, "sustainable production".

5. Results

The empirical result is divided into three sections, which studies each research question. The results are based on the interviews conducted in Ethiopia and the interview list is found at page 32.

5.1 Actors in the Ethiopian textile industry

There are many theories within economic geography describing industries and localisation of production. I have used Porters *cluster chart* (Malmberg, 2002 and Dicken, 2011) to explain the actors and in what way they are supporting the textile industry in Ethiopia. Even though Porters theory is getting old (1990), I found it useful since the model helps explaining actors within an industry, and because it originate from one core product which in this case is textile.

5.1.1 Textile Industry Development Institute (TIDI)

TIDI is a government owned institute and has an overall responsibility of the textile industry development and therefore an important key *supporting service* in the textile industry in Ethiopia. According to TIDI's marketing director Mr Mesfin, the main goal of TIDI is to focus on attracting domestic and foreign investment, capacity building activities and training in order to effectively the industry through different services. For example TIDI supports quality assurance and certification, they are facilitating tax free import of machinery and construction materials for new investments, TIDI coordinate tax free export of products-, import of raw materials and accessories. Ethiopian factories can apply for loans from TIDI in order to invest in machines and technology to upgrade their production (Yared Mesfin, 2013).

According to Responsify, TIDI is the only department in eastern Africa that is dedicated to support the textile industry development. The role of the national institute is also noted to be central in having relationship with the other actors in the clusters. For example both H&M and MAA Garment & Textile (a factory) are working together with TIDI in order to understand the need of building an attractive industry (Responsify, 2013). By the year 2015 TIDI is aiming to increase production from USD 470 million to USD 2.5 billion and increase export from 23.2 million USD to one billion USD (TIDI, 2011).

5.1.2 Specialised education

The importance of higher education in textile education is another central factor for the textile industry, in order to become competitive and it is therefore a *specialized input*.

The University of Bahir Dar, Institute of technology for Textile, Garment and Fashion design (IOTEX), is Ethiopia's first and primary university for textile engineering established in the early 1960s. The university offers Textile Engineering, Garment Engineering and Fashion Design at degree level. Mr Ferede, the scientific director of IOTEX, has noticed the priority of the textile sector since TIDI was founded. The university has received increased economic support and developed training centres and labs at the university. The ultimate goal for the university is to educate skilled labour to the textile industry at different levels. Mr Ferede explains that there is a need for both, so called "low-skilled labour" (for example sawing) and also highly trained engineers and managers at the factories. There are many international engineers at the larger Ethiopian factories from Pakistan, India and Philippines with the aim to support the staff and effectively the production as an educational exchange. Therefore Ethiopia need to educate their own specialised engineers and continue to focus on their textile specialised education (Addisu Ferede, 2013).

Additionally to IOTEX University, Ethiopian government and TIDI has initiated Technical Vocational Education and Training programmes (TVET) since 2008. These are practical education programs in different sectors, where textile is one. The TVET programs can be seen as a complement to university studies. The students only pay a small amount of the fee and it is therefore a strategy for students that cannot apply or afford to study at the university to get higher education. The textile program includes classes in spinning, knitting, weaving, ginning and chemical processing where the students choose their speciality. The vision of the TVET program is explained as a poverty reduction tool, *TVET in Ethiopia seeks to create competent and self-reliant citizens to contribute to the economic and social*

development of the country, thus improving the livelihoods of all Ethiopians and sustainably reducing poverty (MOE, 2008). The program is essential due to its practical orientation and gives another type of training than the IOTEX University. The TVET textile programs include working practise at factories. Part of the students choose to continue to work at the factories after graduation, but due to low salaries at the factories others chose to start their own businesses in textile production (TVET student, 2013).

5.1.3 Vertical integrated factories

An important aspect for the factories in Ethiopia is to have *modern machines and technology* that can deliver the quality of the textile that TNCs are demanding. A vertical integrated factory, is a factory with all the entities needed in a textile supply chain, from cleaning and processing the cotton, to finished item in factories at one location (Cao et al., 2008; Observation 1 and 2, 2013). According to Responsify the factories in Ethiopia equipped with modern machines and technology are mainly three *vertical integrated factories*; MAA Garment & Textile, Almeda and Ayka Addis. These factories are essential in order to attract TNCs to outsource production to Ethiopia. The factories are the largest in the country and have the ability to produce large quantity orders and have different technologies than smaller factories in order to produce different colours and styles of textile (Responsify, 2013).

MAA Garment & Textiles belongs to the company Kebire enterprise that is owned by shejk Mohammed Al Amoudi. Fassil Tadesse is CEO of Kebire Enterprise and chairman of the Ethiopian textile and garment manufacturers association (ETGMA). The factory is located in the northern part of Ethiopia in Mekele and the head quarter in Addis Ababa. The factory has 1658 employees of which 90 % of them are women. MAA Gaarment & Textile has attracted many international retailers, such as H&M, Tesco and Primark (Fassil Tadesse, 2013).

Ayka Addis is a Turkish owned factory who started their production in 2006. It is the largest factory in the country with around 7000 workers, located outside Addis Ababa (Veckans Affärer 2014). Almeda is the third vertical integrated factory located in the northern part of Ethiopia. The factory is Ethiopian owned by Effort group. Besides the vertical factories mentioned, there are other factories exporting textile as well, so called “CM-factories” (Cut and make). A CM factory import the fabric from other countries and only manufactures the textile at the factories. These factories have however not been a focus in the study (Responsify, 2013).

5.1.4 Transnational Corporations

The Ethiopian government is aiming to attract international buyers in order to enter the global market. The need of *clients* is therefore crucial. H&M, Tesco and Primark are some of the TNCs outsourcing textile production to Ethiopia (Fassil Tadesse, 2013).

Primark is an Irish clothing retailer that operates in over 250 stores in eight countries in Europe (Primark, 2014). Tesco is a British multinational grocery and general merchandise retailer, and one of the world largest vendors operating in 12 countries (Tesco, 2014). H&M is one of the worlds biggest clothing companies, with both stores and production worldwide. In 2013 H&M outsourced the first test order to Ethiopia. The choice of expanding the market to Africa, Camilla Emilsson Falk the spokes person for H&M, states; *As a growing global*

company, we must look at how we can ensure that we have the capacity to deliver products to all our sellers where we are expanding rapidly. We do this by increasing production at our existing production facilities and also by looking at the new ones (Veckans affärer, 2014). H&M are using two of the factories in Ethiopia, Almeda and MAA Garment & Textiles and according to Veckans affärer also looking at Ayka Addis (Veckans Affärer, 2014). The role of H&M in the country is mentioned to be significant among respondents. *H&M engagement is very good for the country because they have specific standards and quality assurance, which plays a significant role. The benefits are huge; it is not only profit for the company, it actually benefit the country and the citizens* (Murad Issa Senior Officer Commercial and Cultural affairs, Swedish embassy in Addis Ababa, 2013). When TNCs such as H&M outsource production, the orders are much larger than local companies, which benefit the factories. According to Responsify many of the Ethiopian factories are trying to attract the large international buyers, in order to create long-term relationships with continuing large orders (Responsify, 2013).

5.1.5 Raw material

In relation to the textile industry, cotton is one of the major recourses in Ethiopia and serves as an important input for the textile industry and is therefore seen as a central *related industry*.

Ethiopia has an enormous potential for cultivating cotton, 2.6 million hectare of land is suitable for cotton production, which is equivalent to that of Pakistan the fourth largest producer of cotton in the world (ETI report, 2010). Though only 30-40'000 hectares are currently being used which accounts for 1% of the available land (Fibre2fashion, 2014). Though, the cotton cultivated in Ethiopia accounts for about 3,6% of the total cotton area of eastern and southern Africa. Ethiopia produces cotton for both the local and export markets, where in 2007 and 2008 the country's textile industries used 52,936 tonnes of locally produced cotton as raw material. In the same year, the export of cotton from Ethiopia was 14,360 tonnes valued at US\$ 19 million (ETI report, 2010).

5.2 Production factors in Ethiopian textile industry

In this chapter I use Porters (1990) *diamond model* in order to identify if Ethiopia has the production factors in order to become a competitive textile industry, and therefore attract TNCs to outsource textile production to Ethiopia. As mentioned in previous chapter, this theory gives a framework in describing Ethiopia as a textile industry, thus the theory cannot fully explain the textile industry in Ethiopia. However it will give the paper a structure of understanding how a cluster needs different actors in order to be competitive.

5.2.1 Factor conditions

The textile industry is one of the few industries that is labour intensive and can be established in developing countries in a pre-industrial phase (Dicken, 2011). Ethiopia's population of almost 90 million people is growing and the majority is young. An emerging textile industry has the potential to employ many uneducated people, which is essential for Ethiopia. Factor

conditions as labour, is one therefore one central component in becoming a competitive textile industry.

Like any other country the textile industry is a bridge for a high-tech development, because it is easy to export and it involves massive amount of people. For highly populated countries, like Ethiopia, textile is the heart of development (Fassil Tadesse, CEO of MAA Garment & Textiles, 2013).

As mr Tadesse states, Ethiopia is a highly populated country with opportunity to employ a large amount of people. Though despite the high labour force, one of the main challenges for the Ethiopian textile industry to compete at the global market is production efficiency. Several respondents (TIDI, Responsify, Murad Issa, 2013) have mentioned that workers do not work as fast as needed, to meet international demand in time delivery and that the labour lack technical experience. Therefore TNCs that outsource production to Ethiopia mainly order “simple” products, such as plain t-shirts. Elisabeth Lim, textile expert, mean that there are big differences between Ethiopia and the south East Asian countries due to the years of experience, skills and knowledge in the textile sector. At this early stage, Ethiopia does not have the same supply, technical and knowledge of “know how”. The challenges for H&M and other companies are to find a variety of supply. There might be a big potential for the textile industry to grow but it will be limited due to the quality of the fabric (Elisabeth Lim, 2013). Mr Mesfin at TIDI explains that they are aware of the productivity problem.

There is a challenge when it comes to lack of experience and labour management. International buyer need fast effectively and communication and at the time, buyers can suffer from local ineffectively. They are used to quick communication and delivery (Yared Mesfin, marketing director TIDI, 2013).

Production efficiency is related to the organisation structure and there is a challenge in management of having the right person at the right place. For the operators (workers that for example are sewing) there is no need for higher education and are instead often trained at the factories. Though the engineers and management in the factories need education in order to advance critical analysis, quality controls and develop new products. According to Mr Mesfin many Ethiopian factories lack the right amount of engineers in the factories, which is a central problem for not being as effective.

A central factor for companies outsourcing production to Ethiopia is the cost of production. Low production costs is related to the workers salaries in Ethiopia. A TIDI report from 2011 presents that the average salary for a textile worker at a factory in Ethiopia is \$50 per month, compared to \$135 in India and \$175 per month in China (TIDI presentation, 2011). There is no set minimum wage in Ethiopia in the private sector, only in the public sector which is 420 birr (\approx \$22) per month. Several of the respondent’s (Responsify, Yared Mesfin, 2013) claim that the private sector pays better wages than the public one. Nevertheless according to the interviews the average wages when working in an Ethiopian textile factory is between 500-1000 birr (\approx \$26- \$52) per month (Murad Issa, Responsify 2013). Even though the private sector pays higher salaries, students at the TVET program explains that the salaries at the factories are to low and that they are impossible to live on,

even for the engineers. Instead the students want to open their own businesses and consider it easier to earn more money (TVET student, 2013).

Another important factor condition in the textile cluster is infrastructure. There are many opportunities for low cost production in Ethiopia, however the transportation is a problem in the country, because it is underdeveloped. Transportation is mainly by roads, which is slow and expensive. Ethiopia has not any access to ocean and therefore all exports need to be transported to Djibouti. However, there is a national railroad project under construction, which will go through the country and to Djibouti. According to Mr Mamo, Human Resource & administration manager at MAA Garment & Textile, transportation from MAA factory to Djibouti takes three days by truck, would take around ½ day with railway. Transportation is a central part of the production network, both in order to transport the finished product and during the production process. Samples of textiles need to be sent between the factories and buyers to determine the right quality and colour of the fabric. Therefore it is crucial for a improvement in the transportation system (Zemen Mamo, 2013).

5.2.2 Related industries

A related industry, such as cotton cultivation is important in order to have an Ethiopian supply chain. Even though there is potential for cotton cultivation as mentioned earlier, the land is not used properly. According to mr Esuendale, a former employee at a textile investing company, the main issue is related to lack of investors and insecurity due to water demand. Ethiopia has a history of long-term droughts and even though there are water supply in Ethiopia from lakes, rivers and the rainy season, there is a water management issue in order to contain the water. Cotton is one of the most water demanding commodities in the world and if the cotton should be sourced nationally in Ethiopia, the water management have to be controlled and further developed with support from government (Zelalem G Esuendale, 2013). Another reason for the cotton not being produced as much as it could, is due to the quality of the cotton. There are three different qualities of cotton; short, middle and long sized cotton, where the long sized is the finest. In Ethiopia it is only possible to cultivate the small and the middle sized (Responsify, 2013). The difference between the quality is that the textile gets a so-called “hairiness” (not as fine cotton). Furthermore the cotton also needs to be processed and cleaned in different stages, which require modern technics. There are problems with the cotton processing, where there is a lot of contamination (dirt in the cotton) and how the cotton is transported. When the cotton is transported in plastic bags it leaves residues, which can destroy spinning machines (Responsify, 2013).

Another related industry is the energy asset. The energy cost in Ethiopia is low compared to other countries in the same region. In Kenya energy cost 18 cent / kilowatt, compared to Ethiopia where it costs 2 cent/ kilo. During the recent year the Ethiopian government have invested in an energy project. Currently the “Renaissance dam” is being build, which will be Africa’s largest hydroelectric power plant when it is finished. Ethiopian investment in energy projects has resulted in cheaper energy compared to its neighbour countries. Low energy costs give opportunities to attract TNCs to invest in the country (Fassil Tadesse, 2013).

5.2.3 Local rivalry

According to the diamond model, local competitors in the same or related businesses tend to stimulate development. In Ethiopia there is no such strong rivalry between local textile companies. The local textile market is mainly producing traditional clothes and the demand is instead directly coming from international buyers. However, in order to attract the buyers, factories need to advance their production and the rivalry is therefore mainly appearing between the factories that are exporting. The largest factories MAA Garment & Textile, Almeda and Ayka Addis are all vertical integrated and therefore fulfill the role as local rivalry in order to sustain the top producer and attract the customers.

The organisation structure in factories is important and the vertical integrated chain increases the efficiency, due to the fact that whole supply chain is in the same location (from cotton cleansing to manufacturing process and finished item). It is additionally easier for the buyer to control the supply chain, in quality as well as controlling social and environmental aspects. Responsify states, that the vertical integrated factories in Ethiopia are very important in promoting the Ethiopian textile industry towards international buyers. Another aspect of the importance of the vertical integrated factories is value addition. Some of these factories in Ethiopia have cotton farms in relation to the factory. This kind of production is a secure way for value addition within the country. Instead of only exporting raw material, there is a value addition in the different part of the supply chain. The spill over effects are many, from cultivating the cotton to the finished product (Responsify, 2013).

5.2.4 Government

The government in Ethiopia affects the textile industry in many ways, mainly in designing the arena through initiating strategies for the textile cluster to expand and strengthen its production. Some of these policies are; the establishment of TIDI, supporting the education system and regulations such as second-hand import. Therefore the role of government is central in the textile cluster. Many of the respondents have mentioned the importance of governmental support regarding these aspects.

The growing economy in Ethiopia during the past decade is one of the reasons why the government has made the strategy for textile. The need of supporting policy's and investors are crucial for the development in the industry (Fassil Tadesse, CEO of MAA Garment & Textiles, 2013).

As mr Tadesse states, the government is focusing on strengthening the textile industry development in Ethiopia and its role in the country. According to Responsify there is no governmental support as TIDI in the neighbour countries. Factories can apply for loans and support and if the factories are going to be able to supply textile for an international market there is a need for improvement in both technical- skills and equipment. Another policy that has helped supporting the domestic textile market in Ethiopia, is regulations regarding import in second hand clothes. In Ethiopia it is forbidden to import any type of second-hand clothes. The second-hand clothes market is common in many other African countries and they are often much cheaper to buy than it is to manufacture clothes in the country. In Kenya for example, it is less expensive to buy second-hand clothes from China, than to produce textiles

in their own country. As a result Kenyan factories have lost a massive amount of orders. This Ethiopian policy makes a clear attempt in order to support the market (Responsify, 2013). Not only is Ethiopia aiming for an export driven textile market, but with a population of 90 million inhabitants, there is a significant need to serve the domestic textile demand as well. Since Ethiopia also has a tradition in textile spinning and weaving there is an incentive for the textile market to grow by traditional reasons too (Fassil Tadesse, 2013).

One important aspect in discussing the political climate in Ethiopia, is that there are many different opinions regarding the government. TIDI defines the conditions of Ethiopia as a country with; *Political stability, proximity to major markets and favourable climate which makes Ethiopia the number one choice for investors aspire to be successful in the textile industry* (TIDI, 2013). One of the respondent (anonymous, 2013) chooses to explain Ethiopia, *As a strict dictatorship, where there is no freedom of speech at all since demonstrations or saying anything negative about the government is illegal. Human rights often are violated.* These different views of the Ethiopia affect how the citizens can act within working places. This paper does not analysis the political situation in Ethiopia but acknowledge that there are huge differences within its population's view of the democratic rights in the country.

5.2.5 Chance & demand conditions

The role of how chance has influenced the textile industry is difficult to understand and have not been a focus. Though, the establishment in a textile industry may have a relation to the textile weaving tradition in Ethiopia. The result in this paper shows that one of the conditions in the diamond model can be seen as furthermore important. As Hamann et al (2008) states, that social and environmental aspects increases the competitiveness in a cluster and can therefore complement the diamond model. I will therefore focus specifically on the role of CSR as a demand condition in the cluster in the next section.

5.3 CSR in Ethiopian textile industry

The cluster theory cannot by itself explain an emerging textile industry in Ethiopia. However one of the conditions in the cluster theory, demand conditions, is an aspect that has been central in developing the textile cluster. To be able for Ethiopia to export textile, the factories are depending on orders from TNCs and therefore factories have to answer the demand conditions and the companies criteria's. Sophisticated customers who formulate strict demands, force companies to improve both the quality of the products and the standards at the factories (Dicken, 2011). One such example is CSR.

According to mr Mamo who is the human resource manager and mr Mekonen the chairman of the labour union at MAA Garment & Textile, as well as mr Devle, engeener at Yirgalem factory, CSR in the Ethiopian textile industry has primary been initiated when some of the TNCs (Tesco, Primark, H&M) started to outsource production to the Ethiopian factories. The biggest companies have CSR policies to follow when they outsource production. Example of these are; social criteria's such as controlling wages, working hours, safety equipment and instructions in the factory, and environmental standards, such as waste

management, water management and how to purifier chemicals (Mamo Zemen, Molajin Mekonen, Asalen Devje, 2013).

Several respondents (Responsify, Murad Issa, Deveje Asalen, 2013) claim that there are different kinds of demands from domestic and international companies towards the factories, stating that international companies are much more concern about CSR in general, something that is also acknowledged at factories.

International buyers who comes to the factory have a lot of other demands and requirements, than the Ethiopian local companies. The international buyers wants control over environmental and social requirements and are asking for a lot of improvements in the factory, such as workers rights, how many bathrooms the workers have, regarding the light, safety equipment, fire safety, waste management, chemical-use and filter. International buyers are very strict, if the factory is not good enough they choose another factory (Deveje Asalen, engineer Yirgalem factory, 2013).

From this aspect TNCs play a central role of initiating CSR in an Ethiopian textile industry. Mr Issa Senior officer commercial and cultural affairs at Swedish embassy, is positive of the fact that more Swedish companies are establishing themselves in Ethiopia and describes that the Swedish embassy promotes the Swedish companies for their engagement in CSR. *From Swedish companies point of view CSR is required and one of the areas where Swedish companies looking into when they engage in business.* Responsify also believes that companies have the power to effect factories to take a greater responsibility for CSR demands.

Swedish companies have very great power to influence the factories. The local market does not at all have the same quality, both the quality of the production and requirements of social and environmental issues. MAA Garment & Textile is good at working with sustainability, but they are definitely affected by the demands from a certain Swedish company. They would not have done it themselves (Responsify, 2013).

One of the TNCs placing CSR requirements is H&M. Many actors are positive of H&M's involvement in Ethiopia (Responsify, Fassil Tadesse, Murad Issa, 2013). According to an anonymous respondent, by entering the Ethiopian market H&M also affect other TNCs and says that when other TNCs notice that H&M already have placed an order at a factory, they know that it is controlled and "good enough", that social policies and audits are made. Other respondents confirm the idea that large TNCs, such as H&M, have strict demands of CSR requirements and therefore play a central role in introducing social and environmental standards in the Ethiopian factories.

International buyers, as H&M, Tesco demands standards of environmental issues. H&M is the strictest company. They are very sensitive regarding this matters (Amanuel Aibraha, Textile engineer MAA Garment & Textile, 2013).

Swedish companies, such as H&M is by far, the most formative in sustainability initiatives, with their minimum criteria's before placing an order and follow-up work (Responsify, 2013).

Most companies are strict but H&M is the strictest costumer regarding social and environmental standards (Zemen Mamo, Human Resource & administration manager, MAA Garment & Textile, 2013).

These statements show that TNCs and Swedish H&M, have been formative in initiating CSR demands at factories in Ethiopia. Even though Swedish companies have a responsibility to control the supply chain it is important to stress that textile companies have very different challenges, depending in the size of the company, they can affect and put pressure on the suppliers in different ways. Also there are still many challenges regarding social and environmental agreements. The factories H&M is outsourcing to, MAA Garment & Textile and Almeda, still pays low wages to the workers where the labour union chairman Molaljn Mekonen believes that it is H&Ms responsibility to pay the factory higher prices. The debates of the salaries for the factories employees are ongoing (Molaljn Mekonen, 2013).

Other aspects when TNCs outsource production to new environments are that there are cultural differences. Understanding other culture is a company's social responsibility when investing and integrating into a new market. A former worker and TVET teacher explains;

Your culture and my culture are different. When somebody brings a new culture in, there is a problem. I think it is a problem for the worker. There is an inconsistency. There is a different work culture between Europeans and Ethiopians. We are not as fast as Europeans, the Europeans are good for time consumption and programming (TVET teacher, 2013).

This shows that cultural differences affect the production. One explanation can be that Ethiopia never has been colonized and has limited experiences integrating with other cultures and nationalities. During the past decade when international companies have started to invest and import products from Ethiopia, the communication and businesses relations are explained to be different and sometimes challenging due to cultural differences (Murad Issa, 2013). E-mail and "fast communication" that many of the international companies are used to, is still much slower in Ethiopia. Communication is central in the textile production network. Elisabet Lim states that in textile production there is a great amount of information that needs to be processed to create the right product. *From the designers' ideas, to the hands of the textile workers, there is a lot of communication involved.* For example the company representative need to have an ongoing conversation with the textile worker, educate how the clothes should be made and the right tone of colour (Elisabet Lim, 2013). In this context, the importance for TNCs is to understand the region by learning the cultural differences, to be able to work with both social and environmental questions.

6. Analysis

As these results are based on interviews conducted in Ethiopia, the analysis presented is therefore affected by the interpretation as a researcher. The government of Ethiopia has been criticised for being authoritarian and the population having a limited individual freedom of speech (Globalis, 2014; anonymous respondent, 2013). This aspect is important since citizens are restricted of what they can say. There is an optimism regarding the development of a

textile industry in Ethiopia among most of the respondents. An “ideal” view of the textile industry is presented from many Ethiopian respondents. It is important to attract international buyers and therefore vital to strengthen the picture of what the country can offer. However during recent years, the textile industry in Ethiopia has grown tremendously (TIDI, 2014). They have been able to attract international retailers and the industry is slowly becoming more competitive on the global market by offering low cost production.

Looking at the industry according to Porters cluster chart, this paper states that Ethiopia has actors that are essential for a textile cluster. Specialised textile education as *specialized input*, vertical integrated factories with modern equipment as *machines and technology*, international buyers (H&M, Tesco, Primark) as important *clients*, a national institution TIDI as a *supporting service* and cotton production as a *related industry*. These are essential actors that give Ethiopia opportunities to strengthening the Ethiopian textile industry. In order to understand what the challenges and opportunities for the Ethiopian textile industry are, I have chosen to analyse the factors in the diamond model. *Factor condition* as labour is probably the most essential factor. There is a high population of youth and inexpensive labour costs, with among the lowest wages in the world. At the same time job creation is important for the Ethiopian inhabitants and the textile industry is an opportunity of employing thousands of people. As Hamann et al. (2008) argues, because of the labour insensitivity in the textile industry, it has a significant impact on alleviating poverty. The textile industry has been recognised to be one of the first steps towards industrialization in the transformation from agrarian to industrial society. Historically it has been showed as mentioned in the background, that in countries such as China and India, that industrialization has been a path towards poverty reduction and economic development (Fosu, 2011). Therefore it is a great opportunity for Ethiopia to employ many people within the textile industry. The government investment in textile education is therefore a great opportunity to strengthen the industry.

Thus the high amount of workforce, one of the main challenges at the factories is related to inefficiency, where workers lack technical experiences and does not work “as fast” as required (Yared Mesfin, 2013). Factories and buyers need fast and predictable deliveries to have stable relationships and continuing orders. This is a problem acknowledged by the factories and TIDI, however the question remains if it is a cultural difference or if the workers only lack experience in textile production. To increase the effectiveness there is need for well-educated and organised management working in the factories and also to advance different styles of textile.

As Dicken (2011) states labour cost due to low salaries is the most significant production factor in the textile industry. Low salaries in the Ethiopian factories are both an opportunity and a challenge. There is no minimum wage in Ethiopia in the private sector. On one hand it is a tool in order to attract companies to outsourcing production to Ethiopia, since the Ethiopian salaries are among the lowest in the world. The government is accused for not wanting to raise the salaries, nor set a minimum wage for the private sector, in order to contain the competitiveness towards the south East Asian countries (Murad Issa, 2013). On the other hand, low salaries that workers are not satisfied with, is not sustainable in the long term, due to workers changing workplace. If workers are going to work efficient they have to be

satisfied with their salaries. Furthermore it is a social responsibility that workers are not exploited by not earning enough to live on.

Another aspect is that even though the Ethiopian textile production can compete in low cost, there is a need of variety of supply. The items produced in the factories are mainly basic products (t-shirt and tops) and the need of educated engineers at the factories is important in order to advance and upgrade the production. The retailers will demand different types of items in the future if they choose to outsource further production, therefore the need of well-educated textile engineers are essential at the factories. One criterion for industrial upgrading that Gereffi (1999) is mentioning is that production has to change from cheap to expensive items and from simple to complex products. Another aspect of industrial upgrading is that the retailers such as H&M, Tesco and Primark starts placing large orders at Ethiopian factories. This creates opportunities to expand the market from small to large orders, and furthermore gives initiatives for the factories to advance their production.

The infrastructure as another *factor condition* is a challenge in Ethiopia. Transportation time is long and unpredictable and since transportation is needed throughout the production (for example sending samples) it is an important factor. Though the national railroad is under construction, transportation facilities will therefore become cheaper and faster in a couple of years. Likewise there is an opportunity with the low energy costs in the country that the Renaissance dam will benefit in the coming years. Since the energy is cheap, it is another factor that decreases the production cost in Ethiopia and an opportunity in attracting TNCs for placing production in the country.

In regards to *related industries* there is an opportunity for Ethiopia to cultivate cotton. Compared to recent years when Ethiopia mainly exported cotton, there is a value addition when cotton is sourced locally and can be refined in the country. By using raw material and producing textile in local factories, there is an opportunity for industrial upgrading by advancing production. However there are challenges in the cotton sector due to the fact that the quality of the cotton is limited to only short and middle size (Responsify, 2013). The factories can only produce basic material, which therefore constrain the market. The cotton quality has to be improved and there is a need of support from TIDI in order to advance the quality. This industrial upgrading is important if Ethiopia wants to attract a larger market. Though it is problematic with cotton cultivation, in regards to the amount of water needed. There are different water sources available in Ethiopia from lakes, rivers, and the rain periods. However there is a lack of water management of how to maintain the water, which the government need to develop to support farmers who cultivate cotton.

In order to sustain a *local rivalry*, the vertical integrated factories MAA Garment & Textile, Almeda and Ayka Addis are important for the Ethiopian textile industry. Being the largest factories, they can handle big orders and are equipped with modern machines and technology and can therefore compete on the international market. It is significant that the cluster has an internal rivalry in order to sustain the “best” to attract more customers. Since TIDI also is supporting middle size firms with loans and education, there is a chance that more factories will establish and therefor increase the rivalry.

The *government* of Ethiopia is taking plenty of strategic decisions that support a textile cluster. By expanding the infrastructure in the country with the national railroad construction

and by supporting education at IOTEX University and the TVET programs, implement regulations, such as restriction of second-hand import and by initiating TIDI as an own institute. TIDI as a national institution plays a dominant role in assisting the development of the textile industry. As Malmberg (2002) and Wolfe and Gertler (2004) discuss, the importance of the government and national institutions in creating clusters as significant, where linking firms to regional assets that attracts investment to the cluster is important. TIDI is observing the competitiveness at the global market answering to requirements on production, and have the overall role in assisting the challenges of the textile cluster and by connecting the actors in the cluster to co-operate. On the other hand, as discussed before the government also has a role that according to a anonymous respondent (2013), restrict the populations freedom of speech in order to express their rights, which can be problematic when working in factories.

Even though there are many components that together detect that there is a great chance for Ethiopia to strengthen its position as a textile industry cluster, the industry is going to be affected by the global market. One factor that is important is the role of *clients*, the TNCs in Ethiopia. Global production networks give a perspective about the relationship between TNCs and the host regions in different ways. As Hamamm et al. (2008) discuss clusters in developing countries are generally more successful when they have trade networks on a global market. Therefore the relationships in Ethiopia with the local producers (such as MAA Garment & Textile) and TNCs (such as H&M) are very important. According to Porters diamond model, *demand conditions* are coming from the local environment. However in the case in Ethiopia, demand conditions in general is not coming from the local Ethiopians firms, this paper argues that these demand instead are coming from the TNCs outsourcing textile production. As presented in the results, CSR in this case is considered as a demand condition and by looking at H&M they have been important in introducing CSR in the Ethiopian textile industry at an initial stage. As Coe et al. (2007) states, large TNCs play an important role in controlling production systems, which also is the case in Ethiopia. H&M has a great role in affecting factories they are outsourcing to, since the factories are dependent on large orders from the bigger retailers, compared to only producing for a domestic market. Therefore they have to adapt to the demand conditions that are required. Many respondents (Responsify, Amanuel Aibraha, Zemen Mamo, Murad Issa, 2013) have stated that H&Ms is one of the strictest companies regarding the control of social and environmental standards in the factories and that the Ethiopian companies does not require the same demands as the international once. H&Ms role is also vital, since other companies also wants to place their orders at the same factories as H&M, since they know that inspections already are made (Anonymous respondent, 2013). Even though H&M can initiate CSR, it is important to stress that companies are not by themselves controlling the factories. H&M is only one company out of many that outsource production to these factories.

Though, as most companies are aiming for increasing its surplus value, the question is if there is another reason for initiating CSR? As Vogel (2005) claims, a company benefits by working with CSR since it protect and improve the reputation of the company. For a company like H&M, they have to work actively with CSR since they has a public pressure of consumers demanding sustainable textile production. Even though it can be profitable

working with CSR for a TNC, it can however become a cost for the factory in order to adapt to the changes needed, for example investing in water-waste treatment. This means that it could be problematic for smaller factories to be able to adjust the production to CSR requirements. Another aspect why it is important to initiate CSR in the textile industry is due to cultural differences. Outsourcing in new environments includes challenges in translating information between company, factory and worker, working ethics and knowledge in technical skills (MacKinnon and Cumbers, 2007). It is significant that Ethiopia is a country proud of being the only African country not being colonised. What is notable throughout the interviews is that the country has had a limitation of integration with other cultures before. This can be seen as challenge in the beginning of building relationships with TNCs and the actors within the Ethiopian textile industry.

There are many opportunities for Ethiopia becoming a competitive textile industry with necessary actors and production factors. As for all industries there are of course challenges as well, as discussed. CSR is initiated by TNCs such as H&M (among others too) in the Ethiopian textile industry. It is important to note, that even though CSR is initiated by some TNCs, it does not mean that there are no problems within the textile production. It is also important to stress, that even though TNCs has a great role and power to impact suppliers in the textile sector, companies are not designed to solve problem regarding social and environmental issues by themselves. The relationship between, workers, factory, company have diverse motivations and therefore the contribution by initiating CSR within textile production is rather to start a conversation among these actors at an initial stage within a textile industry development. This paper agrees along with Hamann et al. (2008) and believes that more social and environmental consideration can play a significant role by being a competitive cluster. Therefore Ethiopia has a great role in strengthen its position at the international market, by responding to TNCs demand conditions, such as CSR requirements.

7. Conclusion

In this paper I have examined the emerging textile industry in Ethiopia, by mapping relevant actors and discussing challenges and opportunities for the factors necessary in a textile industry. Additionally I have studied how CSR is introduced within the textile industry through TNCs.

The results shows that the most essential actors for the Ethiopian textile industry are; the national institution TIDI, with the main responsibility for coordinating the development of the textile industry and design strategies in order to strengthen the textile industry. Specialised education at IOTEX University and TVET program. Clients (TNCs), such as H&M who place large orders at the factories and provide links at the global market. The vertical integrated factories, MAA Garment & Textile, Almeda and Ayka Addis that are equipped with modern technology and can provide high quality products for an international demand. Also the cotton production sector that supplies raw material to the industry, even though it needs to be advanced in order to produce better quality.

Factors that give opportunities for Ethiopia in becoming a competitive textile industry are related to the high labour force of young population and therefore a great opportunity for increased employment in Ethiopia. The salaries are among the lowest in the world, which enables low-cost production, at the same time it is problematic due to people working for wages they are unsatisfied with. The energy costs are low compared to other countries, which also attracts TNCs outsourcing production to Ethiopia. The main challenges in the Ethiopian textile industry relates to inefficient production due to inexperienced labour and production structure. There is an undeveloped infrastructure, where transportation is slow and expensive, though a national railroad is under construction. Additional, when TNCs invest in a new environment, cultural and communicational difficulties are often a fact, which can aggravate the production.

When TNCs outsource their production to Ethiopia, there is a possibility to affect the factories, due to them being dependent on large orders. This means that CSR requirements, such as social aspects of controlling wages, working hours and safety instructions, can be demanded. Likewise environmental aspects, as water-waste treatment can be controlled. This paper states that CSR is introduced in the Ethiopian textile industry as a demand condition, required by some of the TNCs who have started to outsource production to the larger factories in the country.

List of references

- Aspers, P. (2011) *Etnografiska metoder: att förstå och förklara samtiden*. Malmö: Liber
- Bryman, A. Bell, E. (2007) *Business research methods 2nd ed.* Oxford: University Press
- Cao, N. Zhang, Z. Man To, K. Po Ng, K. (2008) How are supply chain coordinated. *Journal of fashion marketing and management*, 12 (3) p. 384-397
- Chi, T. (2011) Building a sustainable supply chain: an analysis of corporate social responsibility (CSR) practices in the Chinese textile and apparel industry. *Journal of the Textile institute*, 102 (10), p. 837-848
- Coe, NM. Kelly, PF. Yeung, HWC (2007) *Economic geography: A contemporary Introduction*. Oxford: Blackwell Publishing
- Dicken, P. (2011) *Global Shift: Mapping the Changing Contours of the World Economy (6:th ed.)*. London: Sage publications
- Dollar, D. Krayy, A. (2004) Trade, growth and poverty. *The economic journal*, 114 (493), p. 12-49
- Dowling, R. (2005) Power, subjectivity and Ethics in Qualitative research. *Qualitative Research Meetods in Human Geography*. Oxford University press: 19-29
- ETI, Ethiopian Investment Agency (2010) *Investment Opportunity Profile for Cotton Production and Ginning In Ethiopia*, Ethiopia
- Fosu, J. (2011) Sub-Saharan Africa: The Challenges of Integration into global trading system, *Perspectives on Global Development & Technology*, 10 (1), p. 115-126
- Grankvist, P. (2009) *CSR i praktiken – Hur kan företag jobba med hållbarhet för att tjäna pengar*. Malmö: Liber AB
- Gereffi, G. (1999) International trade and industrial upgrading in the apparel commodity chain. *Journal of International Economics*, 48 (1999), p. 37 –70
- Hallencreutz, D (2002) Populärmusik, kluster och industriell konkurrensaft. *Department of Social and Economic Geography*, Uppsala Universitet
- Hamann, R. Kambalame, D. Cleene, S. Ndlouvu, N. (2008) Towardss collective business action and cross-sector collaboration in responsible competitiveness cluster in southern Africa. *Development Southern Africa*, 25 (1), p. 99-117
- Humphery, J. Schmitz, H (2002) How Does Insertion in Global Value Chains Affect Upgrading in Industrial Clusters? *Regional Studies*, 36 (9), p. 1017–1027
- Kobayashi-Hillary, M. (2005) *Outsourcing to India: The offshore advantages*. London: Springer
- Leseure, J. M. (2008) Offshore Factories and Economic Development: Is there a path from sweatshops to indigenous innovation? *Journal of African business*, 9 (1), p. 145-165
- MacKinnon, D. Cumbers, A. (2007) *An introduction to economic geography: Globalization, uneven development and place*. Harlow: Pearson Education
- Malmberg, A (2002) Klusterdynamik och regional näringslivsutveckling. *Institutet för tillväxtpolitiska studier*
- Mullings, B. (1999) Insider and outsider, both or neither: some dilemmas of interviewing in a cross-cultural setting, *Geoforum*, 30 (4), p. 337-350

- Pickles, J. Smith, A. (2011) Delocalization and Persistence in the European Clothing industry: The reconfiguration of trade and production networks. *Regional studies*, 45 (2), p. 167-185
- Pruett, D. (2005) *Looking for a Quick Fix - How Weak social auditing is keeping works in sweatshops*. Amsterdam: Clean Clothes Campaign
- Sharpe, M. (1997) Outsourcing, organizational competitiveness, and work. *Journal of labour research*, 18 (4), p. 535-548
- Sheresta, R. McKinley-Floyd, L. Mtwige, B. (2008) Introduction to the special Issue: Management in Africa in the global context. *Journal of African Business*, 9 (1), p. 1-25
- Su, J. (2013) Strategic sourcing in the textile and apparel industry. *Industrial management and data systems*, 113 (1) p. 23-38
- TIDI presentation (2011) Textile industry development, *Facts and Opportunities*, Handed by Swedish embassy
- Traub-Merz, R. (2006) The African textile and clothing industry: From import substitution to export orientation. *The future of the textile and clothing industry in Sub-Saharan Africa*. Bonn: Friedrich-Ebert-Stiftung
- Utting, P. (2000) Business Responsibility for Sustainable Development. *United Nations Research Institute for Social Development Discussion Paper no 2*. Geneva: UNRISD
- Valentine, G. (2005) Tell me about...: using interviews as a research methodology. *Methods in Human Geography: A guide for students doing a research project*. R. Flowerdew and D. Martina, Prentice Hall: 1110-126
- Vogel, D. (2005) *The market for virtue: the potential and limits of corporate social responsibility*. Virginia: The Brookings institution
- Wolfe, D. Gertler, M (2004) Clusters from the Inside and Out: Local Dynamics and Global Linkages. *Urban studies*, 41 (5/6) p. 1071-1093

Electronic references

- Dagens Industri,
<http://www.di.se/artiklar/2014/1/14/afrika-nasta-heta-kontinent-for-kladjatten/>
 [Retrieved 2014-01-15]
- Fibre 2 Fashion,
http://www.fibre2fashion.com/news/textileneews/ethiopia/newsdetails.aspx?news_id=154308 [Retrieved 2013-11-29]
- Fibre 2 Fashion,
http://www.fibre2fashion.com/news/textileneews/ethiopia/newsdetails.aspx?news_id=155309 [Retrieved 2013-11-29]
- Fibre 2 Fashion,
<http://www.fibre2fashion.com/industry-article/47/4685/ethiopia-is-the-new-sourcing-destination2.asp> [Retrieved 2014-02-14]
- Global hand,
<http://www.globalhand.org/en/requests/6602> [Retrieved 2014-01-22]

Globalis, FN förbundet UNA Sweden, <http://www.globalis.se/Laender/Etiopien> [Retrieved 2014-01-22]

IOTEX, Institute of Technology for Textile, Garment and Fashion design
<http://iotexbdu.edu.et/AboutIOTEX.aspx> [Retrieved 2014-01-15]

Landguiden, Utrikespolitiska institutet,
<http://www.landguiden.se/Lander/Afrika/Etiopien/Ekonomi> [Retrieved 2014-01-21]

Landguiden, Utrikespolitiska institutet,
<http://www.landguiden.se/Lander/Afrika/Etiopien/Politiskt-System> [Retrieved 2014-01-21]

MOE, Ministry of Education,
http://www.moe.gov.et/English/Resources/Documents/Eng_TVET%20strategy_Ver_1_2%20August%202008.pdf [Retrieved 2014-01-15]

Primark, <http://www.primark.com/en/about-us/about-primark> [Retrieved 2014-03-08]

Responsify,
<http://www.responsify.org/> [Retrieved 2013-11-26]

Responsify, News,
<http://www.responsify.org/nyhet/africa-is-perceived-as-the-next-sourcing-destination-fo>
[Retrieved 2013-11-29]

Tesco, <http://www.tescopl.com/index.asp?pageid=276> [Retrieved 2013-03-08]

TIDI, Textile Industry Development Institute,
<http://www.tidi.gov.et/Background.html> [Retrieved 2014-05-15]

Veckans Affärer,
<http://www.va.se/va-hallbarhet/darfor-vill-hm-producera-i-etiopien--536537>
[Retrieved 2014-01-15]

Veckans Affärer, <http://www.va.se/special/hms-nya-lagloneparadis-591163> [Retrieved 2014-01-15]

World Bank, <http://www.worldbank.org/en/news/press-release/2013/06/18/ethiopia-economic-update-laying-the-foundation-for-achieving-middle-income-status> [Retrieved 2014-01-24]

World Factbook, Central Intelligence Agency,
<https://www.cia.gov/library/publications/the-world-factbook/geos/et.html> [Retrieved 2013-11-18]

Interviews

Aibraha, Amanuel, 19-12-13, Textile engineer MAA Garment & Textile

Asalen, Deveje, 12-12-13, Engineer Yirgalem Addis textile Factory Addis

Esuendale G, Zelalem, 06-12-13, Former worker at textile company

Ferede, Addisu, 10-12-13, Scientific director IOTEX Bahir Dar University

Issa, Murad, 12-11-13, Senior Officer Commercial and Cultural affairs, Swedish embassy in Addis Ababa

Lim, Elisabet, 24-10-13, Textile expert & Key Coordinator Cotton Fairtrade Sweden, Sweden

Mamo, Zemen, 19-12-13, Human Resource & administration manager, MAA Garment & Textile

Mesfin, Yared, 04-12-13, Marketing director at Textile Industry Development Institute

Mekonen, Molaljn, 19-12-13, Labour Union chairman MAA Garment & Textile

Responsify, Annerling, Michaela, 29-11-13, Project manager Responsify AB

Responsify, Rosberg, Madeleine, 17-12-13, Founder of Responsify AB

Tadesse, Fassil, 05-12-13, CEO of MAA Garment & Textiles and chairman of Ethiopian Textile & Garment Manufactures Association

Student (anonymous), 10-12-13, TVET education

Textile teacher (anonymous), 10-12-13, TVET education

Observations

Observation 1: Yirgalem Addis textile factory, 12-12-13, Addis Ababa

Observation 2: MAA Garment & Textile factory, 19-12-13, Mekele