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Looking Beyond the Horizon:

A case study of PVH's commitment to Ethiopia's Hawassa Industrial Park

Mamo Mihretu | Gabriela Llobet

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By Mamo Mihretu and Gabriela Llobet



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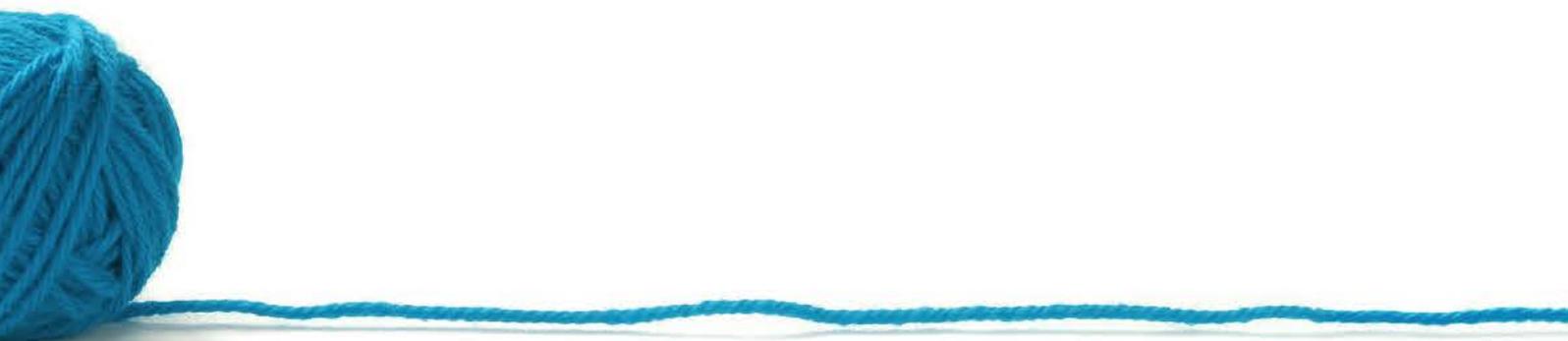
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Any errors or omissions are the responsibility of the authors.

About the Authors

Mamo Mihretu is a Senior Private Sector Specialist at the World Bank Group (WBG). He leads the WBG's engagements in Investment Climate, Investment Policy, Trade Facilitation and Trade Logistics in Ethiopia.

Gabriela Llobet was previously the Director General of Cinde, Costa Rica's investment promotion agency. She is currently a consultant at the Investment Climate Unit of the Trade and Competitiveness Global Practice of the World Bank Group.



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ASSA INDUSTRIAL PARK

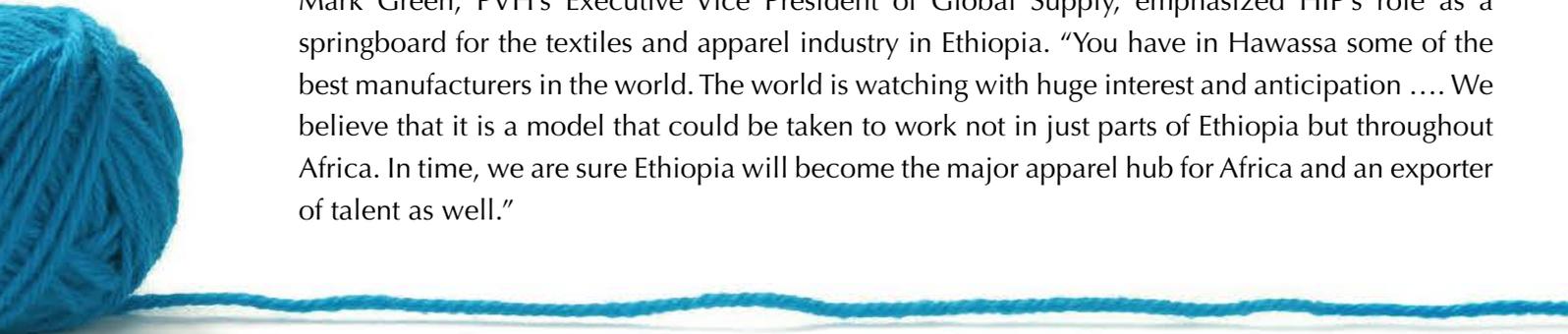
Preface

“We have formed our vision that Ethiopia will be the manufacturing powerhouse of Africa; we will sustain rapid economic growth and GDP will grow by an annual 11 percent, while manufacturing has to grow by 25 percent for a structural change to happen.... We have also put aims to create two million manufacturing jobs in 10 years, [from] medium and large enterprises. —Interview with Dr. Arkebe Oqubay, Addis Fortune Newspaper, Vol. 16 (808) Oct 29, 2015

On July 13, 2016, Ethiopian Prime Minister Haile Mariam Desalegn officially inaugurated the Hawassa Industrial Park (HIP). In front of assorted dignitaries, including members of the diplomatic community, investors and local residents, gathered on a warm Wednesday morning, the Prime Minister highlighted the historic significance of the project in ushering a new chapter in Ethiopia’s industrialization efforts. In the audience were senior executives of the PVH Corp.—the lead apparel company in HIP—and two of the Prime Minister’s key advisors—Dr. Arkebe Oqubay, the Prime Minister’s Special Advisor on Industrialization, and Fitsum Arega, the Commissioner of the Ethiopian Investment Commission (EIC). “The Hawassa Industrial Park,” proclaimed the Prime Minister, “is significant both because of the promise it holds in and of itself and the precedence it sets—as a pilot eco-friendly, green industrial park—for a series of planned future industrial parks across the country.”

Over the past 30 years, Ethiopia’s manufacturing sector generated only 250,000 jobs. According to the government, HIP alone is expected to generate close to 60,000 jobs and US\$1 billion in export revenues. This will be a significant achievement for a country that has suffered chronic foreign exchange shortages. Beyond these static gains, the Prime Minister continued, “Hawassa Industrial Park is a strategically important inflection point that will usher in a New Frontier—an experimental program that will ensure a shift to a productive manufacturing sector through similar initiatives while protecting the environment.”

Mark Green, PVH’s Executive Vice President of Global Supply, emphasized HIP’s role as a springboard for the textiles and apparel industry in Ethiopia. “You have in Hawassa some of the best manufacturers in the world. The world is watching with huge interest and anticipation We believe that it is a model that could be taken to work not in just parts of Ethiopia but throughout Africa. In time, we are sure Ethiopia will become the major apparel hub for Africa and an exporter of talent as well.”



HIP, a modern, ecologically sensitive industrial park is also unique in that it was constructed in less than a year. This is an outcome of a very close partnership and shared vision by the tenant group led by PVH and an active and engaged government. The construction of HIP started in July, 2015 and the park was inaugurated on July 13, 2016. Within a year, on March 4, 2017, one of HIP's tenants exported HIP's first dress shirt.¹

This study does not aim to provide a final and conclusive verdict regarding HIP's success. This will only be possible when the park is fully occupied and has been in operation for at least a few years. In the Ethiopian context, industrial parks aim at promoting employment, export and foreign investment. Additional goals, such as regional and local development, encouragement of technology transfer, creation of linkages, and industrialization strategy development have evolved through time. Future studies should provide a systematic analysis of the extent to which Ethiopia's Industrial Parks have met these objectives.

This case study describes how and why PVH, the world's second largest apparel company, decided to move production to Africa, and why it chose Ethiopia as the base for its new business model. This case study is based on desk research on PVH, the textile industry and Ethiopia's investment strategy, testimonies and speeches of corporate executives and government officials; and extensive interviews with the relevant actors.

1. "TAL Apparel Produces First Dress Shirt in Ethiopia," East Africa Trade + Investment Hub, March 23, 2017. Accessed on March 31, 2017 at http://www.eatradehub.org/tal_apparel_produces_first_dress_shirt_in_ethiopia.

Section 1. Introduction

The story of how the PVH Corp. (referred to throughout this document as PVH) came to lead a group of its top suppliers to build factories and a fabric mill in Ethiopia's Hawassa Industrial Park (HIP) is the study of a strong collaboration between a private company looking to optimize its business model and a government aiming to transform its economy through global strategic repositioning. The success of this story hinges upon the intersection of their goals and a shared vision of development that includes a strong commitment to social and environmental goals.

PVH was motivated to invest in Ethiopia to respond to shifts in the global apparel sector, its growing desire to retool its business model and to address its concerns about compliance with social and environmental standards in its traditional sourcing locations. PVH had decided to rethink its business model and to look beyond the horizon towards a new region in which to locate its manufacturing base. To have better oversight and enforcement, PVH moved to adopt a fully integrated vertical supply chain, including direct investment in one of the manufacturing facilities.

In selecting the location for its new vertically integrated and socially responsible supply chain, PVH looked for ample suitable land on which its supply chain partners could grow cotton, and sustainable sources of energy with competitive electricity rates for the production of yarn and fabric. The company required the country's government to be committed to ensuring that relevant laws (worker rights, fire safety, building safety, etc.) would be enforced and that their manufacturers would meet international quality and production standards. Finally, PVH wanted to be an early-mover in this new sourcing market.

Ethiopia, which had recently identified the textile and apparel sector in its national development plan as a key strategic sector to help transform its economy, fit the bill. Key to Ethiopia's success in attracting this important investor was the government's ability and willingness to strategically evaluate its foreign direct investment (FDI) needs and strategy and to take steps to evolve into an attractive location for higher value-added export-oriented investment.

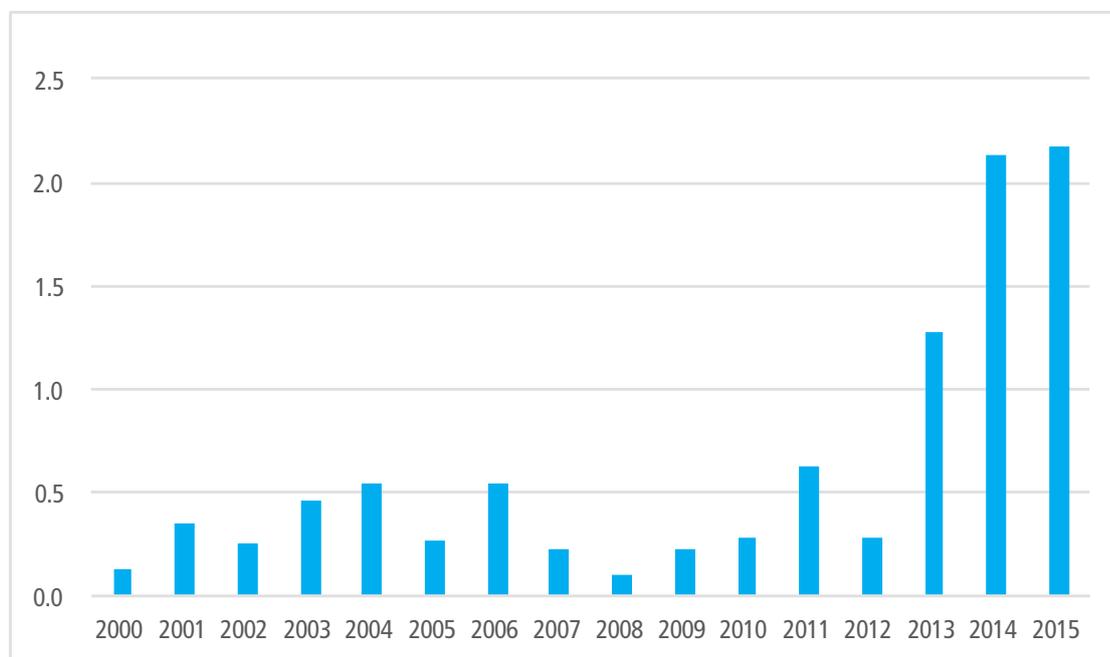


The government of Ethiopia aimed to diversify its economy in a bid to raise foreign exchange, create jobs and enhance the country's productivity. To this end, policymakers undertook a series of initiatives to support the development of a solid textile and apparel industry, including steps to attract key investors to this sector. In 2010, Ethiopia featured the apparel industry in its national 5-year development plan, the Growth and Transformation Plan (GTP) and launched the Textile Industry Development Institute to help supplement and develop the necessary human capital.

While Ethiopia had been attracting foreign investment, it wanted to bring high quality companies with export potential into this strategic sector. Ethiopia offers preferential export access to the US and EU markets through the EU's Everything But Arms regime and the recently-extended African Growth and Opportunity Act (AGOA) with the United States but had, so far, not fully been able to exploit these preferences.

Since 2010, FDI flows into Ethiopia have grown at an average rate of nearly 50 per cent per year, reaching \$2.2 billion in 2015 (UNCTAD 2016), as seen in Figure 1, and \$3.2 billion according to UNCTAD Investment Report of 2017. Ethiopia has attracted FDI in commercial agriculture, manufacturing, leather, and textiles sectors. Textile and garment firms—mostly contract manufacturers—from India, Bangladesh, China, and Turkey, seeking alternative production bases for export to the European Union and North America, have announced investments in Ethiopia (UNCTAD World Investment Report 2016). Annex 1 provides detailed information on FDI in Ethiopia in the textile and garment industry.

Figure 1. FDI inflows to Ethiopia (billions \$US) 2000-2015

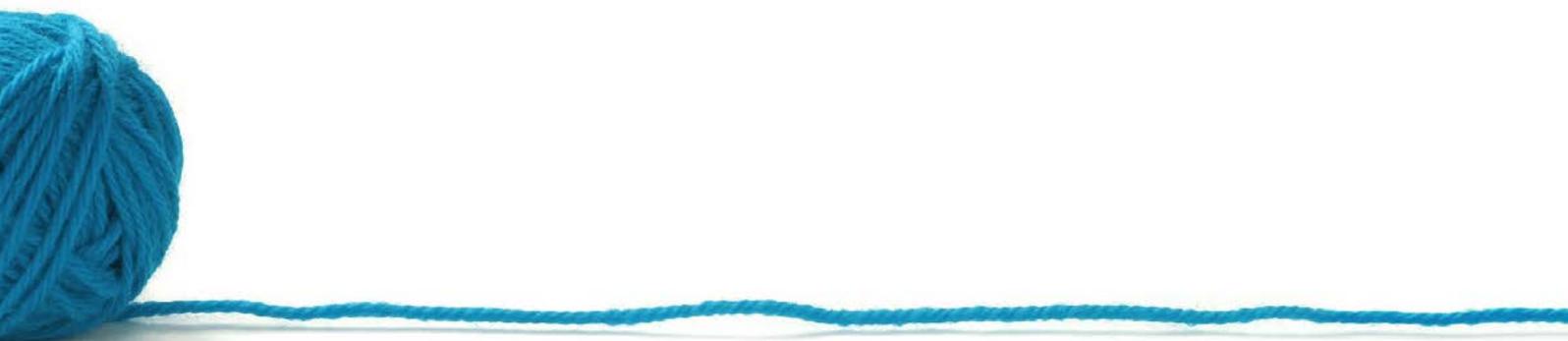


Source: UNCTAD

PVH's decision to attract suppliers to move production to HIP was a significant game-changer for Ethiopia. A major global player, PVH's presence sends a strong signal to the world that Ethiopia is ready to host leading companies. Producing in Ethiopia was also Producing in Ethiopia was

also a game changer for PVH, allowing a significant shift in its business model. As William “Bill” McRaith, PVH’s Chief Supply Chain Officer, explains, PVH is pioneering “the world’s first example of a fully vertically integrated, from ground to finished product, socially responsible supply chain” in the textile industry.

This case study explains a private investor’s site selection process. It assesses the elements PVH prioritized when deciding to commit to Ethiopia, and specifically to HIP. The case study further assesses the government of Ethiopia’s strategy, level of readiness, interest, and commitment, and sets out some key challenges that lie ahead for this partnership. The case study is structured in 10 sections. Section II offers a brief background on the textile and apparel industry, including an explanation of its value chain. It provides a brief corporate profile of PVH and its current global footprint and business model. Section III describes the site selection process: PVH’s initial explorations in Africa, its consideration of several African countries, and its initial conversations and negotiations with Ethiopian authorities. Section IV discusses the Ethiopian government’s strategy to attract and expand export-oriented investments, including efforts to bolster the country’s competitiveness. This section attempts to offer some explanation why Ethiopia was the right fit at the right time and its level of readiness to land such an investment. It provides a brief profile of PVH’s Africa point of entry, the HIP. Section VI covers the challenges that lie ahead for this project—potential setbacks that will affect not only the consolidation and growth of the textiles and apparel industry in Ethiopia, but also the government’s vision of becoming the “manufacturing powerhouse of Africa.” Section VIII concludes with some key lessons from PVH’s decision to invest in Ethiopia. Such lessons may be relevant to countries or regions interested in attracting FDI and may be of particular interest to other African countries in their quest to attract major investments in the textile and apparel sector.



Section II. Background: PVH and the Textile and Apparel Industry

PVH Corp

PVH is the second largest apparel company in the world, with more than US \$ 8 billion dollars in annual revenue. It owns and markets a diverse portfolio of designer brands, including *CALVIN KLEIN*, *TOMMY HILFINGER*, *VAN HEUSEN*, *IZOD*, *ARROW*, *WARNER'S*, *OLGA* and others. PVH employs approximately 18,200 people around the world. Independent manufacturers produce its goods in more than 1,450 factories in more than 50 countries worldwide.

PVH's prevailing business model has generally been based on sourcing through contractual arrangements with manufacturers.² PVH often establishes long-term supplier relationships in appropriate locations around the world and works closely with its suppliers to monitor the quality of the goods as well as compliance with worker safety, human rights, labor, and environmental standards. The company has in place extensive training, approval, and monitoring systems. With more than 700,000 workers associated with its global operations, strong and consistent quality and compliance programs are essential. The company has more than 2,000 direct suppliers and licensee factories around the world.

Public perception of its brands is a significant component of the company's value. This high sensitivity to reputational risk requires PVH to be very careful when making sourcing decisions. As global consumers become more sophisticated and aware, a company can only be deemed sustainable if all its suppliers are equally responsible and sustainable. As Bill McRaith states, "We want to be in places where we can install not just good factories, but codes of conduct, values, environmental sustainability, positive worker relations, and the highest business and ethical principles to ensure the long-term success of our commitments.... We like to be the first into an area to help establish the workplace rules to be followed by future investors and market participants" (McRaith, 2015).

More recently, the company has transformed itself by acquiring major apparel companies: *CALVIN KLEIN* (2003), *TOMMY HILFINGER* (2010), and most recently, *WARNACO* (2013) (which had long term licenses to produce products under the *CALVIN KLEIN* jeans and beneficially owned the *CALVIN KLEIN* underwear trademarks.) PVH has now assumed direct control of *CALVIN KLEIN*'s two largest apparel categories: jeanswear and underwear. Through these and other acquisitions, large and small, PVH has become a large global organization, with a broad band portfolio, a worldwide retail footprint and distribution network, and a large consumer base.

² PVH currently does manufacture hand-made, hand-finished neckwear in its Los Angeles, California, facility. This accounts for less than 10 percent of the total quantity of neckwear it sources and produces.





A woman worker in HIP.

The Textile and Apparel Industry

2.1 Background on the Industry

Textile and Apparel production is seen as an important catalyst for developing countries' industrialization. It has played an important role as a springboard for economic development and, due to its low fixed costs and labor-intensive manufacturing, is often a starter industry for countries seeking to industrialize (Gereffi et al. 2011).

The textile and apparel industry provides employment to tens of millions of workers, mostly in developing countries around the world (Stotz and Kane 2015). According to the World Trade Organization (WTO 2016), the global value of textiles (SITC 65) and apparel (SITC 84) exports totaled \$291 billion and \$445 billion respectively in 2015. The textile and apparel value chain has been global since the 1970s and the geography of apparel production and trade has been highly dynamic. The Multifibre Arrangement --a set of preferential quotas intended to regulate the industry and protect certain economies from low-cost imports - was phased out by 2005 when the World Trade Organization (WTO)'s Agreement on Textiles and Clothing (ATC) was implemented. This triggered a global realignment of apparel production, and private firms had to restructure to adjust to this new environment (Gereffi et al. 2011).

More recently, the global landscape has been shaped by the development of regional value chains, particularly in Asia, and unilateral preference schemes and bilateral trade agreements containing preferential arrangements for textiles and apparel. Zero tariffs and favorable rules of origin have allowed certain countries to become competitive exporters. For example, access to the US market through the Dominican Republic—Central America Free Trade Agreement (CAFTA) enabled Central American countries such as Nicaragua, to compete in segments of this value chain. The European Union's Generalized System of Preferences (GSP) has had a similar effect. Several African countries, notably Lesotho, have successfully used the United States' African Growth and Opportunity Act (AGOA) to develop their textile industry. An essential element in AGOA is the so-called third-country fabric rule of origin, which allows least-developed AGOA beneficiaries to utilize yarn and fabric from any country, such as low-cost producers India or China. In 2015, the AGOA was renewed for a period of 10 years.³

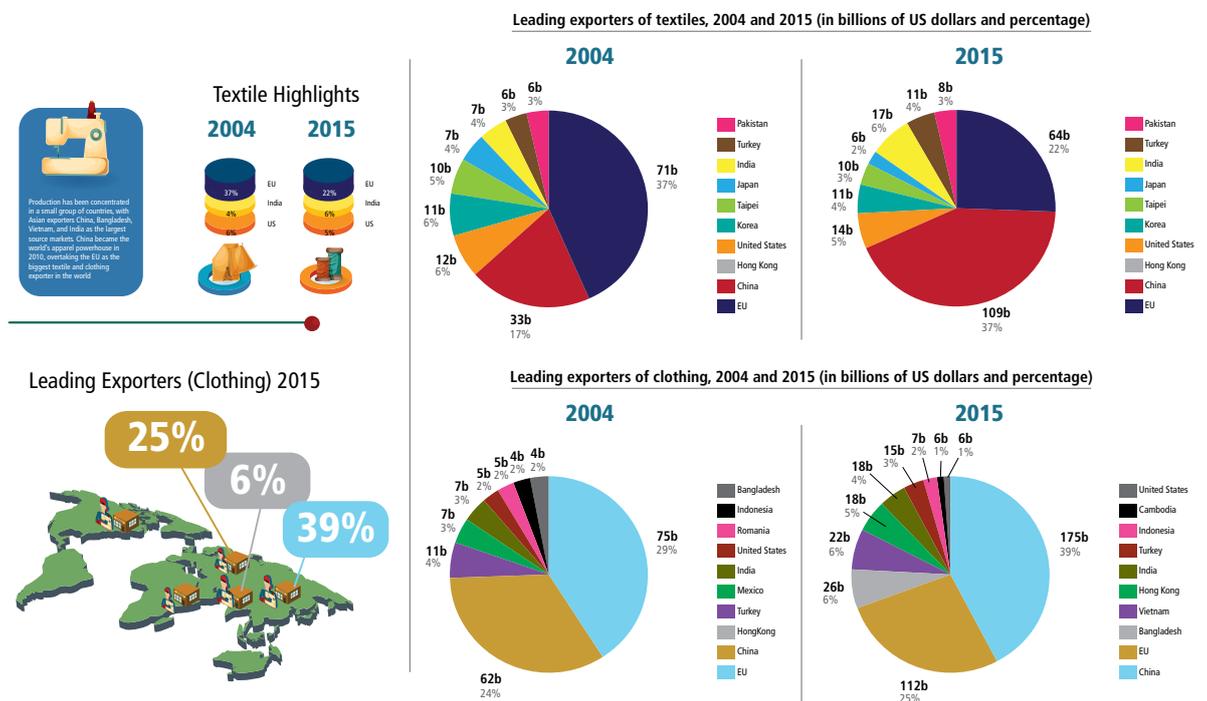
Production has been concentrated in a small group of countries, with Asian exporters China, Bangladesh, Vietnam, and India as the largest source markets. China became the world's apparel powerhouse in 2010, overtaking the EU as the biggest textile and clothing exporter in the world, as seen in Tables 1 and 2. China also became number one in the four industries that constitute the sector: textiles, clothing, leather, and footwear. China accounts for 54 percent of apparel production and 76 percent of total global apparel employment as well as 40 percent of

³ There are two major advantages of AGOA over other preferential trading arrangements: elimination of duty for apparel products entering the United States and provision allowing the use of third-country fabric inputs. With most other trade arrangements, fabric must be produced in the United States or the other partner country in order to qualify for duty-free status.



US apparel imports. While Chinese apparel production has been falling over the last five years, as costs increase, it is shifting its production from exports to supplying its own vast domestic market, and looks likely to continue as the dominant apparel player for the foreseeable future (McKinsey 2015).

The highly competitive Asian regional value chain is based on ample raw material, and significant sewing capacity that results in high-quality textiles. In addition, many full-package manufacturers based in locations such as China, Hong Kong, and South Korea offer design and product development capabilities as well as logistical services. All of these factors account for Asia's growth in the global market and the region's status as the preferred destination for many companies that seek "one-stop" sourcing (Gereffi & Frederick 2010).



Source: WTO International Trade Statistics 2005 and World Trade Statistics 2016

An ever-changing international environment means that apparel companies must remain flexible. The various links in the apparel value chain are in constant flux as companies continually evaluate new locations for cost-saving opportunities. Countries must continually enhance their efficiency edge by boosting their skills or improving their business environment-- or risk losing their position in the value chain, as industry executives actively search for the 'new China'.

In recent years, a rising factor in global apparel companies' decision to shift their production location has been the host location's ability to offer compliance with international standards.⁴

4. The tragic 2013 industrial accident, in Rana Plaza in Bangladesh, among others, attracted significant media and consumer attention, regarding the conditions under which garments are manufactured. Widespread reflection within the industry has led to elevating compliance with international standards as a high priority criterion when assessing potential suppliers. Sourcing partners must commit to ensuring compliance not only in productivity, but also with health, safety, labor and environmental standards. Companies are taking visible steps to signal their commitment: for example, more than 150 clothing companies from more than 20 countries have signed the Accord on Fire and Building Safety in Bangladesh, which provides for regular inspection of more than 1,700 suppliers (McKinsey 2014).

High-profile industrial incidents in several Asian countries involving violations of safety and labor standards, coupled with rising labor costs in China has led companies to turn to Africa as a potential production location. East African countries have received much attention in the last three years. This is in part due to the renewal of the AGOA, which provides 39 African countries with duty-free access to the United States.

2.2 The Textile and Apparel Value Chain

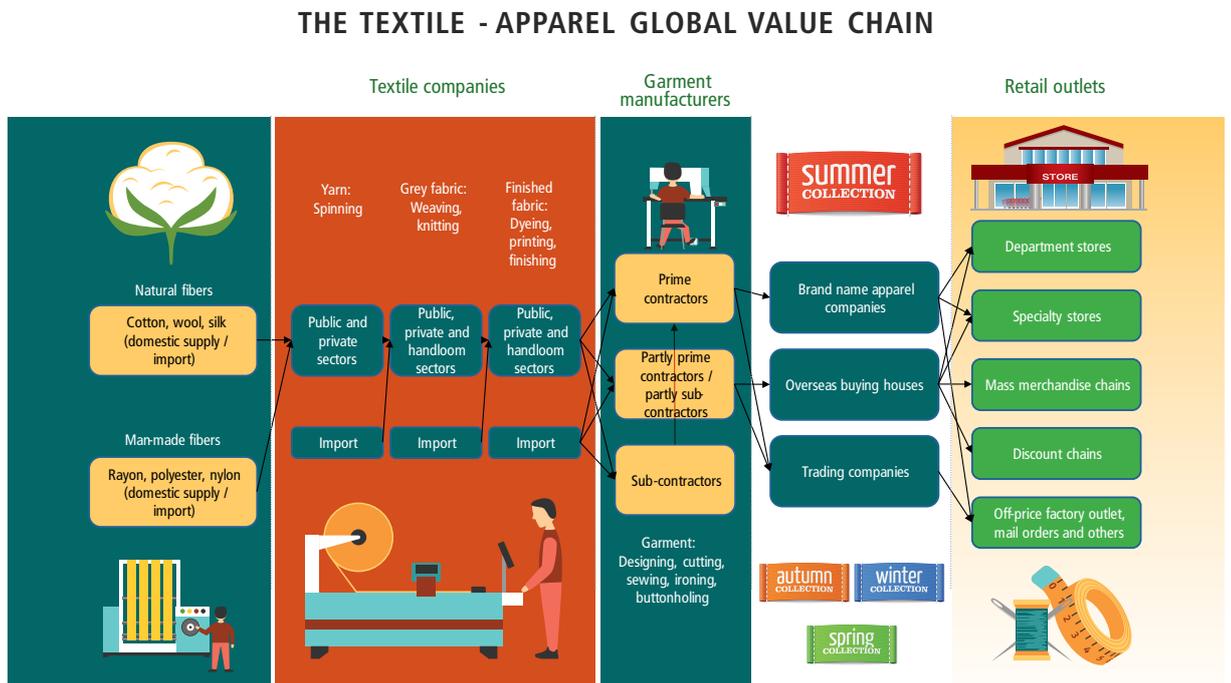
The apparel industry is a buyer-driven global value chain (see Figure 3). Global buyers—who in some cases also own manufacturing facilities—determine who produces what, where and at what price. The companies that develop and sell brand-name products also exert considerable control over how, when, and where manufacturing will take place (Gereffi et al. 2011). These leading apparel firms - retailers and brand owners that typically have their headquarters in the United States, Europe, or Japan - source from a global network of suppliers and contract manufacturers, selecting those that offer the most-competitive terms (Gereffi et al. 2011).

The textile and apparel value chain can be separated into five main components:

1. Raw materials to produce natural (cotton, wool, silk) or synthetic (polyester) fibers
2. Component textile products manufactured from these raw materials: yarn, thread, synthetic fibers, fabrics
3. Production networks: the garment factories and all subcontractors and contract manufacturers
 - Assembly of garments and cut, make, and trim occur in production networks. Apparel manufacturers cut and sew woven or knit fabric directly from yarn. Manufacturers arrange their businesses in diverse ways to produce ready-to-wear and custom apparel. Some are contractors—cutting and sewing materials owned by others. Others manufacture custom garments for individual clients. Some purchase textiles from suppliers, and others make the textile components in house.
4. Export channels established by trade intermediaries
 - Apparel is distributed and sold through a network of wholesalers, agents, logistics firms, and global apparel companies
5. Marketing networks at the retail level, including retail outlets
 - All activities associated with pricing, selling, branding, advertising, and distribution of apparel are part of the marketing network.



Figure 3. The textile-apparel global value chain



Source: ILO (2014).

Like other global industries, the apparel value chain relies on a set of international standards and codes of conduct with respect to quality, labor and environmental practices. Leading apparel companies are increasingly conscious of the importance of improving standards throughout the whole value chain and the need to assure their consumers that they are able to uphold high quality and sustainability standards.

Section III: PVH's Site Selection Process

Initial approaches: the textile and apparel industry visits Africa

Africa had been on PVH's radar screen since 2012, when it started to develop its Africa Strategy. At this time, PVH was sourcing limited products from Egypt, Kenya, Lesotho, and Mauritius, and wanted to explore whether there was additional untapped potential in Africa to be developed. PVH hired Roy Ashurst to become their Hub Leader for Africa and the Middle East and asked him to assess whether PVH should be in Africa and to identify the best possible candidate countries (Ashurst, personal communication).

Ashurst's mission was to fully understand the different countries' capabilities. PVH sent Ashurst to Africa "to do nothing but to travel around Africa and identify where he believed was the point of entry to the continent." (Bill McRaith, personal communication). By January 2014, he had brought his bosses, Bill McRaith and Mark Green to Ethiopia, Kenya, Tanzania, and Uganda - his choice of sourcing candidates.

Having worked for more than 25 years deciding where to locate and establish greenfield manufacturing operations, Bill McRaith had extensive experience in textile and clothing manufacturing. He wanted to locate in East Africa in order to start afresh and build a model operation. He advocated full verticality and compliance with standard and safety regulations.

Relocating to Africa also represented a shift in its business model. PVH was assessing the potential of reentering manufacturing itself, in addition to sourcing from others located in Africa, and seriously considering a vertical integration supply chain vision as a long-term strategy. In the past, contract manufacturers, not brands, took the lead on assessing potential manufacturing destinations. However, PVH wanted to have more control over the location of its suppliers. PVH had previously owned manufacturing facilities, almost exclusively in the United States, but shifted around the world to a business model oriented towards sourcing through contractual arrangements with manufacturers.⁵

PVH felt that East Africa provided a great pioneering opportunity: the possibility of learning from past experiences and starting new operations on a proper basis. In April 2014, PVH organized a trip to East Africa with Vanity Fair (VF), its main competitor, and other textile and apparel manufacturers. This was the first such joint industry effort. PVH's interest in spearheading this joint mission was to influence its supplier base, particularly fabric manufacturers, many of whom supply both PVH, VF and others, to invest in Africa. Approximately 48 companies, mainly from Asia, with whom PVH had long-standing relationships, participated in the trip and visited Uganda, Kenya, and Ethiopia. In this first visit to Ethiopia, McRaith was impressed

⁵ For example, in 1999, a portion of the company's dress shirts were manufactured in the company's domestic apparel manufacturing facility in Alabama and in company-owned facilities in locations such as Costa Rica and Honduras (PVH SEC 10K form for the fiscal year ended January 30, 2000). Currently only a portion of its neckwear is manufactured in-house.

with the country's potential and started thinking about bringing others to the region.

PVH's novel approach of organizing a joint mission with VF executives served to emphasize that strategic decisions, such as geographic location, could best be made as an industry, rather than an individual company effort. The trip was seen as a huge success: many companies expressed serious interest in sourcing, investing, and establishing operations, especially in Kenya and Ethiopia. Uganda raised less interest, and its anti-same sex relationship regulations and policies raised concerns about global sourcing operations.⁶

The trip to Africa helped PVH convince many of its strategic suppliers that doing business in East Africa could be worthwhile. "The countries we visited demonstrated that they had laid the [good governance] foundations necessary to attract significant foreign direct investment and were prepared to undertake the commitments necessary to secure socially responsible companies. [Senior government officials] ... spoke of adherence to the rule of law, free markets, government stability, and transparency," Bill McRaith testified before the Senate Committee on Foreign Relations. McRaith's words underscore a trend: more and more, investors seek predictability, adherence to rule of law, and transparency – and are willing to locate elsewhere if these key underpinnings are not in place.

"The level of professionalism, commitment, and maturity that we are seeing from some governments in Africa reassures our interest to not only source from Africa, but to produce in Africa....As a result of our trip, we identified a great opportunity for the industry to invest nearly a billion dollars to create a vertically integrated apparel supply chain in some regions of Africa. In other words, create jobs in Africa not just in apparel, but also in the textile and even agricultural

"The apparel industry's mistakes of the past have often been the result of near-sighted investment in lawless environments. That model must and will change rapidly.... Countries in Africa where we invest will be the beneficiaries of a new and more inclusive model of investment and growth in which we will be able to put in place, right from the beginning, facilities, norms and values that will guide the work at the factories and the relationships between workers, managers, associations, civil society groups, governments and any other stakeholders. That is why when we look at Africa we do not just look for a place to quickly set up a sewing operation."

William McRaith, Chief Supply Chain Officer, PVH Corp., Written Testimony, Senate Committee on Foreign Relations, April 23, 2015

industry through better cotton production techniques" (McRaith, Senate Committee on Foreign Relations 2015).

The renewal of AGOA in June 2015 reinforced the apparel industry's burgeoning interest in Africa.

⁶ Other industries have seen similar reactions. Virgin's Richard Branson, for example, has publicly spoken of his company's opposition to this law <https://www.virgin.com/richard-branson/let-people-love-whoever-they-want>.



Unlike earlier periods, this time AGOA was extended for a 10-year period, sending a strong signal of continuity and therefore predictability to investors considering Sub-Saharan Africa. As discussed in Section 2.1, AGOA offers two major advantages over other preferences: elimination of duty for apparel products entering the United States and provision allowing the use of third-country fabric inputs and still qualifying for Duty Free Status. This makes it possible factories to use any fabric from any country with no restrictions. With most other trade arrangements, fabric must be produced in the United States or the other partner country in order to qualify for duty-free status. These are more expensive than fabric produced elsewhere in the world.

AGOA renewal was a critical factor in PVH's decision to invest in Ethiopia (Roy Ashurst, personal communication March 9, 2016).

The 10-year extension of AGOA was essential for PVH because it provided the certainty necessary for PVH and other interested companies to commit to the large investment necessary to develop projects such as the one described for Ethiopia. AGOA's 10-year renewal also provides sufficient time to develop a vertical supply chain, which in turn, will accelerate and support scalability and sustainability PVH Corp. *Investment in Ethiopia, October 2015*

Deciding on Ethiopia

The cost of materials, energy, and labor were rising in Asia. Coupled with persistent disregard for the rule of law and protection of workers and the environment in certain regions of Asia, PVH began to search for a new apparel production location. The idea of starting afresh with a new model appealed to PVH, "drawing on the lessons learned from decades of promoting human rights in [PVH's] supply chain and experience in helping to lead efforts such as the [Bangladesh] Accord."

In deciding its new location, PVH considered five key factors: government stability, land and port accessibility, cost of energy, and labor availability. In order to commit to investing, PVH needed assurance of true long-term commitment by government authorities that they would satisfy these essential conditions.

After several scoping missions and following Roy's recommendations, PVH set out a short list of potential locations for further analysis. These included Ethiopia, Ghana, Kenya, Tanzania, Uganda, and Zambia. Table 3 sets out the countries' scores on each of PVH's key priorities.

Ethiopia scored well on most of the indicators. However, the key deciding factor was the clear commitment of the Ethiopian government to the textile and garment sector as a strategic area of investment. The government of Ethiopia was rapid and transparent, responding quickly to PVH's questions and aggressively promoting Ethiopia's advantage in terms of labor and energy abundance. The government underscored its commitment to attract PVH by providing industrial

It is important to be an early mover in a new sourcing market in order to receive the most advantages, such as choice factory locations and favorable labor and other input costs during production. We believe these factors are all present in Ethiopia.

(PVH's Investment in Ethiopia, Formal statement, October 29, 2015)

land and infrastructure as well as favorable lease terms for the development of HIP (PVH Corp. 2015).

To select from among the shortlisted countries, PVH compared the candidates on eight key parameters. These were local cotton availability, power cost and quality, wage cost, port connectivity, general infrastructure, government proactivity to attract textile investment, political stability, and law and order. Ethiopia scored better - particularly in power cost and quality and a proactive interest of the government - than the other shortlisted countries, followed by Kenya and Ghana (table 3).

TABLE 3. ASSESSMENT OF POTENTIAL LOCATIONS: SHORT LIST

Rank	1	2	3	4	5	6
TOTAL SCORE	Ethiopia - 4.90	Kenya - 4.80	Ghana - 4.65	Uganda - 4.50	Zambia - 4.35	Tanzania - 3.30
Parameters	weight (%)					
LOCAL COTTON AVAILABILITY	10%					
POWER COST AND QUALITY	25%					
WAGE COST	10%					
PORT CONNECTIVITY	10%					
GENERAL INFRASTRUCTURE	5%					
GOVERNMENT PRO-ACTIVITY	20%					
POLITICAL STABILITY	10%					
LAW AND ORDER	10%					

Source: Discussion with PVH. Scale of 1 to 6: 1 = lowest and 6 = highest.

Several factors – in addition to political stability and rule of law – favored Ethiopia as PVH's new location. Most important, Ethiopia demonstrated its capacity and willingness to establish textile and garment production capacity. Ethiopian officials consistently followed through on their commitments building trust with the company and ultimately cementing PVH's location decision. Also important was the direct channel of communication with senior government officials.

Such follow-through helped set Ethiopia apart from its closest competitors. PVH executives held

detailed discussions with authorities in Kenya, where productivity is higher than in Ethiopia, but at least at that time, Kenyan officials were unable to follow through on certain commitments.⁷ “In the case of Ethiopia, our dream was exceeded, so we focused on Ethiopia,” explained McRaith.

PVH’s main investment drivers have traditionally been access to quality materials at a reasonable cost, a labor market with relevant skills, access to ports, and assurance that laws that apply to investors and workers will be enforced (PVH Corp.2015). Brand owners such as PVH seek to ensure that their suppliers follow local laws (e.g., workers’ rights, fire safety, building safety) and that government partners ensure compliance with and enforce such laws.

In deciding to invest in Ethiopia, PVH’s first investment in Africa, and its first step

The aggregate of the factors—strong government commitment, costs, power, and potential incentives, etc.—coupled with the Government of Ethiopia’s commitment to creating an environment that supports workers, safety and sustainable production made Ethiopia the clear choice for PVH’s investment.

Questionnaire on PVH Corp. Investment in Ethiopia, Oct. 29, 2015

toward a comprehensive vertical integration model, additional assurances that these key factors were present was extremely important. Government stability, land and port accessibility, cost of energy, and labor availability were particularly important (PVH Corp. 2015). Thus, the commitments that the government of Ethiopia undertook in these areas and their demonstrated execution were vital to building a strong trusted relationship with PVH, and to PVH deciding to invest in Ethiopia and influence its supplier base to do so as well.

The following factors were key:

Clear national vision and interest in partnering with PVH: Supporting the manufacturing sector and achieving structural transformation is at the center of Ethiopia’s growth strategy, as stated in the Growth and Transformation Plan (GTP).⁸ This is underscored by strong political will and political consensus to implement the strategy. “The number one reason for [investors’ interest] was because of what they saw in the governmental side and that to me, after doing this for the last 26 years all over the world, the biggest difference we see is in this effort. It is not the investor group. It is not PVH. What makes it attractive is that, when you come to Ethiopia, in no time in my history have I ever seen any one more prepared to attract the apparel sector into its economy. There are institutions established, there are rules put in place, and there are airports being built,” explains Bill McGrath, PVH’s Chief Supply Chain Officer. “If we have a vision of what is possible in Ethiopia, I would say the government of Ethiopia raised it to a different level and has made it much larger than we anticipated. It has exceeded any expectation that we had.”

7. PVH continues to be in contact with Kenyan authorities, and some projects might be under negotiation.

8. See http://www.ethiopians.com/Ethiopia_GTP_2015.pdf for further details.

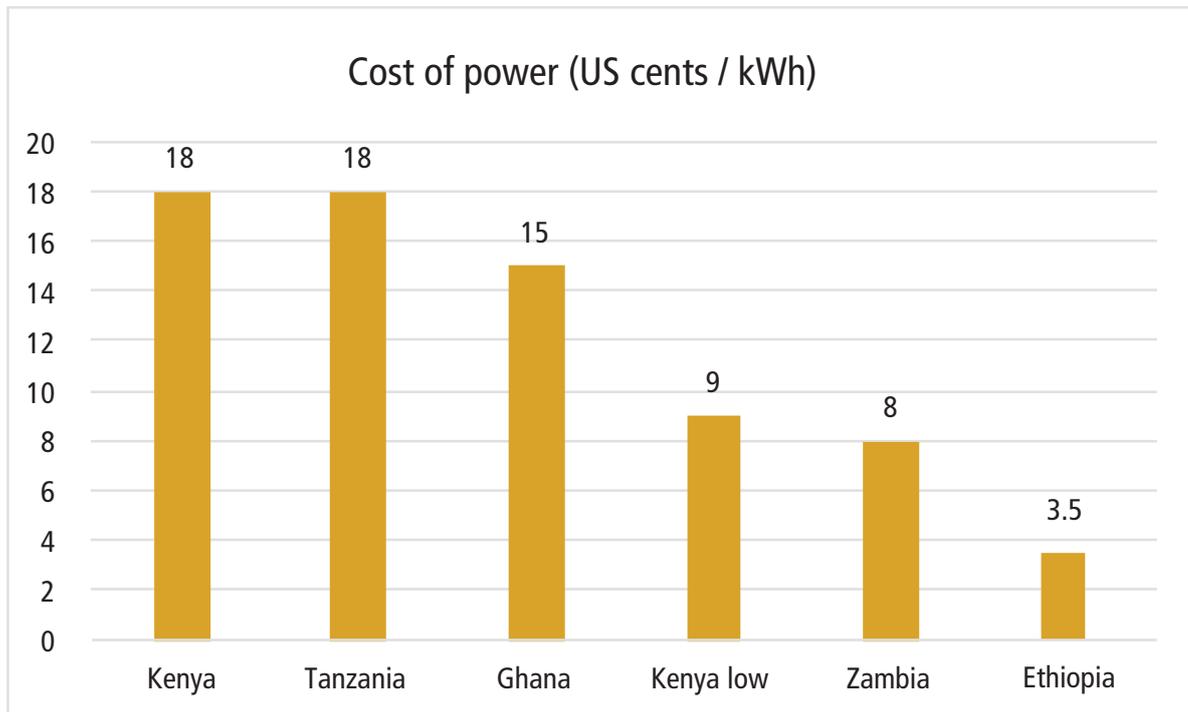
PVH saw Ethiopia as a pioneering opportunity to build a sustainable supply chain in Africa. Ethiopia saw in PVH a basis for building its strategy of industrialization based on the textile and garment sector. This led to a shared vision and the emergence of a trusted partnership. Both parties wanted to make the project work. There was a meeting of minds, a process of mutual discovery and openness to learning.

Labor Factors: The cost of labor was an important consideration in PVH's decision-making process. "In the fabric side of the business, apart from the raw material, the highest cost is energy. In the garment side of the business, apart from the cost of raw material, the highest cost is labor" (Ashurst, personal communication). PVH compared the cost of labor in Ethiopia with other key countries, including Bangladesh, Cambodia, India, Kenya, and Uganda. Ethiopia offered significant labor cost advantages. Ethiopia's demographic transition is taking place faster than in the rest of Africa- between 2005 and 2015, the working age population increased by 14 million people, providing a large pool of labor to work in the textile and apparel sector (World Bank Group 2016). One concern was the lack of skilled labor and low factory productivity. "Bringing people who have never worked in industry was quite a challenge in Ethiopia" (Ashurst, personal communication). Kenya, which is relatively industrialized, offered much higher productivity and more skilled labor. Ultimately, however, Ethiopia's labor costs and the government of Ethiopia's proactive steps to address this problem – including the establishment of the Ethiopian Textile Industry Development Institute (ETIDI) to develop the skills of local employees and enhance the competitiveness of the textile and apparel sector - convinced PVH that this was a surmountable problem.

Electricity and Water: Another important factor in PVH's site selection decision was the availability of cost-competitive, renewable, clean energy. Ethiopia's government committed to providing adequate, reliable electricity, and to avoid unreasonable power outages that could interfere with operations. Ethiopia's current installed capacity recently increased from 2,421 MW to 4,291 MW after Gibe 3 (1,870 MW) is fully commissioned in December 2016. When the Grand Ethiopian Renaissance Dam is completed, capacity will increase by an additional 6000 MW.⁹ By contrast, installed capacity is 1.7 MW in Kenya, 1.8 MW in Ghana, and 1.0 MW in Tanzania.

⁹ The dam will cost nearly US\$5 billion. The dam is being funded using government bonds and private donations and is slated for completion in July 2017.



Figure 4. Cost of power in comparator countries (cents/kWh)

Source: PVH

As seen in Figure 4, Ethiopia's power cost, at US¢3.5/kWh, was far lower than in the other countries. Although the government reserved the right to revise the rate in the future, it agreed that PVH will at all times be provided with electricity at rates no higher than the then-prevailing electricity rate for all industrial parks and no lower than the lowest legally available rate.

Another key decision factor was the availability of water. PVH is allowed to dig water wells at HIP at its cost to access water for its facility and to use the water from these wells free of charge.

Infrastructure Improvement Initiatives: In addition to the construction of HIP, a number of other infrastructure projects helped to increase PVH's comfort in locating in Hawassa. First, the government had already completed construction of a direct rail connection between the Port of Djibouti, Addis Ababa and Modjo. Modjo is the key node for the emerging Ethiopian Intermodal Logistics System and the Ethio-Djibouti Corridor, the main corridor that currently handles nearly all of Ethiopian trade. The government also made a commitment to completing the Modjo- Hawassa segment as part of the National Railway Network Development program. This would significantly

reduce transport costs. Second, there was the commitment to constructing a freight depot in Modjo that will provide a direct link between the road and the Modjo–Djibouti railway, effectively connecting HIP to the Port of Djibouti. Ethiopian Shipping and Logistics currently operates a dry port and terminal at Modjo that is currently largely used to receive imports. This will allow for efficient cargo movement from rail to trucks and truck to rail. These investments will be essential to ensure the seamless processing of import and export goods and to ensure that the competitive advantages from low-cost rail transportation are not undermined by high costs and delays in the dry port. Third, PVH will benefit from a World Bank financed Hawassa-Modjo Expressway, which will provide an important and efficient link between HIP to the Modjo Dry Port. Finally, the government also built an international airport terminal in Hawassa, providing a vital direct aviation link to Hawassa for the factories and their customers, such as PVH.

Tax Incentives: Tax incentives were not a critical factor in PVH's decision to invest in Ethiopia- and were not one of the factors used to assess and compare candidate country sites. The government granted no additional incentives nor concessions. "Tax holidays are not what draw us as investors to Ethiopia. It could be the icing on the cake, but it was never a question of 'Let's go to Ethiopia because they are offering tax holidays.'... It was the other factors that really helped. Driven by the brand, a good environment, water and power availability, competitive wage rates, competitive power cost, just the people themselves, the fact that they are more built towards light manufacturing compared to people in Tanzania and Uganda was what influenced our decision."

Incentives, however, were instrumental for selecting the location within Ethiopia. The Government of Ethiopia provides a number of incentives to enterprises in Industrial Parks. These include income tax exemption from 8-10 years, exemption from duties and other taxes on imports of machinery equipment, construction materials, spare parts, raw materials and vehicles, and land lease up to 80 years with zero charge for factories and residential quarters. "[Incentives] certainly influenced our location decision within Ethiopia. The benefit in Hawassa is greater than the benefit in Addis and its surroundings. Investors get a longer tax incentive if you are out of Addis as opposed to within the city (Ashurst, personal conversation).

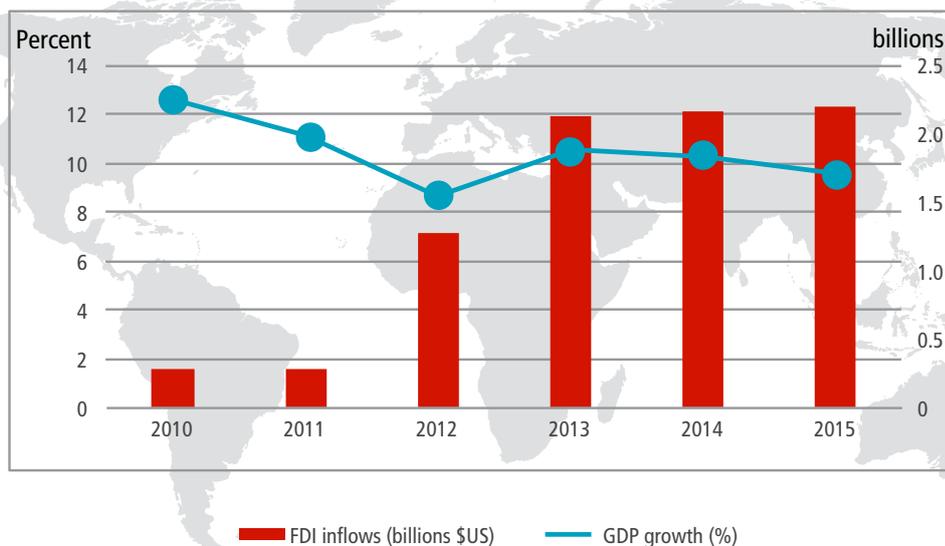
Section IV. Ethiopia's development strategy: using textiles and apparel to industrialize

4.1 Ethiopia's level of readiness and strategy for attracting PVH

Ethiopia's desire to achieve structural transformation has shaped its effort in attracting and facilitating PVH's commitment. For the past 35 years, Ethiopia's manufacturing share of gross domestic product (GDP) has remained constant at 5 percent. Manufacturing only adds 0.5 percentage points to Ethiopia's 10 percent growth rate (World Bank Group 2016). However, Ethiopia has produced strong economic performance since 2004. As shown in Figure 5 below, since 2010 the country's growth rate has averaged 10.5 percent per year. FDI inflows have accelerated, reaching US\$2.2 billion in 2015 (UNCTAD 2016). Public investment and a growing services sector have largely driven Ethiopia's rapid growth. According to the World Bank, Ethiopia has the third-highest ratio of public investment to GDP in the world, and public investment explained approximately two-thirds of 2011/12 growth, for example (World Bank Group 2013).

For such growth to be enduring, the authorities will need to seek a different balance between public and private sector involvement. Development of a strong foreign and domestic private sector will be needed to sustain high growth, as the experiences of other high-performing countries, including in East Asia, demonstrate.

Figure 5. Average annual GDP growth and FDI inflows 2010-2015



Source: World Bank WDI and UNCTAD WIR 2016

Growth is concentrated in the services and agriculture sectors (World Bank Group 2013), with services accounting for approximately half of economic growth generated from 2004 to 2014

(World Bank Group 2016). Industry accounts for approximately 14.5 percent of economic growth and 11 percent of employment growth.¹⁰ For growth to be sustainable, labor must shift away from low-productivity sectors to the high-productivity manufacturing sector. In other words, the manufacturing sector must support structural transformation efforts.

As in many developing countries, youth unemployment is very high, so creating more and better jobs is an urgent priority.¹¹ Supporting the manufacturing sector could help absorb this rapidly growing labor force.

Perhaps the most-urgent constraint slowing the Ethiopian economy is the lack of sufficient foreign currency. Ethiopia has a widening structural current account deficit. Exports of goods and services declined to 10 percent of GDP in 2014/15 while imports increased to 27 percent of GDP, of which approximately one-third were capital goods. This resulted in an external deficit of 15 percent of GDP. Exports are needed to help finance imports, especially of capital goods, and enable Ethiopia to maintain a more-favorable balance of payments. “One of the things that worries me a lot is how the growth rate of this country is inhibited due to shortage of foreign exchange earnings. If a country cannot import machinery, capital goods and inputs for factories and for agriculture, it cannot grow” says Dr. Arkebe Oqubay. Ethiopia’s courting of PVH can be seen as a way to overcome this constraint: efficiency-seeking foreign investors, such as PVH, which locate in a country with the aim of exporting to third markets, can help countries to bolster their export base and generate foreign reserves.

Among the most-critical constraints facing Ethiopian businesses is delays in the disbursement of foreign currency. According to several surveys, it can take from two months to a year for Ethiopian banks to approve foreign currency requests or issue letters of credit. A newly established exporter of leather products, for example, reported waiting a year to obtain approval for US\$2,500 in foreign currency needed to import accessories (Ethiopian Chamber of Commerce 2015). Delays in financing imports and exports in Ethiopia’s is one the principal causes of the freight logistics inefficiency, as all imports, exports, and outgoing foreign payments require a foreign exchange permit. Uncertainty in foreign exchange availability and access often leads to significant delays and longer port dwell time (Ethiopian Maritime Affairs Authority 2016).

Addressing these challenges required an ambitious but realistic national industrial park development plan -- and necessitated organizing government agencies around the strategy. “The government took almost a year to study the experiences of successfully industrialized countries such as South Korea, Singapore, China, Vietnam, and Mauritius and less successful ones such as Nigeria,” explained Dr. Arkebe Oqubay. “A key finding of this assessment is that industrial parks— as a key instrument of industrial policy—played a significant role in structurally transforming the manufacturing sector.”

The government decided to adopt this approach and set out the key elements of the strategy in a white paper called “Development of Industrial Parks and Industrialization in Ethiopia.” This

¹⁰ The value-added growth contribution and employment contribution of agriculture are 35 percent and 73 percent, respectively.

¹¹ The 2014 Urban Employment and Unemployment Survey recorded the overall youth unemployment rate at 22.8 percent.

paper was shared and discussed among the key members of Ethiopia's government and political leadership.

The concept of an industrial park as a defining instrument for achieving industrialization goals was a novel concept in Ethiopia. This was also a thorny and divisive political issue for a country that had long adopted a statist development model. Making a case for a successful industrial park development strategy and backing it up with sufficient resources requires considerable political capital and commitment at the highest level of government.¹²

Industrial parks are defined as “geographically demarcated areas, administered by a single body, offering services, infrastructure and incentives for businesses that locate and operate within the site. An industrial park normally operates under more liberal economic laws than those typically prevailing in the national territory” (Farole et al. 2011). The government recognized their utility in bringing in business: “If we want companies to start business as fast as possible, the set-up time should be short,” says Dr. Arkebe.

Industrial parks are generally customs-free zones and export-oriented manufacturing areas. Objectives include promoting employment increasing exports, and attracting foreign investment, although additional goals may come into play, depending on circumstances and stage of development. These additional goals include promotion of regional economic development, facilitation of technological transfer, creation of linkages with domestic industries, and using industrial parks to experiment with new development strategies.

Ethiopia's industrial parks are aimed at attracting high-quality — particularly foreign—investment in specific sectors that can contribute to export growth, enter global export markets and better integrate the country with the global economy. The industrial parks offer duty-free imports of capital goods, construction materials, and raw materials for the production of export commodities and vehicles and certain capital goods. Industrial parks reduce set-up time by centralizing industrial space, land, and supporting infrastructure, including a dedicated one-stop shop. Once companies start operations, “transaction costs are reduced, the creation and flow of information improves, local institutions respond more readily to cluster's specialized needs, and peer pressure and competitive pressure are more keenly felt.” (Porter 2008). Industrial parks are preferred in Ethiopia as a gateway to foreign direct investment (FDI) because they have the advantage of lowering entry and operational costs.

Like most developing countries, Ethiopia lacks the infrastructure and capital for large-scale, nationwide development. Concentrating manufacturing in an industrial park helps to minimize the cost of infrastructure, reduce industrial pollution, and to effectively make use of scarce resources such as land. Industrial parks allow agglomeration benefits such as cost minimization due to proximity to inputs or markets. Industrial parks often have interconnected firms, producers of complementary products, regulatory and service-providing agencies, and vocational training

¹² Asked about the political commitment and shared understanding of the ruling political party over the policy by Addis Fortune, Ethiopia's weekly newspaper, Dr. Arkebe replied: “There were sharp differences with few individuals. There can never be a policy that is agreed on 100 per cent; the issue is not about individuals. What you need is a substantial consensus and more than 90 per cent have agreed on the white policy paper



providers. Many of the firms in an industrial park share “many common needs and opportunities and encounter many common constraints and obstacles to productivity”... “Viewing a group of companies and institutions as a cluster highlights opportunities for coordination and mutual improvements in areas of common concern without distorting competition.” (Porter 2008) Sourcing inputs from other firms in the industrial park can result in lower transaction costs than using distant sources. It also makes it easy for the government to provide public goods such as specialized infrastructure, training, and educational programs that would otherwise be costly.

Again, to quote Dr. Arkebe, “Our capacity to provide utilities and infrastructure is quite limited, and it is very expensive. We have to concentrate on how to minimize the efforts by focusing on limited clusters; instead of, for example, attempting to distribute electricity all over the place, it is wise to do so effectively in one place.” The underlying logic here is that industrial parks can be operated at much lower cost than unplanned industrial growth and having many widely disbursed small-scale industries.

In addition, the administrative cost of operating an industrial park is much lower – and the political feasibility much higher -- than streamlining the entire antiquated national bureaucracy. As they are separate from the rest of the economy, implementing reforms in a limited way through industrial parks presents a smaller domestic political risk.

Small domestic companies also benefit from large industrial park participants because they often “pick up the slack, often with the support and blessing of the larger players.” There are also major gains, such as the potential to transform the parks into learning centers to transfer technology from one factory to another, particularly if domestic firms are encouraged to lease factory sheds in industrial parks.

4.2 Institutional Structure

The Government of Ethiopia consolidated its commitment to transform the economy by bolstering its manufacturing sector in its Growth and Transformation Plan II (GTP-II). The government aims to make Ethiopia a manufacturing hub in Africa by 2025—with a focus on light manufacturing. Specific industrialization goals in this regard include generating 2 million jobs in medium and large businesses by 2025, increasing the contribution of manufacturing to overall GDP from 4 percent to 18 percent to 20 percent, and ensuring that the manufacturing sector contributes 40 percent of the export share by 2025.

Many governments set out laudable goals on paper. Few manage to achieve them. A major factor that attracted PVH to Ethiopia was the government’s ability to follow through on its promises.

This responsiveness had to be developed, however. When PVH initially approached key government agencies in charge of industrialization efforts, it did not get great results. Some government agencies were not responsive. For instance, efforts to register at the Ministry of Trade were unsuccessful due to complex entry requirements. Different government agencies provided inconsistent and conflicting information. PVH demanded detailed and complicated information that was not readily provided.

The situation changed when PVH approached the Prime Minister's office. "I remember our first meeting with Dr. Arkebe. He listened carefully to what we had to say. He committed to us he shared our vision and told us Hawassa is the right entry point for us," states Mark Green, Executive Vice President of Global Supply of PVH. The The Ethiopian Investment Commission (EIC) was identified as PVH's main contact within the Ethiopian government, including facilitating negotiations for certain regulatory incentives such as tax incentives, expedited customs processing, and work visas for foreign employees.

"Fortunately, working with Dr. Arkebe at the PM office and Fistum at EIC has really made the difference. I spent half of my time with Dr. Arkebe and half with Ato Fistum Arega, the Commissioner of Ethiopian Investment. Fistum was fantastic in helping things get done" (Ashurst, personal communication). When investors visited Ethiopia, they could clearly see the commitment of the government at senior levels, which impressed most investors.

Once PVH was able to establish a direct channel of communication with senior government officials and to build a solid relationship, based on trust, with the authorities, it was able to move ahead. Having the full collaboration of a knowledgeable senior authority who acted as a champion of the project and designating EIC as PVH's main contact point within the government was a success.

The government has subsequently restructured and repurposed three important institutions to drive investment promotion, strengthen competitiveness, and catalyze the transformation of industries. This institutional structure is mapped out in Figure 6.

First is the establishment of the **Ethiopian Investment Board** to serve as a policy, strategy, and oversight and approval body. The Prime Minister chairs the board, which has its members senior ministers from key supporting agencies with direct or indirect roles in investment decision making. The board grants incentives to investors, addresses policy and regulatory barriers to investment, designates new Industrial parks, and opens new investment areas to FDI. The elevation of the investment promotion agenda to the center of government represents a significant departure. In the past, FDI promotion and retention was never a central agenda in Ethiopia and was only considered as a technical issue of a government agency. The government has now adopted a new strategy of targeted investment promotion focused on the manufacturing sector and informed by a sound understanding of the sectoral landscape and dynamics. In addition, unlike in the past, investment policy is now being led by the highest level of government—the Ethiopian Investment Board chaired by the Prime Minister.

Second, the government restructured and strengthened the **Ethiopian Investment Commission (EIC)**, formerly under the Ministry of Industry, to be directly accountable to the Prime Minister and act as one-stop shop for foreign investors. EIC's primary objective is to attract foreign investors to strategic sectors by surpassing their needs. EIC's initial goals are to focus on the light manufacturing sector, consistent with the government's strategy. Perhaps uncommon to other investment promotion agencies, EIC was also given the mandate to regulate industrial park developers, operators, and enterprises.



The third important, new institution is the **Industrial Parks Development Corporation (IPDC)**. Modeled after Singapore's JTC Corporation, IPDC is a state-owned profit-making enterprise in charge of developing and operating industrial parks. It also serves as a land bank and will make land available for potential private developers. Its mandate is to develop industrial facilities with shared infrastructure and services to help enterprises reduce operating costs and improve operational efficiency. Working with private developers, IPDC is expected to develop new industrial land and space that will fuel the growth of existing industries and catalyze new ones.

Figure 6. Ethiopia's investment institutions



HIP: Where in Ethiopia?

PVH originally intended to locate in an existing industrial park in Ethiopia's capital, Addis Ababa.¹³ It ultimately became the anchor for the development of a new industrial park nearly 300 km away, well outside the capital. Once the decision was made, PVH significantly influenced the planning and development of HIP and helped to attract key suppliers to build factories at the park.

5.1 The City of Hawassa

The city of Hawassa—the location of HIP—is a regional capital of close to 450,000 residents, located 275 km from Addis Ababa, the capital of Ethiopia. Located on the shore of Lake Hawassa, the city lies on the Trans-African Highway, which stretches from Cairo to Cape Town.

Hawassa, with a population of close to 5 million within a 50-km radius, lies in one of the most densely populated regions of Ethiopia. Hawassa's direct access to the highway linking Addis Ababa with Moyale in Kenya, underscores its potential as a regional trade hub for the East African Community. A new US\$667 million expressway project will connect Hawassa to Modjo in central Ethiopia—the key node for the emerging Ethiopian intermodal trade logistics system.

The government has also finalized the construction of railway links that provide direct connections between the port of Djibouti, Modjo, and Addis Ababa, with further plans to extend railway links from Modjo to Hawassa, although financing for the railway link to Hawassa is yet to be secured.

At least for now Modjo is the critical node in the logistics network where shipments transfer from one conveyance to another (for instance shipments move from rail to trucks or trucks to rail). A new international airport in Hawassa was constructed in 2015, with limited flight service and plans for expansion.

The combination of these recent developments makes Hawassa an important political and economic center in Ethiopia, which will be strengthened by growth in light manufacturing and tourism will strengthen.

5.2 PVH's Africa Point of Entry: HIP and Its Differentiating Features

The government of Ethiopia was interested in a lead company for HIP. Government officials were pleased to initiate a project of this significance with an industry leader like PVH. As Roy stated: "... Hawassa is the place that fit really nicely with their plans. [Dr. Arkebe] was a great supporter

¹³ See PVH Group lays down pre-investment conditions for Ethiopia. FIBRE2FASHION.COM. September 11, 2014. http://www.fibre2fashion.com/news/textile-news/newsdetails.aspx?news_id=167580.



TAILORED  CULTURE
STAFFORD

TRAVEL
EASY-CARE BROADCLOTH
55% COTTON 45% POLYESTER
MADE IN ETHIOPIA

FITTED
15½
34-35

The first dress shirt export from HIP.



CANADA
 MADE IN ETHIOPIA
 N W. 4.65 KG
 G W 5.35 KG
 M. 40X39X18 CM



CANADA
 MADE IN ETHIOPIA
 N W. 4.65 KG
 G W 5.35 KG
 M. 40X39X18 CM



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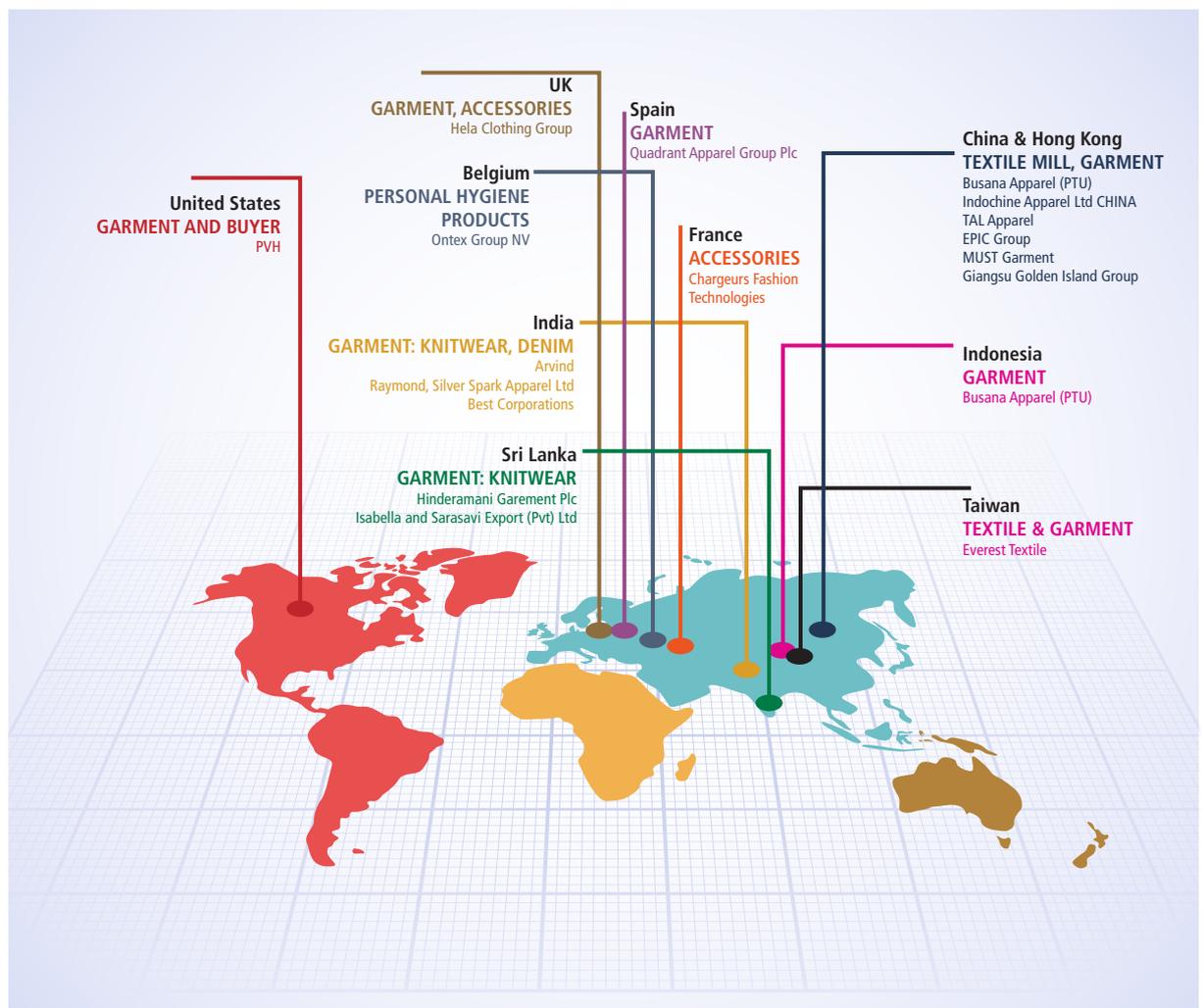


and felt that Hawassa was the right choice and did everything to make that happen” (Ashurst, personal communication).

One of the biggest factors that caught PVH’s attention was the government’s decision to finance the construction of HIP. To do so, an early, quick, bold decision that the government made was to mobilize the required financing from the international capital market through the sale of Eurobonds.

HIP was planned and designed as a world-class eco-industrial park focused on the textile and apparel industries. As of this writing, 18 foreign companies and approximately five domestic enterprises, as listed in table 4. Many of these tenants are suppliers of PVH that PVH encouraged to come and build in HIP. The government proactively recruited others, including domestic investors. When fully operational, HIP will employ approximately 60,000 people in two shifts.

Table 4. Companies located in HIP



Manufacturers were invited to provide input to the design and construction of HIP, so that the factory sheds were ready to use and met the latest international standards. Many of its innovative elements, particularly those related to environmental and safety standards were inputs provided by PVH.

The section below lists some of these elements that set HIP apart from other industrial parks.

Zero-Liquid-Discharge Common Effluent Treatment Plant: The textile industry uses various dyes and chemicals to treat the textiles and thus is a water-polluting industry. At PVH's encouragement, the government invested in a state-of-the-art zero-liquid-discharge treatment plant. With such technology, 90 percent of the water is recycled and reused, and the final waste is crystallized. While more costly than the government's original plan, this initiative meets the government's aim of meeting leading international standards, placing priority on resource conservation and differentiating HIP from other parks worldwide.

Renewable Energy: HIP uses renewable hydroelectric energy sources. It has a dedicated 75-MW power line and uses light-emitting diode (LED) technology that achieves energy savings of up to 90 percent over traditional light bulbs and reduces the carbon dioxide footprint. LED-based light also produces less heat, helping achieve savings on air conditioning.

Compliance with Relevant Fire and Building Standards: The Rana Plaza collapse in Bangladesh in 2013 and a 2012 factory fire in Pakistan renewed emphasis on safe working environments in the textile and apparel industry. As such, compliance with fire safety standards was of critical importance during the design of HIP. Inspections of the finished sheds by an independent 3rd party have always been on the Tenants Association agenda. Most buyers and brands want to see valid Building Safety and Fire Safety certificates for the factory prior to placing orders with that facility. In some countries this inspection is done by the Government but in the absence of this in Ethiopia, the government and the tenant association sought out an independent firm called Arup to conduct this inspection.¹⁴ The inspection reviewed each of the sheds against both the Ethiopian Building Code and International standards for Building Structural, Fire and Electrical Safety.

Compliance with the Customs-Trade Partnership Against Terrorism (C-TPAT): The C-TPAT is a risk-assessment program that sets specific supply chain security criteria, known as Minimum Security Requirements, and allows for expedited processing and a much lower chance of being examined by US Customs. In compliance with C-TPAT, HIP has installed video surveillance cameras to monitor premises and prevent unauthorized access to cargo handling and storage areas and perimeter fencing to enclose the areas around cargo handling and storage facilities.

¹⁴ Arup is an independent firm of designers, planners, engineers, consultants and technical specialists offering a broad range of professional services. It was founded by Ove Arup back in 1946 and it has grown to be one of the largest structural engineering firms with offices in 92 countries and employing over 12,000 people. They have significant experience of working on Building Structural, Fire and Electrical Safety and were one of the leading companies behind the Bangladesh Accord standard following the tragic building collapse of Rana Plaza.



Creation of a Tenant's Association: A tenant's association was created and participation is part of each tenant's lease agreement to address concerns common to the companies to be established in HIP. The main objective of the association is to set out a series of agreed rules of operation between the tenants. The association aims to foster efficient collective action in improving infrastructure, organizing workers' training, and ensuring a safe working environment.

The tenant's association was a response to previous challenges. "One of the key lessons from the first government-supported industrial park, Bole Lemi, was labor poaching. There is a problem of tenants taking each other's key workers," says Ashurst, "so we asked all the tenants in Hawassa if they could form a tenant association and agree on basic conditions where they could work together on problems rather than fighting each other." The Hawassa Tenant Association attempts to address this through a collective training and recruitment center and by coordinating the hiring process without unlawfully creating a barrier to worker job mobility.

"The park will need 1,500 workers per month. The collective training and recruitment center in the park will work hand in hand with the government to make sure there is an adequate pool of labor.... The government will be responsible for sourcing the workers and pre-screening them against certain criteria of what I call a 'ready to train workforce.' Such training is designed in order to educate workers on basic life skills and about working in an industry, having paid wages, having bank accounts, and why it is important to come to work every day. After that, the workers will receive in the factories, specific skills training" (Ashurst, Personal Communication).

The government has encouraged collaboration between development partners and donors, the public sector at the federal and regional level, and interested private investors to map out and determine how to address these challenges. PVH has been actively engaged in these discussions.

Section V. PVH's Decision to Invest and Its Pursuit of Vertical Integration

Over the past two decades, PVH has focused largely on helping to build cut and sew operations through partnerships with well-regarded suppliers rather than focusing on directly owning or financing operations. PVH is largely following this model in Ethiopia, but it has also seen it is an opportunity to embark on a new type of investment, whereby it is directly investing in the ownership of one of the factories manufacturing its products.

A joint venture of which PVH is a 75% owner has leased a 11,000 meter square shed in HIP.

"The old model of only cutting and sewing operations that can be installed and removed with relative ease does not fit with our vision of Africa. Africa can attract investment in other added value processes in apparel production such as cotton growing, yarn-spinning, weaving, and logistical operations."

William McRaith, Chief Supply Chain Officer, PVH Corp., written Testimony, Senate Committee on Foreign Relations, April 23rd, 2015

PVH intends for it to be one of the most advanced manufacturing sheds in the world. (Ashurst, personal communication).

Moreover, PVH secured the establishment of a strategic partner – a textile mill – in HIP, by entering into a private loan agreement with Wuxi Jinmao, a Chinese textile and apparel producer, to guarantee a supply of fabric for PVH's joint venture factory. This allowed PVH to advance its objective of pursuing vertical integration by securing essential components of its supply chain. The development of a fully integrated vertical supply chain, in which a clothing brand owner, garment manufacturers, and a fabric mill work together under the same vision, is essential to make the textile and garment industry scalable and sustainable, according to PVH (Ashurst, personal communication).

Fourteen other companies have committed to lease sheds in HIP's first phase; most are garment manufacturers and PVH suppliers. PVH's presence, proactivity, and strong partnership with the government of Ethiopia have had a strong influence on HIP.

“In my own 30 years’ experience, there are many firsts. One first is the sheer scale of the park, the bringing together of all the necessary ingredients to make it successful right from the beginning. The Ethiopian government, the world’s donor agencies, many of the world’s best apparel and related product manufacturers, and companies, and a buyer and retailer-PVH... Ethiopia is a North Star—an example to understand what can be achieved by having an active and visionary government engaged from the very beginning. The is the first in commitment to a full value add, fully vertical from growing of the cotton to the finished product... to the inclusion in the park a woolen fabric mill from the very beginning—something that will normally take 5 to 10 years to arrive... to the construction of industrial park that companies with international building standards to the creation of the tenant associations-committed to working together to ensure consistency within the park and at its hear the investment and the commission of Africa’s largest Zero Liquid Discharge effluent treatment plan—an investment that will show the world there is no conflict between companies doing well and companies doing right by the people, the community, and the environment they operate within. At every step, we have been sensitive to the challenges and conscious of the responsibilities of industrializing a predominantly agricultural region.”

Bill McRaith, Speech at Production Inauguration of Hawassa Industrial Park, June 2017

PVH determined that manufacturing in East Africa offered win-win opportunities for all parties involved, partnership opportunities for establishing manufacturing excellence, and the chance to leverage the latest innovation and technology. It is betting on the long term in establishing a fully integrated vertical supply chain in Africa, from cotton to finished product, in a socially responsible way. PVH is also betting on its leadership role in partnering with various stakeholders in the industry to build capacity from the ground up, ensuring that best-in-class environmental, safety, and social standards will be developed and upheld (PVH Corporation 2015).

When thinking of vertical integration and building the supply chain, PVH has not only focused on Ethiopia, but has also advocated a regional perspective, considering the vast opportunities that could be leveraged from the East African Community. “If you get people to work together, if they could see there is a long-term benefit, if the Ugandan government builds an industrial park just to spin cotton, if Kenya builds a textile park just to weave, knit, and dye fabric and then Ethiopia could make the garment, then you would have an amazing supply chain.... If we build that supply chain, East Africa will become so compelling that the industries will build around the parks.... That is a project for the future” (Ashurst, personal communication).

Moreover, PVH has advocated this regional integration view to the U.S. Congress while supporting the importance of AGOA’s renewal: “With the right set of policies, in place, Africa can also change the model of apparel sourcing by having a fully integrated supply chain that includes man-made fibers, cotton, yarn, textile and apparel production” (Senate Committee on Foreign Relations 2015). As explained by McRaith in his testimony before the Senate Committee on Foreign Relations, “there are other ways by which the US can partner with Africa to achieve a fully vertically integrated model of production. For instance, there is cotton production in Africa today, but it is very inefficient and of poor quality compared to the high yields and high quality cotton produced in other areas.... Helping them to implement farming practices that use less water, less pesticides and have higher yields per acre will leapfrog them into the 21st century.... Instituting cotton grading practices that mimic our own system will help ensure quality product and reliability for purchasers.”



Section VI. Challenges

HIP's inauguration, on July 13, 2016, was a significant milestone for the government of Ethiopia. Another milestone was the attraction of PVH, the world's second largest apparel company as an anchor for HIP, as an anchor investor for HIP. Ethiopia hopes to develop a competitive textile and apparel industry that can be the motor of the country's industrial growth.

PVH has taken an active role in helping to ensure HIP facilities are up to international standards and has helped to attract top manufacturers, principally PVH's suppliers to the industrial park. In return, Ethiopia has offered PVH an opportunity to begin operations in a new region, with initial conditions positioned so that its supply chain can meet the company's sustainability goals. It is also an opportunity for PVH to shift its business model, adopting a more vertically integrated operation and wading back into manufacturing itself. PVH's aim for HIP is to be the "world's first example of a fully vertically integrated, from ground to finished product, socially responsible supply chain" in the textile industry.

Many hurdles remain before PVH's project can be declared a manufacturing center of excellence. These challenges, if not properly addressed, could prevent PVH from realizing its model as well as keep Ethiopia from becoming the manufacturing powerhouse of Africa.

1. Logistics:

The textile industry is highly sensitive to cost and lead times of imports and exports. An estimated 50 to 60 percent of the value of Ethiopia's garment exports consists of imported raw materials and components. Previous analysis has suggested that its abundant low-cost labor provides Ethiopia with a comparative advantage in less-skilled, labor-intensive sectors such as light manufacturing. As such, its factory floor costs in products such as garments and other light manufacturing goods are lower than those in China and India (Dinh et al. 2012). Longer lead times and higher logistics costs, however, could erode this cost advantage. As a landlocked country, Ethiopia needs to assure investors timely connections to ports. Heavy reliance on the port of Djibouti poses significant risks. Ethiopia's trade logistics constraints include inefficient trade finance and bank processes, long shipping times, high shipping costs, inefficient port operations, high freight transport cost, unregulated service under monopolistic practices, inadequate logistics service capacity, poor coordination, and lengthy customs and inland dry port clearance. Customs processes are unpredictable and that requirements and regulations are not clear.

Customs clearance and other trade facilitation and border management procedures must be streamlined and made more efficient. If left unaddressed, logistics costs will prevent Ethiopia from capitalizing on an opportunity to bolster exports and diversify toward higher-value-added activities.

2. Skills

While affordable labor is widely available, productivity remains low. Ethiopia's inadequate educational and Technical Vocational and Training (TVET) system has limited the development of a qualified labor supply. In addition, the high rate of employee turnover is a significant constraint in the industry. Ultimately, the competitiveness of the Ethiopian textile and apparel sector depends on how productively industry can use its human capital. Enhancing productivity requires going beyond preferential market access, low factor costs, and subsidies.

The government of Ethiopia has established the Ethiopian Textile Industry Development Institute (TIDI) to lead and coordinate the skills development agenda. With support from UK's Department for International Development (DFID), the Regional Bureau of Trade and Industry and Ethiopian Textile Development Institute (ETIDI) have set up sourcing and grading centers. Factories in HIP source from this suitable pool of work-force. This innovative collaborative project provide training to workers on time management, industrial norms and basic operational skills which are crucial for factory efficiency. In return, factories are incentivized to source from this suitable pool of workforce, creating employment opportunities for 30,000 workers, mostly women. At the time of writing, close to 4,995 job seekers were screened and graded and about 1,000 recruited employees received soft-skill training.

Finding skilled labor for management and technical roles is an even bigger challenge. Most of the tenants in HIP will have to rely on expatriate staff until a sufficiently skilled workforce is ready. The government is facilitating the hire of qualified expatriate managers by simplifying visa and work permit procedures while encouraging them to train local Ethiopians. "The idea of expatriates training their Ethiopian counterpart is an excellent idea" (Ashurst, personal communication).

This has been a greater challenge for PVH than for other HIP tenants, because it does not have management experience in garment manufacturing elsewhere to draw on. PVH is thus eager to run training programs from which to recruit its first-line managers and supervisors. "We are training industrial engineers, production planners and we wanted to do it from university graduates, so that is part of my training role as well" (Ashurst, personal communication).

3. Institutional, Regulatory, and Administrative Capacity

Had PVH only dealt with the designated investment-related institutions, it is highly likely that it would have located elsewhere. The ability to work directly with high level officials was critical to win over PVH. Ethiopia has recently created, reformed, or reorganized a series of investment-related institutions. A key priority for Ethiopia should be to ensure that these entities are able, on their own, to attract and retain the next PVH. These entities are strategic players in attracting FDI, key to the government's plan to become a manufacturing powerhouse, and the consolidation and strengthening of their institutional capacities is fundamental. Guaranteeing the stability and sustainability of these institutions, enabling high

levels of professionalism in their staffs, avoiding corrupt practices and guaranteeing the rule of law in general are important challenges.

HIP itself may provide a pilot for such reforms. Within the industrial park, customs clearance processes are being simplified, the visa issuance process has been streamlined, and a one-stop-shop service for investment licensing and permitting is operating. If successful, these reforms could be brought over into the broader economy. This will be necessary. In the 2017 World Bank Doing Business Indicators, Ethiopia ranked 159 out of 190 countries reflecting a regulatory environment largely defined by extensive entry requirements. Streamlining and simplification of burdensome regulations and practices takes considerable time and political capital, particularly when there is a shared mandate among government agencies. Lack of coordination among the institutions, overlapping powers, and long delays are common.

PVH was able to build a strong relationship of trust with the current government, which has responded quickly and positively to PVH's need for high labor and environmental standards and adequate investment conditions. Attracting additional investment will be much facilitated if this trust is institutionalized through, for example, Ethiopia's signing of the New York Convention. Trade policy reforms that can help reduce the cost of imports could be effected through WTO membership, for example, which would also open possibilities for international cooperation on trade facilitation and capacity building.

4. Local Development

When fully operational, HIP is expected to employ "50,000 to 60,000 workers." These numbers do not include the jobs that will be created indirectly as a result of the development of HIP; each manufacturing job tends to have a multiplier effect. This growth means significant new needs for infrastructure development.

Like other Ethiopian cities, Hawassa currently has inadequate infrastructure and services for its population. Urban housing shortages solid waste management and access to water are among the pressing needs in Ethiopia's cities. Compounding this is a serious infrastructure finance gap.

Hawassa is a clear example that the industrialization agenda is closely linked to the urban development agenda. Collaboration from a series of development partners has been made available, but what is most needed is a strong coordination mechanism between local and national authorities to address this emerging and pressing challenge with a long-term vision.

5. Linkages

A main motivation for encouraging the location of investors who will inset Ethiopia into global value chains is to promote domestic participation. In the textile and apparel supply



chain, this could include the use of local inputs such as direct raw materials (particularly cotton and yarn); fabric, trim and accessories (e.g., buttons, zippers, thread, labels, hangers); packing materials (e.g., cartoons and poly bags); capital equipment and machinery parts, assembly or finishing activities (e.g., sewing, embroidering, screen printing), and services such as transportation, logistics, information, and catering (Staritz & Frederick 2014). There is room for local firms to participate in the new value chain, for example in accessories or providing services. The challenge will be to develop local firms' capacity to enter sourcing networks and build supply linkages. The government must identify areas of interest to the investor and establish the right set of policies to foster and enhance the development of local linkages. In response to these challenges, the government announced a new set of performance based incentives to support the participation of domestic firms in HIP.

These performance based incentives available for domestic firms are the following:

- (1) **Access to Working and Investment Capital:** For domestic businesses looking to start new ventures, or relocate facilities in HIP, the government will facilitate access to credit for working and investment capital needs through Development Bank of Ethiopia and Commercial Bank of Ethiopia. Domestic firms will be allowed to get credit up to 85% of their investment and working capital needs.
- (2) **Access to Foreign Currency:** Domestic firms will have preferential access to foreign currency to meet their financing needs.
- (3) **Cost Sharing of Training and Skills Development Program.** The government will cover the cost of training program as follows. For the 1st year, 85% of the cost of training, for the 2nd year, 75% of the cost of training program, for 3rd year 50% of the training program, for 4th year 25% of the cost of the training program.
- (4) **Expatriate Managerial Staff Wage Subsidy:** The wage subsidy program aim at putting specialized expatriate employee within the reach of domestic firms. The government will cover the cost of hiring an expatriate staff as follows. For the 1st year, 85% of the cost of training, for the 2nd year, 75% of the cost of training program, for 3rd year 50% of the training program, for 4th year 25% of the cost of the training program. Domestic firm will also get income tax exemption on wage payable to expatriate staff.

To continue to receive these incentives, domestic firms should achieve a threshold of productivity goals. For the first year, the domestic firm should reach at least 75% of the productivity of a foreign firm in HIP. For the second and third year, productivity should reach 85% and 100% of the productivity of a foreign investor respectively.

Developing linkages is often a challenge. Firms may be reluctant to source locally if

domestically produced inputs are not assured to meet specified quality requirements or are not priced competitively. PVH has long-established, global supplier networks that reliably meet its needs, making it difficult for domestic firms to break in as first-tier accessory suppliers. The company's vertical integration supply chain vision relies, at least in its initial stages, on bringing its approved suppliers to the region.

"Our corporate policy is to minimize our suppliers because we want to be meaningful to our existing suppliers.... So, our actual view on supply chain management is the same as our factories. We want to work with fewer people, and we want them to be global. We are asking our approved label suppliers to come and open in East Africa. We are asking our trade suppliers to come and open in East Africa. So we don't want to buy locally produced. We want to encourage our global supply chain people to come here. There are too many risks when you start talking about second-tier suppliers in the supply chain, and you know the world of compliance will restrict us from doing this. This is a major, major thing. You have just to be so careful about who is supplying things that go into your product" (Ashurst, personal communication).



Section VII. Key Lessons

Analyzing the events and the context in which PVH decided to commit to and establish operations in Ethiopia, several key lessons can be extracted. Although these lessons might seem just common sense, they are often overlooked and difficult to accomplish. In effect, for Ethiopia to win this investment, to convince a leading global company like PVH to produce in the country instead of neighboring countries also being considered, it was essential to have a clear, focused vision and strategy; the ability to follow through on commitments; a champion and adequate organizational support; and receptiveness and openness to partnering with investors.

1. A Clear, Focused Vision and Strategy

Ethiopia understood that it needed to develop export capacity and set out a clear and consistent strategy to achieve this objective. This required clarity and determination. Export-oriented investment – often referred to as efficiency-seeking investment (see Echandi and Newsom 2014) is the most difficult type of investment to attract.

Research supports the hypothesis that more-intense efforts concentrated on a few priority sectors are likely to lead to greater FDI inflows than less-intense, across-the-board attempts to attract FDI. Efforts tailored to the needs of investors operating in a particular sector will work better than attempts to target all potential investors. The magnitude of the estimated effect is economically meaningful.

Studies demonstrate that targeted sectors receive more than twice as much FDI as nontargeted sectors. A dollar spent on investment promotion is found to increase FDI inflows by US\$189. An additional job created by a foreign affiliate requires US\$78 in investment promotion spending (Harding and Javorcik 2011). A targeted approach for investor outreach is thus cost effective.

The ten-year renewal of the AGOA provided an incentive for manufacturing firms to locate in Africa. Ethiopia seized on this opportunity at a time that most textile production was in Asia, and Africa was largely invisible in this sector. Making the link between trade preferences and its ability to attract important companies paid off.

The government's decision to develop industrial parks was based on the need to quickly reduce set-up time for investors by creating industrial space, land, and infrastructure and thus reducing entry, transaction, and operational costs. The government also strategically sought a prominent company with high standards to serve as an anchor for this strategy.



2. Following Through on Commitments

PVH has a long history of sourcing product around the globe – and has therefore seen many impressive national plans. What impressed PVH about Ethiopia was the government’s willingness and ability to deliver on its stated objectives. While neighboring countries fell through on certain commitments, and initial attempts to consider investments did not materialize, Ethiopia worked diligently, promptly and transparently to make sure that PVH’s needs were met.

The government of Ethiopia rapidly raised the required capital to build the industrial park and built the facilities within nine months. The speed and quality of the establishment of the park, as well as support for energy and transport infrastructure impressed PVH enough that it was persuaded to establish its presence outside of Addis Ababa. To maintain this interest, the government also expedited a number of infrastructure initiatives to ensure that HIP would be as connected as it would were it located in the capital region.

A facilitating factor was PVH and the government of Ethiopia’s shared commitment to the environment, safety, and sustainability. Adequate water treatment facilities, use of green technologies, and employee safety in the park’s facilities were topics of mutual interest. Addressing these topics implied constructing in compliance with robust international standards; adopting the latest environmentally sound manufacturing technology; and committing to safety, security, and environmental standards that were not necessarily initially budgeted or foreseen. Committing to these principles and agreeing on constructing a park with these characteristics was crucial for PVH’s strong engagement with Ethiopia. These elements are also strategic in Ethiopia’s branding and differentiating itself from competing countries in the textile and apparel industry.

3. A “Champion” and Adequate Organizational Support

Foreign investors appreciate having the right counterpart on the government side – a counterpart who can quickly address their information needs and questions and with whom they can establish a strong working relationship. Although PVH indicated that this was a fundamental element in Ethiopia, differentiating it from other countries, it was not present in their first interactions with government officials.

For PVH, a turning point in their investment location decision was meeting Dr. Arkebe in the Prime Minister’s office. High level Ethiopian officials understood that being PVH’s direct counterparts in the government meant dedicating their full time and attention to this potential anchor company. A company of PVH’s size and importance – what can become a “queen bee” as Dr. Arkebe has stated- needs a champion, a counterpart who is senior enough and knowledgeable enough to orchestrate and deliver the necessary support from the government authorities, who can commit and execute. The Ethiopian authorities knew this could make all the difference – and it did.

4. Receptiveness and Openness to Partnering with Investors

Both PVH and the government of Ethiopia were open to learning and to accommodate each other's interests. PVH agreed to locate at a site relatively far from the one they initially identified; the Ethiopian government changed technology and design to accommodate PVH. Instead of engaging in this project with an adversarial approach, negotiations between the government and the company occurred in a constructive environment. A trusted relationship between the parties emerged.

In the context of anchor companies such as this one – with common values and principles – establishing the right kind of rapport, genuinely engaging with the counterpart, and seeking common ground and solutions can be enriching for both parties. “We have been fortunate since we have a great working relationship with senior people. As I said, the project is based on trust and a vision. So, as we say, we have now moved from planning stage to the execution stage” (Ashurst, personal communication).

Delivery of reliable, detailed, up-to-date information on location is a core service of an investment promotion intermediary. The objective is to bridge any information gaps or misperceptions that there might be on location, so it is strategic for an intermediary to focus on providing the necessary information from an investor's perspective. It needs to provide generic information on location and sector-specific information to the investor. In addition, through the stages of the investment lifecycle, it should be able to customize and address any type of information requests from the investor.

Section VIII Conclusions

The textile and apparel sector is going through rapid and dynamic change. A host of factors have forced leading global apparel companies “to look beyond the horizon” and explore new opportunities to source, manufacture, and do business in emerging countries outside their traditional sourcing bases. Rising labour cost in Asia means a number of countries are not as competitive sourcing a location as before. Much more importantly, securing compliance in areas such as human rights, labour, safety, quality and the environment is a vital concern for the industry today, and a top criterion when analyzing sourcing markets and suppliers. Today’s consumers are both more informed and empowered and are increasingly holding companies accountable for any alleged unethical behaviour. At the same time, it is costly for companies to retroactively correct challenges of sustainable supply chain in their traditional sourcing location.

PVH saw Ethiopia as a great pioneering opportunity to build “a fully vertically integrated, from ground to finished product, socially responsible supply chain” in Africa. The combined effects of factors such as wage level, power costs, and duty free market access coupled with Ethiopia’s commitment to creating an environment that supports workers safety, and sustainable production made Ethiopia the clear choice for PVH. From the government of Ethiopia’s side, there was a clear commitment to the textile and apparel sector as a priority sector in the industrialization strategy. Ethiopia’s effort in attracting and facilitating PVH’s production was fundamentally informed by the country’s economic strategy and desire to achieve structural transformation. Ethiopian policy makers believed transforming the manufacturing sector is not merely a prologue but an inalienable and integral part of the structural transformation of the Ethiopian economy. Both parties wanted to make the project work. There was a meeting of minds and a process of mutual discovery and learning.

With the timely conclusion of HIP and the announced commitment of PVH to the park, the government of Ethiopia has reached two significant milestones. It has been successful in the construction of a world-class industrial park featuring state-of-the-art, environmentally friendly technology to attract and host companies from the textile and apparel sector, and perhaps more importantly, it managed to attract leading companies – most notably, the second-largest apparel company in the world - to establish manufacturing operations in HIP. The significance of a decision like the one that PVH made when deciding to move production to Ethiopia does not go unnoticed. Moreover, PVH is eager to convince others to come manufacture in Ethiopia, most notably its strategic suppliers. PVH is betting on its long- term future in Ethiopia.

The Government decided that Foreign Direct Investment would be an important catalyst for development of the textile and apparel sector and worked tirelessly to attract and retain high quality investment. Government officials responded quickly to the needs of PVH and the suppliers it introduced to Ethiopia and the HIP, and has since been able to deliver results including identifying, constructing and providing industrial land and infrastructure. A notable factor defining this case – and one that portends well for future sustainability – is that neither tax



incentives or specific concessions were critical factors in PVH's decision.

That FDI makes an important contribution in terms of investment, employment, and foreign exchange is never under question. But more needs to be done to maximize its benefit and make it stick. In this regard, the spillover effect– the diffusion of knowledge and technology from foreign investors to local firms and workers- is an important theme for more focused action.

Ethiopia is benefitting from the effect an industry leader like PVH creates. Such an effect can be widespread and have positive implications not only for the textiles and apparel industry, but also for other light manufacturing sectors. With the focused vision and execution capability that the government has demonstrated in this case, it is to be expected that the country will have the capacity to maximize the benefits to be derived from such an effect.

Many challenges lie ahead. Bold steps need to continue to be taken. Ethiopia needs to continue to pursue robust global integration and to craft and implement the right policies to become a relevant regional and global player. This will provide concrete options for broader, deeper participation in global value chains and more linkage opportunities.

The case study also demonstrated that addressing one big, complex development project reveals other challenges that will need to be addressed concurrently. It triggers a constructive process of learning by doing, observing, and policy making to address a host of new and emerging problems. Big projects such as industrial parks are pressure points that create more demand for change and spark the need for additional reforms. With high expectations – and with the delivery of important results – came heightened needs. For instance, it is becoming increasingly evident that there is a need to address systemic trade policy issues, such as Ethiopia's WTO membership negotiation and its lack of a network of FTAs and IIAs to consolidate its market access. Similarly, the establishment of industrial parks will accelerate urbanization of the surrounding region, implying that "beyond the fence" infrastructure issues such as housing, water, and transport issues will become urgent development priorities.

The good news is all these imbalances and emerging challenges create opportunities for creative problem solving and inspired actions. It seems a constructive attitude toward "pressure points" and a subsequent dynamic process of problem solving is the real "glue and solvent" to make progress happen.



View of HIP.



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Annex 1: Fully Operational Companies in the Textile and Garment Sector in Ethiopia, 2012-2017

No	Year	Name of Investor	Country of Origin	Investment Activity	Region of Investment
1	2012	Dehua	China	Garment Manufacturing	Addis Ababa
2	2012	Hay Garment Manufacturing PLC	Turkey/Ethiopia	Garment Manufacturing	Addis Ababa
3	2012	YIMING ZHU	China	GARMENT & TEXTILE MANUFACTURING	Oromia
4	2012	Isik Detergent, Chemical and Textile Factory PLC	Turkey	Garment Manufacturing	Addis Ababa
5	2012	Ramphal Purnmasi	India	Garment Manufacturing	Addis Ababa
6	2012	Al-Mehdi Industries plc	Pakistan	Garment Manufacturing	Oromia
7	2012	Else Addis Industrial Development plc	Turkey	Vertical Integrated Textile Manufacturing /Expansion/	Oromia
8	2012	Suna Home Textile Production and Marketing plc	Turkey/Ethiopia	Textile Manufacturing	Addis Ababa
9	2012	Kanoria Africa Textiles plc	India	Textile Manufacturing	Oromia
10	2012	Nuan Song	China	Manufacturing of Labels, Embroidery, Belt and Zipper	Oromia
11	2012	Jiadong Wang	China	Weaving and Dyeing	Oromia
12	2013	Bultex Production and Marketing plc	Turkey/Ethiopia	Garment Manufacturing	Oromia
13	2013	Sheng Zhou	China	Manufacturing of Bedcover, Blanket and Curtain	Oromia
14	2013	Dongfang Spinning Printing and Dyeing PLC	China	Weaving, Finishing and Printing of Textiles	Oromia
15	2013	Jie Lin	China	Manufacturing of Knitted and Crocheted Fabrics	Oromia
16	2013	DIMA FANGWIEI SPINNING AND TEXTILE PLC	China/Ethiopia	PREPARATION AND SPINNING OF COTTON, WOOL, SILK	Oromia
17	2013	AL-Asr Industries plc	Pakistan	Textile Manufacturing (expansion)	Oromia
18	2013	Jay Jay Textiles PLC	India	Manufacturing of Wearing Apparel (Including Sport Sweats)	Addis Ababa
19	2013	Steve Horne Enterprise INC /Ethiopian Branch/	USA	Manufacturing of Wearing Apparel (Including Sport Wear)	Addis Ababa
20	2013	New Wide Garment (Ethiopian Branch)	China/Sri Lanka	Manufacturing of Wearing Apparel (Including Sport Wear)	Addis Ababa
21	2013	Yechen Industry PLC	China	Weaving Finishing And Printing Textiles	Oromia
22	2013	Guo and Fang Manufacturing PLC	China	Manufacturing of Blanket	Oromia
23	2013	Kei Industrial Engineering Consultancy PLC	South Korea/ USA	Manufacturing Of Apparel	Addis Ababa

24	2013	S M N Textile PLC	China/USA/ Ethiopia	Preparation And spinning Of Cotton, Wool & Silk Textile Fibers	Oromia
25	2013	Chunji Su	China	Manufacturing of umbrella	Oromia
26	2013	C & H Garments PLC(M & M Gar- ments plc)	China	Manufacturing of wearing apparel (including sport wears)	Addis Ababa
27	2013	Huahui Zhang	China	Weaving Finishing And Printing Of Textile	Oromia
28	2014	Shints ETP Garment plc	South Korea	Manufacturing of Garments	Addis Ababa
29	2014	Kebire Enterprises plc	Saudi Arabia	Manufacturing of textile and garment (2nd expansion)	Tigray
30	2014	Ashton Apparel Manufacturing PLC	India	Manufacturing of Garments For Export	Addis Ababa
31	2014	Feng He	China	Manufacturing of Wearing Appeal (Including Sport Wears)	Oromia
32	2014	Sinoweaving technology PLC	China	Weaving, finishing and printing of textile	Oromia
33	2014	Arbaminch Textil Share Company	China/Ethiopia	Weaving, Finishing and Print- ing of Textile	Oromia
34	2014	Fugan Zhang	China	Manufacturing of textile article except apparel	Addis Ababa
35	2014	Linde(Ethiopia) Garment PLC	China	Manufacturing of Garment	Oromia
36	2014	R.Z.X Industrial PLC	China/Ethiopia	Manufacturing Of Textile Arti- cles Except Apparel	Addis Ababa
37	2014	Vestis Garment Production PLC	India	Manufacturing of Garment	Addis Ababa
38	2014	KEPA Textile plc	China	Weaving, finishing and printing of textiles	Oromia
39	2014	Ting Ting Garment plc	China	Manufacturing of Wearing Apparel	Addis Ababa
40	2014	Dong Fang Xiong Di Textile Manufac- turing plc	China	Manufacture of textile articles except apparel	Oromia
41	2014	Onika Industries PLC	India	Manufacturing of textile arti- cles, except apparel	Oromia
42	2014	Hua Xia Technology PLC	China	Manufacturing of Wearing Ap- parel (Including Sport Wearing)	Addis Ababa
43	2014	Xuwu Textile Manufacturing PLC	China	Weaving, Finishing and Print- ing of Textiles	Oromia
44	2014	Huaxu textile industry plc	China/Ethiopia	Weaving, finishing and printing textiles (Expansion)	Amhara
45	2014	Jiadong Wang	China	Other Textile finishing activates (Expansion)	Oromia
46	2015	Yuechen Industry PLC	China	Manufacture of knitted and crocheted fabrics	Oromia
47	2015	Yewei Dai	China	Manufacturing of textile arti- cles except apparel	Oromia
48	2015	Hai Bo Manufacturing PLC	China	Manufacturing of wearing apparel	Oromia
49	2015	Beconnected Printing PLC	China/Ethiopia	Other Textile finishing activities	Oromia



50	2015	Wuahan Miao	China	Manufacturing of textile articles, except apparel	Oromia
51	2015	Bangyong Yang	China	Manufacturing of blankets, made up of furnishing articles & stuffed (Expansion)	Oromia
52	2015	Adleer Textile PLC	Turkey	Manufacturing of Wearing Apparel (Including Sport wears)	Oromia
53	2015	PVH FAR EAST LIMITED (ETHIOPIAN BRANCH)	China	Textile and Garment for export	Addis Ababa
54	2015	ITACA Textile PLC	Italy	Manufacturing of Wearing Apparel (Including Sport Wear)	Tigray
55	2015	Youli Manufacturing PLC	China	Manufacturing of knitted and crocheted apparel	Addis Ababa
56	2015	Hirdaramani Garment PLC	Sri Lanka	Manufacturing of wearing apparel (including sport wears)	SNNPR
57	2015	Comfy Socks Manufacturing PLC	China/Ethiopia	Manufacture of Knitted & Crocheted Fabrics	Addis Ababa
58	2015	HQ & ZA Manufacturing PLC	China/Ethiopia	Manufacturing of Textile Articles Except Apparels	Oromia
59	2015	CBA Garment Factory PLC	Turkey	Manufacturing of wearing apparel	Oromia
60	2015	Wenjin Xu	China	Manufacturing of wearing apparel including sport wears	Addis Ababa
61	2015	TGS Textile and Garment PLC	China/Ethiopia	Manufacturing of wearing apparel	Addis Ababa
62	2015	Xuedi Sun	China	Manufacture of man-made fiber	Addis Ababa
63	2015	Jore Textiles Manufacturing PLC	China	Manufacture of knitted and crocheted fabrics	Oromia
64	2015	Angels Cotton and Textiles production PLC	Turkey	Manufacturing of wearing apparel (including sport wear) (Expansion)	Oromia
65	2016	Guanyan HE	China	Manufacturing of knitted and crocheted fabrics	Oromia
66	2016	Guruji Garment PLC	India	Manufacturing of wearing apparel (including sport wears)	Addis Ababa
67	2016	Indochine Apparel PLC	Hong Kong/UAE	Manufacturing of Wearing Apparel (including Sport Wears)	SNNPR
68	2016	Tal Garments Manufacturing PLC	Singapore	Manufacturing of Wearing Apparel (including Sport Wears)	SNNPR
69	2016	Shuajie Textile PLC	China	Weaving, finishing and printing of textiles	Oromia
70	2016	Epic Apparel PLC	China/Hong Kong	Manufacturing of wearing apparels (including sport wears)	SNNPR
71	2016	HSN Textile PLC	Turkey/Ethiopia	Manufacturing textile articles, except apparel	Addis Ababa
72	2016	Shunfa textile manufacturing PLC	China	Weaving, finishing and printing of textiles	Oromia

