Ethnic conflict could unravel Ethiopia's valuable garment industry

By Dorothee Baumann-Pauly

21 Jan 2021

Ethiopia has long been considered one of Africa's economic wunderkinds. Until recently, it had relative political stability in comparison to other countries on the continent. And, with an average GDP growth rate of 10% in the past decade and a government that instituted policies friendly to foreign investors, the country was able to attract South and East Asian clothing manufacturers. These sell to international brands, such as Decathlon and H&M.

©kuruneko via 123RF

But, for the past two months, violent conflict in Ethiopia's northern Tigray region fuelled by ethnic power politics has threatened the country's stability. According to the International Crisis Group, the violence has likely killed thousands of people, including many civilians, displaced more than a million people internally, and led some 50,000 to flee to Sudan.

The scale of the conflict could scare off foreign investment in the country's garment industry. This sector is hugely important to Ethiopia, which aimed to propel its agricultural economy toward a more prosperous future built on providing clothing to consumers in the West.

While the Ethiopian textile and garment industry is still small – its export share is not more than 10% of total exports, and its products only represent 0.6% of total GDP – the sector was expected to grow by around 40% a year in the next few years.

In March 2019, I assessed Ethiopia's garment industry alongside two colleagues from the New York University's Stern Center for Business and Human Rights. We wanted to see whether Ethiopia – as the new frontier of garment manufacturing – had learnt from mistakes in other sourcing countries. We analysed the industry's prospects and the working conditions with a close look at the flagship Hawassa Industrial Park. This is a vast and still only partly filled facility, which currently employs 25,000 workers about 225km south of the capital of Addis Ababa.

What we found was sobering.

Manufacturers told us about the many challenges of doing business in Ethiopia. These included bureaucratic and logistical hurdles and the problems that come with an unskilled workforce that had no prior experience of working in an industrial setting.

Workers reported that they could barely survive with their base monthly wage as low as $26. The government's eagerness to attract foreign investment led it to promote the lowest base wage in any garment-producing country.

In addition to this already-strained business context, the report we published points to what we saw as the greatest challenge of all: ethnic tensions.

In Hawassa, ethnic tension erupted in July 2019 and caused disruptions to the industrial park. The new conflict in Ethiopia's Tigray region could be the tipping point for foreign investors in the garment industry. Manufacturers had told us that further political instability in the country could jeopardise all future business.

The collapse of this sector would be disastrous. Tens of thousands of people would lose their jobs and the investments made in this enterprise wasted. In addition, foreign investors and the Ethiopian government need to understand that its collapse could have a symbolic knock-on effect in the region – Ethiopia's garment sector is often seen as a pioneering experiment proving that structural transformation in Africa is possible.

Unmet promises

Garment manufacturers were already struggling to do business. We found that workers, unhappy with their working conditions and pay, were increasingly willing to protest by stopping work or even quitting. Attrition was high, and production was low.

There are also problems with raw materials, almost all of which need to be imported into Ethiopia from India or China. The government advertised the availability of more than 3 million hectares for cash crops, including cotton cultivation in 2010. In fact, only about 60,000 hectares were being used by 2019 to grow cotton, and that figure is falling as local farmers switch to sugar, sesame, and other more lucrative cash crops.

Ethnic tensions disrupted factory operations further. When Abiy Ahmed took over as Prime Minister in 2018, his reforms – which aimed to create a more ethnically inclusive government – unsettled the ruling coalition and opened a political space for ethnic tensions to resurface. For instance, in Hawassa, a group of the Sidama people – who are the majority ethnic group in the Hawassa state – pushed for independence in 2019.

The political uncertainty due to ethnic tensions translates into economic uncertainty for investors.

In Hawassa, security concerns emerged for local workers and foreign staff. Night shifts had to be cancelled so that workers could get home safely before nightfall. Political demonstrations at the park's fence and within the park disrupted production. Sidama people also mobilised within factories and demanded more jobs for their people resulting in short strikes and occasional park-wide closings.

Such disruptions are a wild card beyond the control of investors, which may set back further investments.

Diversification helps workwear manufacturer weather pandemic
4 Jan 2021

By a thread

When the Covid-19 pandemic broke out in early 2020, the sector was hanging by a thread. In June 2020, the International Labour Organisation published a report, which described reduced orders and a situation for workers even more perilous than before.

By the end of 2020, many of the over 60,000 garment workers in Ethiopia had lost their jobs or were too afraid to return to work, fearing they would catch the coronavirus.

The current ethnic conflict could be the straw that breaks the camel's back. For instance, the industrial park in Mekelle built for 20,000 workers – and with an occupancy in 2020 of around 3,500 workers – is currently closed. The current internet and phone blackout in the Tigray region now also makes any communication between buyers and the factories impossible.

A worsening human rights situation creates reputational and operational risks for investors and buyers. It increases uncertainty over the ability to complete orders and ship them on time. It also increases security risks for staff and workers. This may all cause long-lasting damage to investor confidence and the opportunity for sustainable economic development.

What must change

To assure investors, buyers, and international stakeholders, Prime Minister Abiy Ahmed needs to end the blackout in the Tigray region, better protect journalists and civilians, and allow for independent human rights monitors to assess conditions.

At this critical moment, clothing companies and manufacturers invested in Ethiopia need to double down on their commitments to business in Ethiopia. This means they need to stay in the country and speak up to support human rights.

Once ethnic tensions are defused, more work will still need to be done by both the government and foreign manufacturers to strengthen the sector. This includes developing a domestic supply chain and establishing a minimum wage that ensures decent living conditions for workers.

But first, the future of the industry must be secured.

ABOUT THE AUTHOR

Dorothee Baumann-Pauly, Adjunct Professor and Director of the Geneva Center for Business and Human Rights, *Université de Genève*