Textile and Garment Industry of Ethiopia: Governance, Upgrading and Participation in the Global Value Chains

By

Zewdie Yilma

A Thesis Submitted to

The Center for Regional and Local Development Studies

(CRLDS)

Presented in Partial Fulfillment of the Requirements for the Degree of

Masters of Art in Regional and Local Development Studies

Addis Ababa University

Addis Ababa, Ethiopia

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School of Graduate Studies

This is to certify that the thesis prepared by Zewdie Yilma, entitled: *Textile and Garment Industry of Ethiopia: Governance, Upgrading and participation in the Global Value Chains* and submitted in partial fulfillment of the requirements for the Degree of Masters of Arts (Regional and Local Development Studies) complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the Examining Committee:

Internal Examiner ________________ Signature ___________ Date___________

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Glory be to the Father, and to the Son, and to the Holy Spirit. Thanks to Holy Mary, Mother of God. You did it.

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Abstract

Textile and Garment Industry of Ethiopia: Governance, Upgrading and Participation in the Global Value Chains

Zewdie Yilma
Addis Ababa University, 2015

This study analyzes textile and garment sub-sectors of Ethiopia within the global value chains framework using both primary and secondary data. Primary data were collected through face-to-face firm level survey. GVCs framework includes the analysis of governance, upgrading and participation level in the value chain. In the GVCs literature, there are five types of governance namely Market, Modular, Relational, Captive, and Hierarchy. There are also four upgrading types in GVCs: product, process, functional and chain upgrading. The participation level in the GVC is the backward and forward integration in terms of the foreign and domestic value added content in the gross export. Regarding the governance structure, this study found that Ethiopian textile and garment sub-sector is under captive global value chains governance structure. Under this type of governance structure, the sub-sector has a potential for product and process upgrading. The captive GVCs governance structure limits the sub-sector potential for functional upgrading. However there is a variation in the share of gross export contents at industry level; the garment industry showed low domestic value added and textile industries have high domestic value added, the sub-sector in general has more domestic value added share in the gross export content. The sub-sector is highly linked with USA and EU market in terms of forward integration and it has intense link with Asian markets in backward integration.

Keywords: GVCs, Governance, Upgrading, Participation

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List of Acronyms

AEO	African Economic Outlook
AGOA	African Growth Opportunities Agreement
TV	Television
WAP	Wireless Application Phone
YI	Yearly Increment
AYI	Average Yearly Increment
CMT	Cut, Make, and Trim
CSA	Central Statistics Agency
DUKE CGGC	Duke University, Center on Globalization, Governance and Competitiveness
E.C.	Ethiopian Calendar
ECB	European Central Bank
ECIDC	Unit of Economic Cooperation and Integration Amongst Developing Countries.
EEA	Ethiopian Economic Association
ERCA	Ethiopian Revenue and Custom Authority
ETB	Ethiopian Birr
ETGAMA	Ethiopian Textile and Garment Manufacturing Association
ETIDI	Ethiopian Textile Industry Development Institute
EU	European Union
FDI	Foreign Direct Investment
FOB	Free on Board
GCC	Global Commodity Chain

GPD	Gross Domestic Product
GTP	Growth and Transformation
GVC	Global Value Chain
HRD	Human Resource Development
IFC	International Finance Corporation
LDC	Least Developed Countries
LIC	Low Income Countries
MFA	Multi Fiber Agreement
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
OBM	Original Brand Manufacturing
ODM	Original Design Manufacturing
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturing
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PPP	Public-Private Partnership
R&D	Research and Development
RVC	Regional Value Chain
SSA	Sub-Sahara Africa
UNIDO	United Nations Industrial Development Organization
US	United States
UNCTAD	United Nation Conference for Trade and Development

USA	United State of America
USD	United State Dollar
WTO	World Trade Organization

Chapter One

1. Introduction

1.1. Background of the Study

Today world economy has changed in significant ways during the past several decades, especially in the areas of international trade and industrial organization. The most important new features of the contemporary economy are the globalization of production and trade. These features have stimulated the growth of industrial capabilities in a wide range of developing countries and the vertical disintegration of transnational corporations (Gereffi, 2005). According to Gereffi, the evolution of global-scale industrial organization affects not only the fortunes of firms and the structure of industries, but also how and why countries advance and fail to advance in the global economy.

The past decades have witnessed a rapid globalization of economic activity which has significantly changed the outlook of the world economy. An increasing number of firms, countries and other economic actors take part in today's global economy and have become increasingly connected across borders. International production, trade, and investments are increasingly organized within so-called global value chains (GVCs) where the different stages in the production process are located across different economies. Intermediate inputs like parts and components are produced in one country and then exported to other countries for further production and/or assembly in final products (De Backer and Yamano, 2010)

Globalization has changed the way goods and services are produced. The country-centric view of trade no longer reflects reality. Instead, production networks even for just a single product span

many countries, often the entire globe. We call these networks global value chains (AEO, 2014). Value chain is the full range of activities that firms engage in to bring a product to the market, from conception to final use. Such activities range from design, production, marketing, logistics, and distribution to support to the final customer. They may be performed by the same firm or shared among several firms. As they have spread, value chains have become increasingly global (OCED, 2013). Global value chain takes basic features of today's global economy which are the growing interconnectedness of economies, specialization of firms and countries in tasks and business functions, networks of global buyers and suppliers, and new drivers of economic performance.

World trade, investment, and production are increasingly organized around global value chains (GVCs). The international fragmentation of production in global value chains (GVCs) driven by technological progress, cost, access to resources and markets, and trade policy reforms, challenges the way we look at the global economy. It is essential to understand how global value chains work, how they affect economic performance, and how policy can help countries derive benefits from their participation in global value chains (OCED, 2013).

OCED, WTO and UNCTAD (2013) pointed out when value chain becomes global, it has trade policy implication. It gives rise to a new set of international competition issues that is best understood by looking at the global organization of industries and how countries perform within these industries. In particular, the operations of global value chains highlight how the new patterns of international trade, production, and employment shape the prospects for development and competitiveness. Global value chains are changing the patterns and structure of international

trade. Multilateral, bilateral and regional trade agreements will need to reflect the fact that goods and services are now from "everywhere," rather than, as they are defined today, from "somewhere."

According to the above institutions, in a world of GVCs, fostering the building of a complete value chain is a huge task. Governments can nevertheless encourage firms to join an existing global value chain, which may have low entry barriers and enable firms to realize export success relatively quickly and at low cost. Indeed, this can provide increased opportunities

Developing countries are parts of this global dynamics and they cannot be out of the play field. They have their own comparative and competitive advantage to participate in the global value chain. Ethiopian economy starts its move toward development with goal of the government transforming it from agricultural lead to industrial lead. In support of this, the government of Ethiopia is trying to create conducive environment for development of manufacturing sub sector in respect of Ethiopia's comparative advantage specially promoting export. Ethiopia devotes considerable attention and resources to attracting foreign direct investment in the textile and garment sector to generate benefits like jobs, foreign exchange, tax revenues and to realize dynamic benefits to the domestic economy through so-called "spillovers" from FDI which refers to productivity improvements resulting from knowledge diffusion from multinational affiliates to domestic firms.

Ethiopia, as a developing country, needs to participate in the global value chain in gainful way to achieve growth and development objectives. The global value chain is a new opportunity for

developing countries to diversify their product and take the segment of it according to their comparative and competitive advantage. Clearly, it is essential to understand how global value chains work, how they affect economic performance, and how policy can help country derive benefits from global value chains.

1.2. Statement of the Problem

The Government of Ethiopia has given due attention to Ethiopian industrial sector in the GTP with a particular emphasis to the textile and garment sub-sector. The Industrial Development Strategy of Ethiopia sees labor-intensive industries as more appropriate than capital-intensive industries in Ethiopia. There are several incentives from the government for investment in manufacturing industry to attract many investors to the sector. The textile and garment sub-sector is assumed to have comparative advantage due to the availability of raw cotton and cheap labor force locally. It is one of the most important parts of the manufacturing industry in Ethiopia given its high contribution to output, employment and trade (Admaw, E., 2010; Tilmann, A., 2010; Italian Trade Commission, 2011).

In the past, comparative studies on the competitiveness of a given industry focused attention either on individual firms or on clusters, but it is now acknowledged that value chain relationships play a decisive role and that competitiveness does not concern only a single firm's performance but the entire chain's. Developing countries are finding it hard to assess their relative gains from trade. Nevertheless, linking into GVCs by itself is increasingly being considered as the new development challenge by policy makers in many developing countries. Industrial policies are being reshaped in order to adjust to this new dimension of trade; and

foreign direct investments are being encouraged with the hope of raising the possibility of linking into the value chains. In this race to link into GVCs, very little attention is being paid on measuring the additional gains, if any, to the country by linking, especially in terms of 'net value-added' created by trade within GVCs (UNCTAD, 2013).

Empirical studies in the area of value chain in general and textile and garment sub-sector in particular revealed that none of them tried to look value chain concepts from the global perspective. Either they are focused only on simple value chain of a single commodity or they looked at the level of supply value chain. Most studies in the textile and garment sub-sector focused on the competitiveness in terms of a single variable such as labour cost, marketing strategy, or regulatory issues or they evaluate the performance at firm level. For example: Tinsae Berhanu (2006) studied on "Competitiveness of Ethiopian Garment Industry: Response to Export Market"; Yared Mesfin (2010) studied on " Economic Impact and Determinants of Export: The Case of Ethiopian Textile and Apparel Industry"; World Bank (2006) studied on "Developing Competitive value chains"; Rahel Abebe (2007) studied on "Opportunities and Challenges of Development for Africa in the Global Arena: AGOA: The Case of Ethiopian Textile Sub-Sector"; Hiwotie Walelign (2010) studied on "Analysis of the Competitiveness of Ethiopian Textile sub- sector under Africa Growth and Opportunity Act (AGOA) using Porter Diamond Model"; Admaw (2010) studied on "Impact of supply chain management practices on competitive positioning of Ethiopian Textile firms." Moreover, the available studies didn't try to see the detail issues of the current international trade operation and production network with respect to power relation of the buyers and suppliers. This shows there is clear gap in the area of global value chain study in Ethiopian Textile and garment sub-sector. In light of this, it is

necessary to find out the governance, upgrading potential, and participation level of Ethiopian Textile and Garment sub-sector in the global value chains to get the expected benefits from the sector.

1.3. Objectives of the Study

The broad objective of the study is to analyze the position and growth potential of Ethiopian Textile and Garment industry within global value chains. The specific objectives are:

- To identify the governance structure of the Global Value Chains in which the Textile and Garment industry of Ethiopia operates;
- To analyze the upgrading potentials of the industry in the global value chain; and
- To assess the participation of the industry in the global value chain perspective.

1.4. Research Questions

This study attempts to address the following questions

- To what extent and direction is Ethiopian textile and garment sector linked with global economy?
- Under what type of governance does the Ethiopian textile and garment sub-sector operate in the GVC?
- What kind of upgrading opportunity is available for Ethiopian textile and garment sector due to the participation in the global value chain?

1.5. Significance of the study

Analyzing sectors from the GVCs aspect will have a very important benefit for the development and exploitation of the growth potential of the industry. It helps policy makers and government to have a clear picture of value chain's actors and to design development policy towards maximizing benefit from global value chains. Firms can see their potential of competitiveness in global value chain and will develop a mechanism to build their capacity of competitiveness. They can have the knowledge of how they become more efficient and value adding and collaborate with parties in value chains that are able to capture new market opportunities; how can value chains, as embedded in the international, domestic, and local economic, legal and social-cultural environment, optimally use their business environment; and what major upgrading opportunities are available.

Textile and garment sector has been the starting points for export led industrialization of many countries. In Ethiopia, this sector remains to be very important since it has a potential to provide employment and boost economic growth, and assessing it in the perspective of global value chain will have the following benefits.

1. The sector players will have an understanding how they can be more competitive in the international market and exploit the global potentials.
2. It will help to have an idea how to build capacity on the upgrading potentials in the value chain position.
3. The study will make clear the governance structure for the sector players so that they can act for their optimum benefits.

4. Policy makers will have a better understanding how Ethiopian textile and garment sector contributes a lot in the process of growth and development of Ethiopia.
5. Useful concept and results of the research will be also applied for other sectors.

1.6. Scope and Assumption of the study

This research is on Ethiopian Textile and garment sector to assess its position from the global value chain perspective. Even though the research aims at the general country level, survey data were collected from major player firms in terms of their contribution to the national export in the sub-sector in the fiscal year of 2013/14 based on the information from Ethiopian Textile Development Institute.

It is assumed that there was no causal ambiguity and cognitive biasness in respondents' response. The list of exporting firms drawn from Ethiopian Textile Development Institute were also assumed to be a representative of exporting firms in the Ethiopia textile and garment sub-sector.

1.7. Organization of the Research Report

This research report is organized as follows. It starts with the front matters (title page, abstract and content outlines) and then follows the main chapters. Chapter one discusses background of the study, statement of the problem, objectives of the study, research questions, significance and scope of study. It also provides the overall organization of the report. Chapter two deals with the literature review. It gives an overview of the body of knowledge applicable to the research problem. The previous related studies have been critically discussed in order to show the different findings of these researches. Chapter three describes the research methodology. It

explains the research design, research approach, data source, the sample techniques, data collection instruments strategy, and data analysis techniques used to assess each research questions. Chapter four incorporates data analysis and the findings of study. The final chapter, contains discussion of findings, conclusion and recommendations made based on the results of the study.

Chapter Two

2. Literature Review

2.1. Concepts of Global Value Chains

2.1.1. Evolution of Global Value Chains

The concept of value chain and its definition has been evolving and developing since the idea came to the academic literature in 1960s. In association with evolution of value chain concept, many related terminologies also came to be used to describe various phenomenons in chain. (Kaplinsky & Morris 2001) produced a handbook for value chain research trying to cover in comprehensively the many aspects of value chain analysis. Basing the work of these and other researchers, many developments have been made in the conceptual framework of value chain analysis.

This paper focuses only the global value chains which is the latest value chain conceptual framework to analyze value chain at global level. Global value chain gets its foundation from commodity chain mentioned in Wallerstein's (1974) World Systems Theory. Hopkins and Wallerstein (1986) defined 'commodity chain' as "network of labour and production processes whose end result is a finished commodity". This concept had gotten great attention from scholars and policy makers who have been struggling to understand the changing global economy.

In the 1990s, Gereffi and Korzeniewicz (1994) extended the 'commodity chains' concept and developed a framework, called 'global commodity chains'(GCC). GCC is defined as a set of networks (nodes) clustered around one final product or service and linking firms, industries and communities to one another across the world economy (Gereffi and Korzeniewicz,1994).

Though internationalization of the world economy was a phenomenon since at least the seventeen century, globalization became a catchword for the international economy since the late nineteen century. Nations became interdependent through the flows of goods, service, and capitals in 1970s (Gereffi et al., 2001). Export oriented industrialization and integration with world economy became a development path of nations. As the integration of the world economy moved forward and the phenomenon of globalization came to the production of goods and service, different terminologies came to be defined more distinctly.

Value chain: Full range of activities which are required to bring a product or a service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers (Kaplinsky & Morris, 2001).

Globalization is defined as the pervasive decline in barriers to the global flow of information, ideas, factors (especially capital and skilled labour), technology and goods (Kaplinsky & Morris, 2001). It is more recent and implying functional integration between internationally dispersed activities. It is coordination and organization of these internationally dispersed economic activities.

Internationalization refers to the geographic spread of economic activities across national boundaries. It is about the scope of economic activities and it has been a prominent feature of the world economy since many years back might be ancient civilization but at least since colonial powers began to carve up the world.

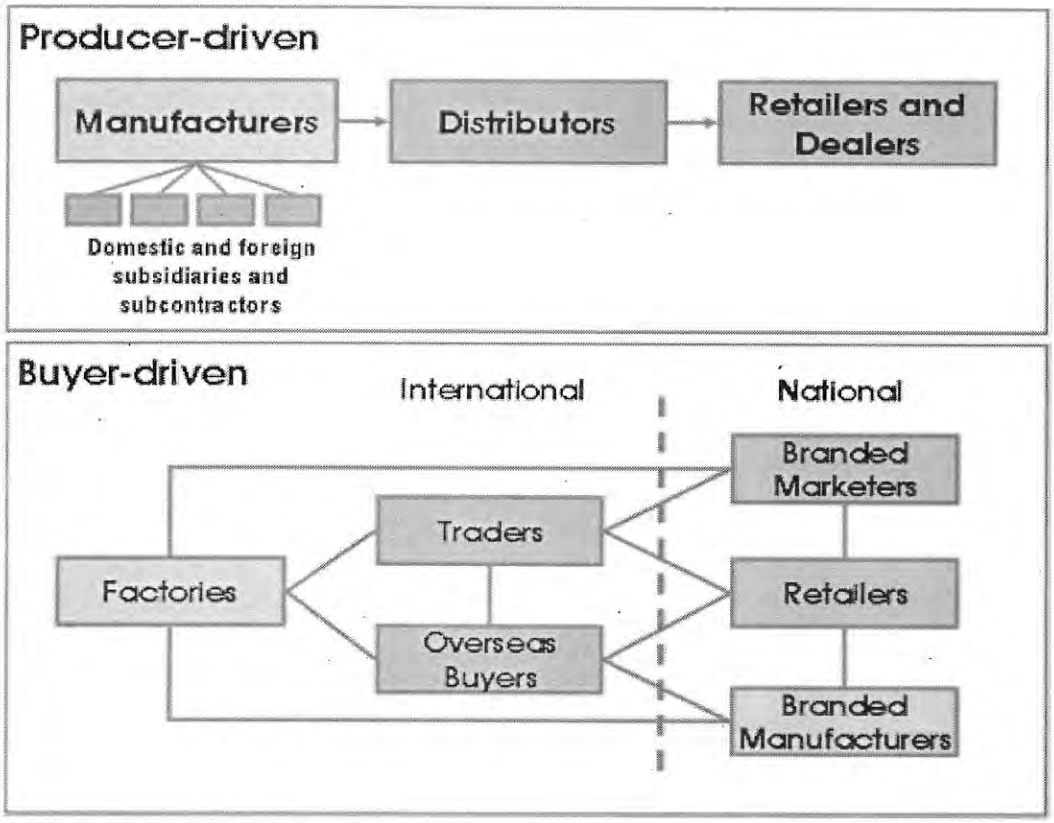
(Gereffi et al., 2001) asserted that if globalization in the productive sphere brings functional integration of internationally dispersed economic activities, value chain perspective is the means of conceptualizing this kind of economic integration. They stated the importance of global commodity chain as (pp. 1):

> *The value chain view of global economic integration highlights that for many industries access to international markets is not achieved merely through designing, making and marketing new products. Instead, it involves gaining entry into international design, production and marketing networks consisting of many different firms. Understanding how these value chains operate is very important for developing country firms and policymakers because the way chains are structured has implications for newcomers. How can economic actors gain access to the skills, competences, and supporting services required to participate in global value chains? What potential is there for firms, industries, and societies from the developing world to 'upgrade' by actively changing the way they are linked to global value chains?*

Global commodity chain concepts focus on the strategy and action of the firms due to the restricted ability of the state to set tariff and local content rules of trade liberalization. It is primarily developed to analyze the impact of globalization on industrial commodity chains. It emphasizes on the internal governance structure of supply chains (producer-driven vs. buyer-driven distinction) and on the role of diverse lead firms in setting up global production and sourcing networks. It is a framework to identify appropriate production and marketing strategies and key points for upgrading for firms within particular types of commodity to change existing power relations within the chain (Gereffi et al. 2001; Chokchainirand, 2013).

Gereffi and Korzeniewicz' framework lays out four key structures that shape GCCs (Chokchainirand, 2013). These are input-output, geographic, governance and institutional structures. The input-output structure and the geographic structures of the GCCs were to outline the configurations of specific chains. The institutional framework is used to define the condition under which lead firms integrate through the control of market access and information. Governance is, on which focus was given, about the authority and power relationships that determine how financial, material and human resources are allocated and flow within the chain. The governance structure within GCC framework is determined by the way firms organized their cross-border production arrangement. These researchers came with two kind of governance structures namely buyer-driven and producer-driven.

Producer-driven commodity chains exist when large producers or manufacturers play pivotal roles in coordinating the production network. This is typical for capital- and technology-intensive industries such as automobiles, computers, semiconductors, and aircrafts. **Buyer-driven commodity chains** happen in the case when large retailers, branded marketers and branded manufacturers play significant roles in directing production networks across exporting or developing countries. The buyer-driven value chain conveys the idea that the buyer exercises control over the chain, even in the absence of ownership (Humphrey and Schmitz, 2000). These types of chain and network have become common in low-tech industries, labour-intensive, and consumer goods industries such as garments, footwear, toys, handicrafts, and consumer electronics.



Source: Chokchainirand (2013)

Figure 1: Producer-driven and Buyer-driven

Although GCC was applauded as a framework for the fact that it allowed policy makers and academics to capture the different way of firms' organizing their cross-border production arrangement, it had its own shortcomings. First, it did not explain what factors determine the type of governance; to be buyer-driven or producer-driven. Gereffi explained (Chokchainirand, 2013) that because the main competence in the low-tech industries like apparel and consumer goods lies on product design and marketing and firms can easily outsource labour-intensive manufacturing goods, the chains tend to be buyer driven. In capital-and technology-intensive industries, the core competence lies on technology and production expertise that need to be

developed and deployed in-house, or in closely affiliated 'captive' suppliers that can be blocked from sharing them with competitors and the chains tend to be producer driven. Second, as globalization brings more changes, these two types of value chain governance were too simple and did not adequately specify the variety of network forms that more recent field research has uncovered. GCC scholars at a workshop in Bellagio in September 2000 also chose to replace the term 'commodity' with 'value' because of popular connotations of the word 'commodity' with undifferentiated products, especially primary products such as crude oil and bulk agricultural goods. The term 'value' is preferred because it "focuses on value creation and value capture across the full range of possible chain activities and products, and focuses attention on the main source of economic development: the application of human effort, often amplified by machines, to generate returns on invested capital."(Chokchainirand, 2013, pp. 69-70).

The buyer- and producer-driven GCC typology was based on a static, empirically situated view of technology and barriers to entry, but both are dynamic because of technological change and firm- and industry-level learning (Henderson et al., 2002; Ponte and Gibbon, 2005). As we adopted a more dynamic view of chain governance two things became clear: 1) there was a clear shift away from the vertically integrated, producer-driven variant in a range of industries, and 2) the buyer-driven type could not characterize all of the network types being observed in the field.

In moving beyond the empirically based typology of chain governance developed in the GCC stream, a one-week workshop in Bellagio in September 2000 was organized to construct a dynamic, operational theory that could account for observed changes and anticipate future

developments. An important goal was to develop a theory that could help policymakers explain and predict governance patterns in cross-border production networks (Chokchainirand, 2013)

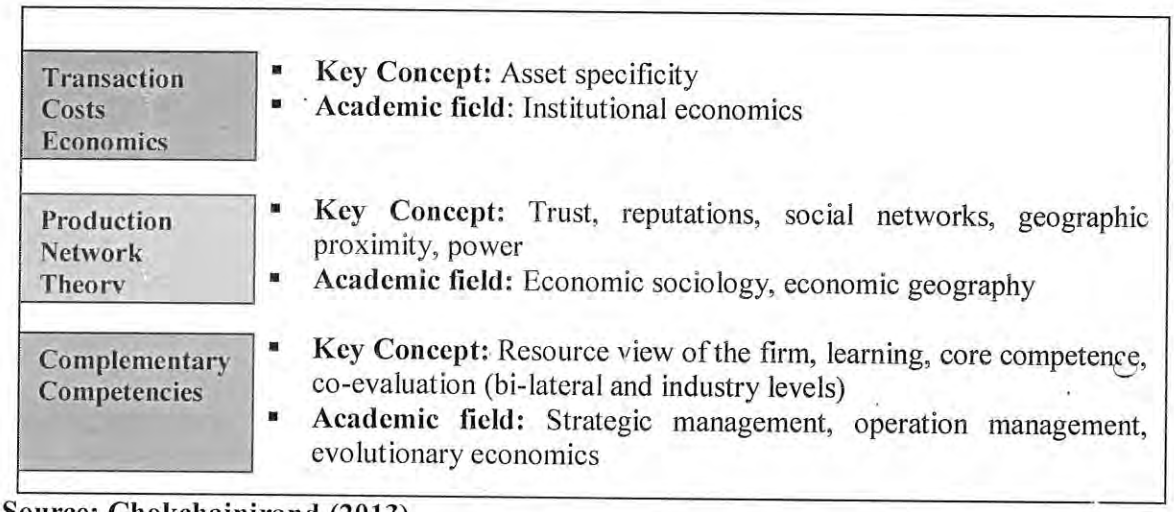
The above defects of the GCC brought in the mind of researchers the need to develop a new framework that comprehends the shortcomings of GCC. Gereffi, Humphrey and Sturgeon (2004) developed the extended GVC framework to specify a more elaborate set of governance forms and crucially provide a method to explain changes in governance patterns over time. To propose theoretical framework underpinnings of GVC governance, Gereffi, Humphrey and Sturgeon (2004) draw upon three bodies of literature. These are transaction cost economics, network theory, and literature on technological capability and firm-level learning (Chokchainirand, 2013; Gereffi et al., 2005)

Transaction cost economics is a theory that predicts when a lead firm will internalize a particular function and when it will rely on external suppliers for a specific input i.e. the make or buy decision. The main point here is firms seek to minimize their transaction cost. With the absence of transaction cost, economies of scale favour outsourcing and specialization that brings lower cost through higher capacity utilization. On the other hand, firms will bring certain activities in-house to minimize the transaction-specific investments of customized products and risk of opportunism, to avoid greater coordination cost of inter-firm relationships, and reduce these costs for supply of time sensitive products.

Production network theory offers explanations of how the problems of motivation, such as avoiding, opportunism and loss of resource control, can be controlled in the presence of asset specificity and complex coordination without vertical integration. Network actors in many

instances control opportunism through the effects of repeat transactions, reputation, and social norms that are embedded in particular geographic locations or social groups. Network theorists argue that trust, reputation and mutual dependence dampen opportunistic behaviour, and in so doing they make possible more complex inter-firm divisions of labour and interdependence than would be predicted by transaction costs theory.

Firm capabilities and learning is a third body of literature that GVC advocates used to extend the theoretical framework. This works mainly appears in the management literature, specially on corporate strategy which says whether and how firms can capture value depends in part on the generation and retention of resources that are difficult for competitors to replicate.



Source: Chokchainirand (2013)
Figure 2: Main Theories underlying Global Value Chain

The different ways of dealing with the problem of asset specificity, and different motivation for constructing complex firm-to-firm relationships in the face of asset specificity, result in three modes of industrial organization: market, hierarchy, and network. Empirical observation tells us that not all networks are alike (Gereffi et al., 2005). Based on empirical observation of the

horticulture industry, footwear industry, and electronic industry, Gereffi et al. (2005) added to the above concepts of an extension of the network category in to three distinct type (modular, relational, and captive). Thus, overall it was identified five basic types of global value chains governance. These are market, modular, relational, captive, and hierarchy.

The global value chain concept evolved through time in parallel with globalization dynamics and the way global players could manage and control their demand within this unstoppable dynamics. It is expected to continue evolving in one way or another as globalization does not reach at its peak level and it continues making our "big world" very small world. The Global Value Chain concepts have originated from commodity chain developed in early 1970s. Commodity Chain had been extended into Global Commodity Chain by Gereffi and Korzeniewicz(1994) and came up with two governance structure i.e. the buyer-driven and producer-driven. Owing to the drawbacks mentioned above of the Global Commodity Chain framework, Gereffi et al. have extended the GCC to the Global Value chain after Bellagio workshop in September 2000.

Source: Chokchainirand (2013)

Figure 3: Evolution of Commodity Chains to Global Value Chains

2.1.2. Emergence of Global Value Chain

Rashmi Banga (2013), in the work "Measuring Value in Global Value Chains"(for UNCTAD), related the emergence of global value chains with regional supply chain in East Asia for where and how its practical phenomenon come to the trade practices and explained as follow.

"Global value chains first emerged as regional supply chains in East Asia, with Japanese investors taking the lead in the region and triggering flying geese pattern of investments and trade. Japanese investors put up production bases in a large number of countries in East Asia and later in Southeast Asia to access locational advantages and develop export platforms for the components. The final assembly took place in a third country from where the finished products were exported either back to the home country or to the global markets under the Japanese brand. This fragmentation of production improved the cost competitiveness of the final products which were then able to compete with the products from other developed countries. Overtime multinationals from other developed countries, aiming at improving their cost competitiveness, flocked the region and soon spread to other regions as well. What emerged from this phenomenon were global value chains (GVCs) with production of a product spread across countries, regions and continents gathering cost advantages to become globally competitive."

In this research study, a general definition from the Global Value Chain Initiative at Duke University is adopted. It states that; " *A global value chain describes the full range of activities undertaken to bring a product or service from its conception to its end use and how these activities are distributed over geographic space and across international borders.*" (ECB, 2014).

2.2.Global Value Chains Governance

According to Humphery & Schmitz (2001), the question of governance arises when some firms in the chain work according to parameters set by other and governance structures may be required to transmit information about parameters and enforce compliance. They define it as "the inter-firm relationships and institutional mechanisms through which non-market coordination of activities in the chain is achieved. These researchers argue that at any point in the chain, the production process is defined by a set of parameters and suggests four parameters. These parameters are what is to be produced? How is to be produced? When it is to be produced? How much is to be produced? From the point of the analysis of the inter-firm linkages in the global economy, the critical parameters for value chain governance are the first two: What is to be produced and How is to be produced?

The main reason for setting parameters is risk either performance risks: relating to factors such as quality, response time and reliability of delivery or conformance risks spring mainly from increasing concerns about product safety, labour standards and environmental standards. The buyer specification of product is mostly likely to arise when the buyer has a better understanding of the demands of the market than the supplier. Supplier's limited knowledge of market demands may arise in fast-moving markets characterized by innovation and product differentiation and they may face the "latecomer" fate. This is the situation when firm is dislocated from the mainstream international markets it wishes to supply (Humphery & Schmitz, 2001).

(Humphery & Schmitz 2001), in their work of "Governance in global value chains", distinguished between market coordination and coordination through governance mechanism.

They restricted the term governance to non-market coordination of economic activities. However, the recent global value chain framework identifies five typology of global value chain governance: markets, modular, relational, captive, and hierarchy. These governances are measured and determined by three variables: the complexity of the information between actors in the chain; how the information for production can be codified; and the level of supplier competence (Gereffi & Fernandez-Stark, 2011; Gereffi et al., 2005).

Market: Market governance involves transactions that are relatively simple. Information on product specifications is easily transmitted, and suppliers can make products with minimal input from buyers. These arms-length exchanges require little or no formal cooperation between actors and the cost of switching to new partners is low for both producers and buyers. The central governance mechanism is price rather than a powerful lead firm.

Modular: Modular governance occurs when complex transactions are relatively easy to codify. Typically, suppliers in modular chains make products to a customer's specifications and take full responsibility for process technology using generic machinery that spreads investments across a wide customer base. This keeps switching costs low and limits transaction-specific investments, even though buyer-supplier interactions can be very complex. Linkages (or relationships) are more substantial than in simple markets because of the high volume of information flowing across the inter-firm link. Information technology and standards for exchanging information are both key to the functioning of modular governance.

Firms develop information-intensive relationships, dividing essential competences between them. The buyer provides the design and product specification and highly competent suppliers provide products and services at short notice to any kind of specification drawing on the

specializations in their cluster. Information intensity is high, transactional dependence is low and confidence in supplier competence is high (Schmitz, 2006).

Relational: Relational governance occurs when buyers and sellers rely on complex information that is not easily transmitted or learned. This results in frequent interactions and knowledge sharing between parties. Such linkages require trust and generate mutual reliance, which are regulated through reputation, social and spatial proximity, family and ethnic ties, and the like. Despite mutual dependence, lead firms still specify what is needed, and thus have the ability to exert some level of control over suppliers. Producers in relational chains are more likely to supply differentiated products based on quality, geographic origin or other unique characteristics. Relational linkages take time to build, so the costs and difficulties required to switch to a new partner tend to be high.

Captive: In these chains, small suppliers are dependent on one or a few buyers that often wield a great deal of power. Such networks feature a high degree of monitoring and control by the lead firm. The power asymmetry in captive networks forces suppliers to link to their buyer under conditions set by, and often specific to, that particular buyer, leading to thick ties and high switching costs for both parties. Since the core competence of the lead firms tends to be in areas outside of production, helping their suppliers upgrade their production capabilities does not encroach on this core competency, but benefits the lead firm by increasing the efficiency of its supply chain. Ethical leadership is important to ensure suppliers receive fair treatment and an equitable share of the market price.

Hierarchy: Hierarchical governance describes chains characterized by vertical integration and managerial control within lead firms that develop and manufacture products in-house. This usually occurs when product specifications cannot be codified, products are complex, or highly competent suppliers cannot be found. While less common than in the past, this sort of vertical integration is still an important feature of the global economy

The five types of the value chain governance with respective values of the determinant variables are listed hereunder.

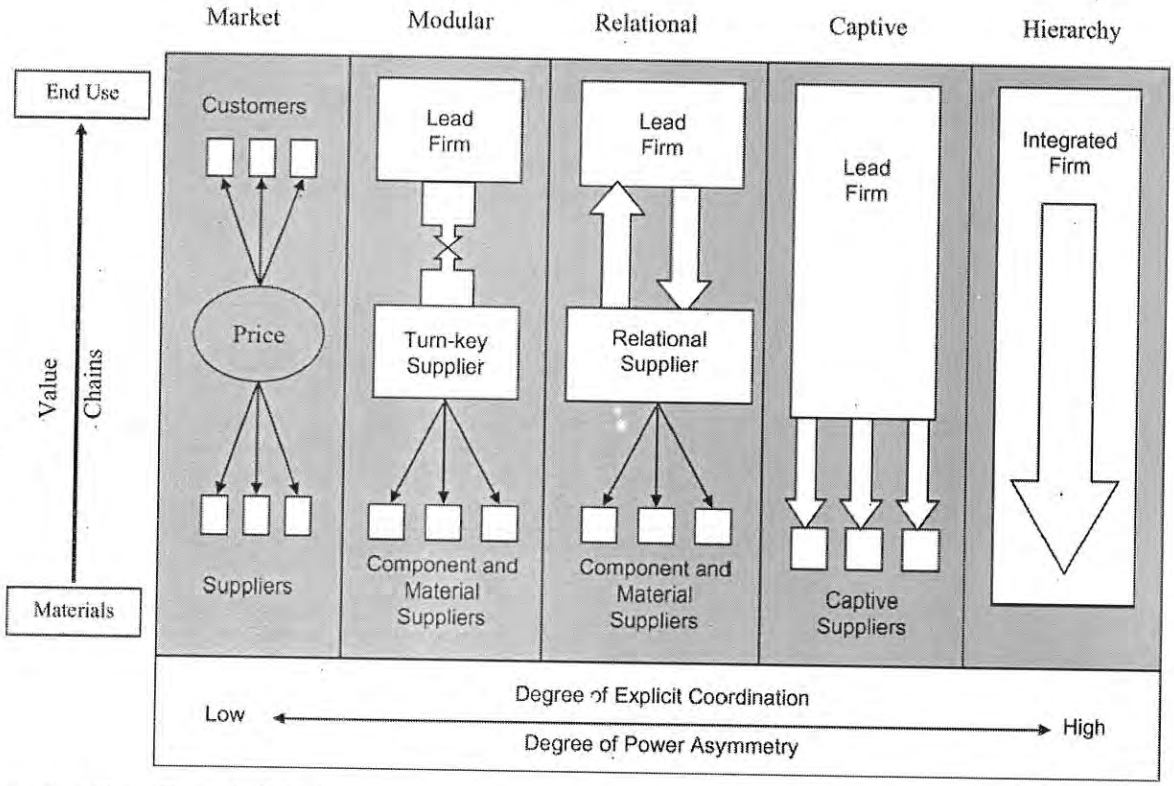
Table 1: Typology of Global Value Chains Governances

Governance Type	Complexity of transactions	Ability to codify transactions	Capabilities in supply-base	Degree of explicit coordination and power asymmetry
Market	Low	High	High	Low ⇕ High
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	

Source: Gereffi et al. (2005)

Figure 4 illustrates the definitions and theoretical explanations of the different type of global value chain governance arrayed along the dual spectrums of explicit coordination and power asymmetry. The small line arrows represent exchange based on price while the larger block

arrows represent thicker flows of information and control, regulated through explicit coordination.



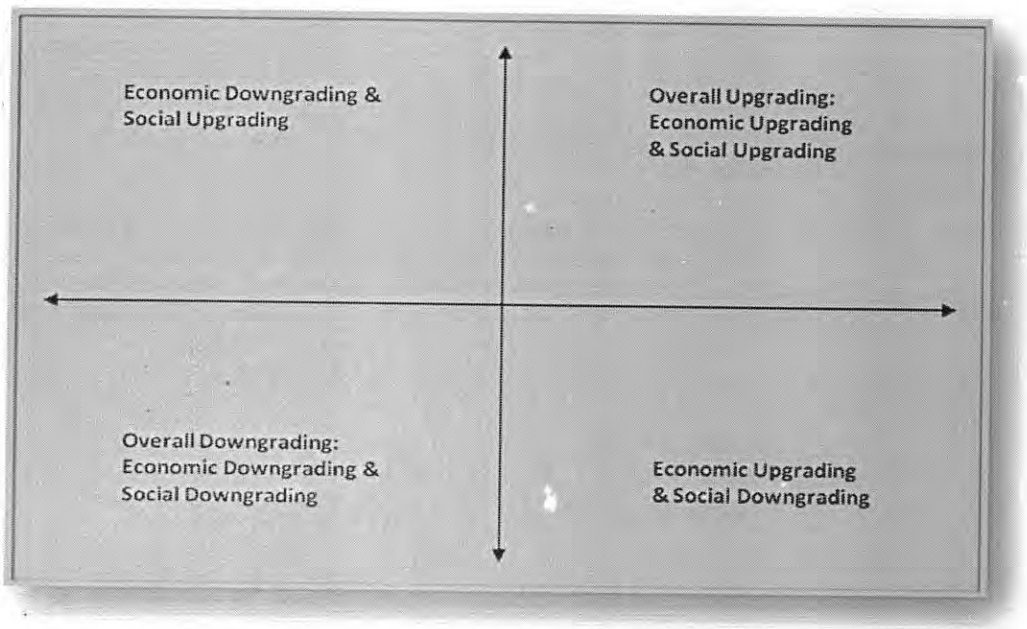
Source: Gereffi et al. (2005

Figure 4: Five types of Global Value Chains Governance.

2.3. Upgrading in the Global Value chain

The main concept of the bottom up perspective of the global value chain is "upgrading." This aspect of the global value chain analysis focuses on the strategies used by countries, regions, and other economic stakeholders to maintain or improve their position the GVCs. Upgrading can be seen from different dimension of improvement and to list some: economical, social , and environmental upgrading. Economic upgrading is defined as "moving up" the value chain into higher-value activities which enables firms to capture a higher share of value in the GVCs

overall and enhances competitiveness. Social upgrading refers to improvements in the rights and entitlements of workers, leading to better jobs (Goger et al., 2014; Gereffi 2005). The achievement of one aspect of upgrading may not result in the success of the other aspect. Economic upgrading does not necessary lead to social upgrading rather it may cause social downgrading or the reverse may happen. For example considering social and economic aspects the following figure shows the economic and social upgrading matrix.



Source: Annelies Goger et al. (2014)

Figure 5: Economic and Social Upgrading Matrix

With the deepening integration of developing countries into global markets, firms in these countries face increasing competitive pressure. For producers to maintain or increase incomes in the face of this pressure they must either increase the skill content of their activities and/ or move in to market niches which have entry barriers and are therefore insulated to some extent from

these pressures. These shifts in activities are referred as "Upgrading" (Humphery & Schmitz, 2002). According to these researchers value chain approaches of analysis emphasizes the importance of upgrading in order to face increasing competition in global markets.

Global value chain analysis emphasizes that local producers learn a great deal from global buyers about how to improve their production processes, attain consistent and high quality, and increase the speed of response. This upgrading effect is particularly significant for local producers new to the global market (Schmitz & Humphery, 2002). Upgrading may involve changes in the nature and mix of activities, both within each link in the chain, and in the distribution of intra-chain activities (Kaplinsky and Morris, 2001). This might include development of new product and process, the functional reconfiguration in the chain as whole. The economic upgrading has four dimensions of trajectory which firms can follow the objective of upgrading. These four trajectories of upgrading are defined as follows.

1. Process upgrading: increasing the efficiency of internal processes such that these are significantly better than those of rivals, both within individual links in the chain and between the links in the chain. This can be done by transforming inputs into outputs more efficiently by introducing superior technology of re-arranging the production system.
2. Product upgrading: introducing new products or improving old products faster than rivals. This involves changing new product development processes both within individual links in the value chain and in the relationship between different chain links. This is generating more value added per workers. This can be achieved shifting to the production of high value products.

3. Functional upgrading: increasing value added by changing the mix of activities conducted within the firm or moving the locus of activities to different links in the value chain (for example from manufacturing to design).
4. Chain or inter-sectoral upgrading: where firms move into new but often related industries for example, firms can move from the manufacture of transistor radios to calculators, to TVs, to computer monitors, to laptops and WAP phones.

Firm activities in one country are connected to international activities of the global value chain. There are roles that firms play in the global value chain and industrial development, in turn, can be understood in terms of the nature of those roles and how they change. Combining the different export roles firms can play that explained by different researchers (Gereffi, 1999, 1995; Gereffi & Fernadez-stark, 2011; Chokchainirand, 2013); there are six major export roles played by firms. These are:

1. Primary product exports, including processed ' industrial commodities' and non-traditional agricultural exports;
2. The export-oriented assembly of traditional manufactured goods, such as apparel and electronics items, using imported components;
3. The production of components for export in relatively advance industries, such as automobiles and computers, using substantial local inputs;
4. Original Equipment Manufacturing(OEM), whereby contractors make goods to be sold under another company's brand name;
5. Original Brand name Manufacturing (OBM), whereby manufacturers make goods for export and sale under their own label;

6. Original Design Manufacturing (ODM), whereby addition to manufacturing, the supplier carries out parts of the design process

This trajectory (Primary ⇒ assembly ⇒production of components ⇒OEM ⇒ OBM) is neither inevitable nor easy, and GVC studies have analyzed the conditions under which varied patterns of upgrading and downgrading have occurred using these categories (Gereffi & Fernadez-stark, 2011).

In relation with the role developing countries play in the apparel global value chain, six distinct value-adding activities are identified: (1) research and new product development (R&D), (2) design, (3) production, (4) logistics (purchasing and distribution), (5) marketing and branding, and (6) services ((Gereffi & Fernadez-stark, 2011).

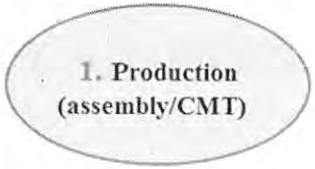
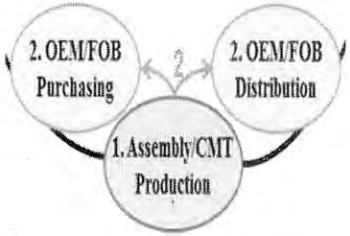
- **R&D**: This value-adding function includes companies that engage in R&D, as well as activities related to improving the physical product or process and market and consumer research.
- **Design:** This stage includes people and companies that offer aesthetic design services for products and components throughout the value chain.
- **Purchasing/Sourcing (Inbound):** It is the inbound processes involved in purchasing and transporting textile products including physically transporting products, as well as managing or providing technology and equipment for supply chain coordination.
- **Production/Assembly/Cut, Make, Trim (CMT)**: Apparel manufacturers cut and sew woven or knitted fabric or knit apparel directly from yarn.

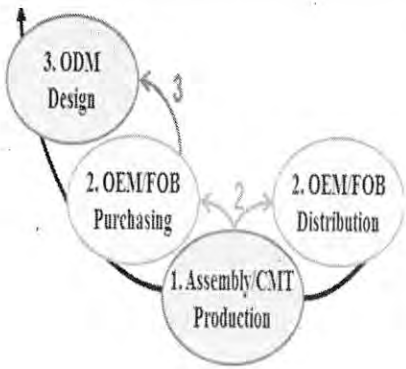
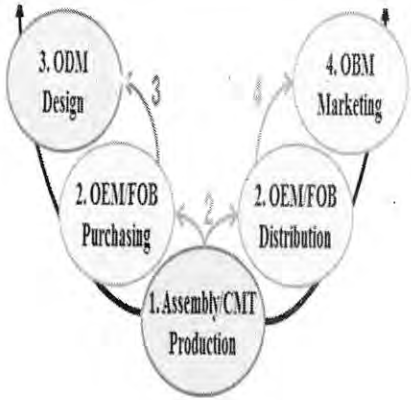
- **Distribution (Outbound):** After manufacturing, it is distributed and sold via a network of wholesalers, agents, logistics firms, and other companies responsible for value-adding activities outside of production.
- **Marketing and Sales**: This function includes all activities and companies associated with pricing, selling, and distributing a product, including activities such as branding or advertising.
- **Services:** This includes any type of activity a firm or industry provides to its suppliers, buyers, or employees, typically as a way to distinguish itself from competitors in the market (eg. Consulting).

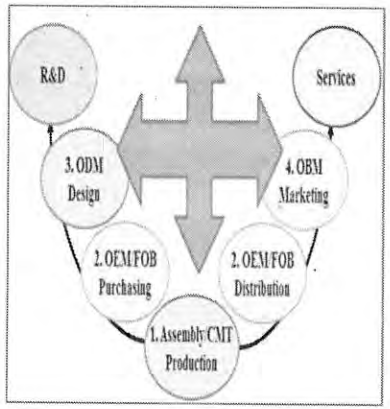
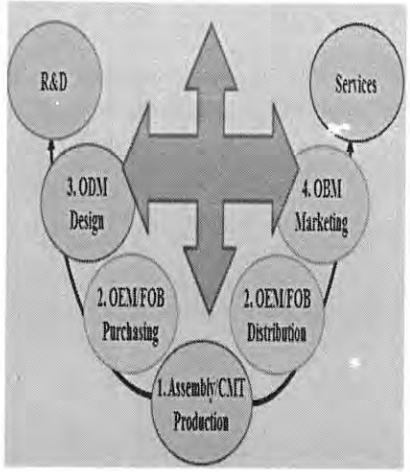
Within the economic upgrading, the apparel global value chains have four main stages of functional upgrading. These are described below:

1. **Entry into the chain via Assembly/CMT**: This is the most basic stage of the apparel industry, in which garment-sewing plants are provided with imported inputs for and the manufacturer is responsible for cutting, sewing, supplying trim, and/or shipping the ready-made garment. The buyer purchases the fabric and supplies it to the manufacturer, along with detailed manufacturing specifications.
2. **OEM/Full Package/FOB:** The apparel manufacturer takes responsibility for all production activities, including the CMT activities, as well as finishing and distribution.
3. **ODM/Full Package with Design**: This is a business model that includes design in addition to manufacturing. A garment supplier that does full package with design carries out all steps involved in the production of a finished garment, including design, fabric purchasing, cutting, sewing, trimming, packaging, and distribution.

4. **OBM**: This is a business model that incorporates branding of products, in addition to or in lieu of design and manufacturing; upgrading involves a move into the sale of own brand products. The table below shows the activities buyers and suppliers at each stages of the upgrading and the sequential move of functional upgrading.

Upgrading Stages	Diagram	Description
Assembly/CMT (Entry in the value chain)		• Assembly (CMT): The focus of the supplier is on production alone; suppliers assemble inputs, following buyers' specifications. • Inputs—such as textiles, accessories, and packaging—may be imported due to limited availability and quality concerns over local inputs. • Product focus may be relatively narrow.
Full Package/OEM (Functional Upgrading)		• Firm takes on a broader range of tangible, manufacturing-related functions, such as sourcing inputs and inbound logistics, as well as production. • The supplier may also take on outbound distribution activities.

Product Design (ODM) (Functional Upgrading)		• Supplier carries out part of the pre-production processes, such as design or product development. • Design may be in collaboration with the buyer, or the buyer may attach its brand to a product designed by the supplier. • In many cases, ODM firms work with designers from the lead firms to develop new products.
Product Brand (OBM) (Functional Upgrading)		• Supplier acquires post-production capabilities and is able to fully develop products under its own brand names. Two options: (1) Supplier maintains a relationship with the buyer and develops brand collaboratively. (2) Supplier establishes its own distribution channels by establishing a new market channel that is typically more profitable and allows the firm to expand skills. These are often local or regional markets.

Product Upgrading		• Increase unit value by producing more complex products, which requires increasing the capabilities of the firm. • Countries must move from low-cost commodities to higher value-added fashion goods that warrant higher returns as labor rates increase.
Process Upgrading		• Machinery: Improving productivity through new capital investments. • Information and Logistics Technology: Improving the way the firm carries out these activities. Benefits both the firm and the chain because it reduces the total time, cost and increases the flexibility of the supply chain process.

Source: Fernandez-Stark, Frederick, and Gereffi (2011)

Table 2: Upgrading Trajectories in the Apparel Global Value Chain

Growing importance of GVCs has led to the realization that the way international trade has traditionally been accounted for may no longer be sufficient. A growing body of work, by different institution around the world, exists aimed at netting out the double-counting effect of GVCs before final consumption of product. UNCTAD/Eora, OCED/WTO, IDE-JETRO, Purdue University and a group of 11 institutions (funded by EU) have developed their own platform for netting out the double-counting effect of GVCs on global trade.

UNCTAD uses "backward" and "forward" integration of a country to measure its participation in the Global Value Chain. A country's exports can be divided into domestically produced value added and imported (foreign) value added that is incorporated into exported goods and services. Furthermore, exports can either go to a foreign market for final consumption or as intermediate inputs to be exported again to third countries (or back to the original country). The analysis of GVCs takes into account both foreign value added in exports (the upstream perspective) and exported value added incorporated in third-country exports (the downstream perspective). The most common indicators, which will also be used in this research, are as follows:

1. Foreign value added (foreign value added as a share of exports) indicates what part of a country's gross exports consists of inputs that have been produced in other countries, termed as "backward integration". It is the share of the country's exports that is not adding to its GDP.
2. Domestic value added is the part of exports created in-country. The share of the country's exports contributes to GDP (domestic value added trade share), termed as "forward integrations". The sum of foreign and domestic value added equates to gross exports. As a

share of GDP, domestic value added measures the extent to which trade contributes to the GDP of a country.

3. GVC participation indicates the portion of a country's exports that is part of a multi-stage trade process, by adding to the foreign value added used in a country's own exports also the value added supplied to other countries' exports. Although the degree to which exports are used by other countries for further export generation may appear less relevant for policymakers as it does not change the domestic value added contribution of trade. The value added supplied to other country's export is a useful indicator for the extent to which a country's exports are integrated in international production networks (UNCTAD, 2013).

2.5. The Need to Global Value Chain Analysis

Following Porter (1985), value chains have become a reference for the analysis of trade and industrial organization, describing the full range of activities that firms and workers perform to bring a product or service from its conception to end-use and beyond. These activities include design, production, marketing, distribution and support to the final consumer, and can be contained within a single firm or divided among different firms (Gereffi et.al, 2013).

According to Kaplinsky & Morris (2001), there are three main sets of reasons why value chain analysis is important in this era of rapid globalization. They are:

1. With the growing division of labour and the global dispersion of the production of components, systemic competitiveness has become increasingly important.
2. Efficiency in production is only a necessary condition for successfully penetrating global markets

3. Entry in to global markets which allows for sustained income growth - that is, making the best of globalisation- requires an understanding of dynamic factors within the whole value chain.

2.6. Drivers of GVC

Literatures have pointed out that declining transport, information and communication costs, the sharp increase in technological progress and lower political and economic barriers to trade and capital flows are the main drivers of GVCs.

2.6.1. Technological progress and Trade costs

Only technological progress makes it possible that parts and components produced in factories in different parts of the world perfectly combine in sophisticated final products, opening the door to the international fragmentation of production (ECB, 2014). Technology diffusion and transfer lead companies to increase their export and improved information, telecommunications, and transportation technologies are very important in the management of dispersed production activities which is basically the part of managing the GVCs and thereby companies reduce cost and increase saving.

Specially technological improvement in service contribute significantly for the development of GVCs. Activities in the GVCs are more dependent on the availability and quality of service. Information and communication technology development make easy the exchange of electronic information and leads to growth and tradability of service like financial services, computer and information services and other commercial and business services. This development gives rise to

outsourcing and off shoring. Electronic communications progressively replace face-to-face interactions and geographical distance is not more a barrier for international transactions.

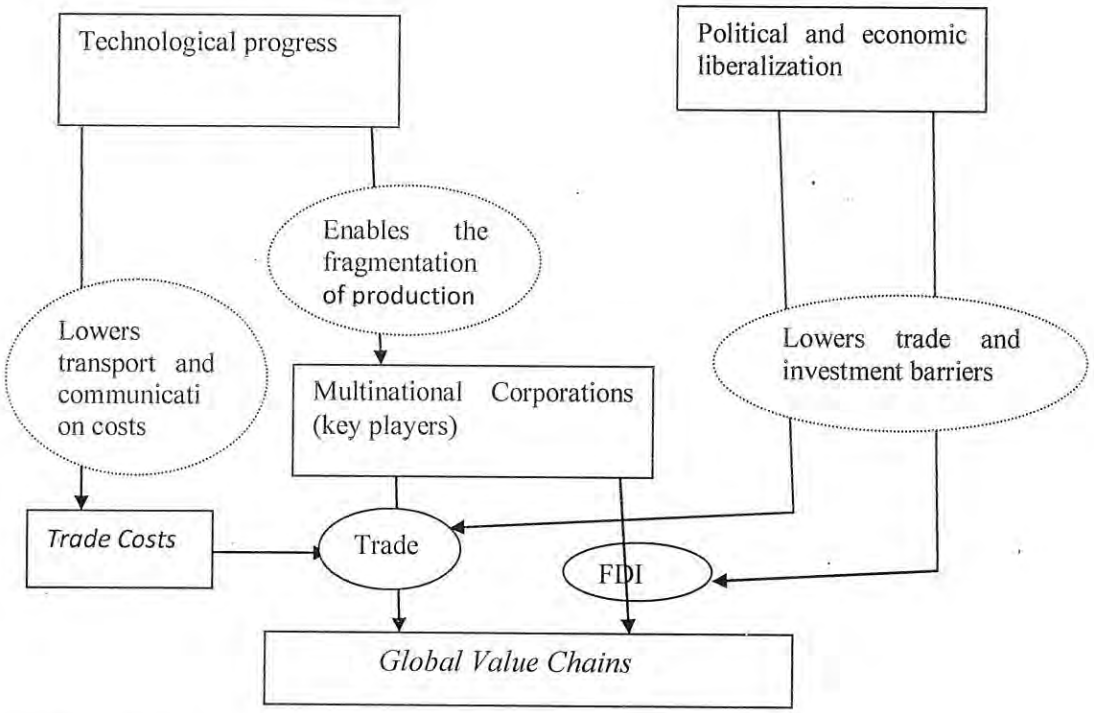
High Technical innovations and technological changes in the transportation mode have played key role in the development of GVCs. The advancement of air transport increases the fragmentation of production worldwide even time- sensitive activities. Ocean shipping also underwent important technological changes like growth of open registry shipping, introduction of containerization and improvement in logistic services. These all are push factors for the fast development of GVCs.

2.6.2. Economic and Trade Liberalization

Decreasing political and economic barriers has been an important driver of trade and of GVCs. Baldwin(2012), cited in ECB(2014), pointed out that supply-chain trade are very regionalized and supported by regional trade agreements, bilateral investment treaties and unilateral reforms by developing countries which are mostly accomplished outside WTO. The coming of GVCs poses challenges to the principles of WTO localized production within nations and not on internationally fragmented production systems and member countries reached to agreement aimed at lowering trade barriers. The political and economical liberalization in Europe, accession big players like China to WTO, and decreasing of tariffs in Asian countries fastens the development of GVCs. In relation, Orefice and Rocha (Cited in ECB, 2014) confirm the positive two-way relation between production networks trade and deeper trade agreements.

2.6.3. FDI flows and intra-firm trade

Economic liberalization and deregulation contributed to the high growth of FDI flows since the nineties (ECB, 2014). Firms leave the traditionally known reason of FDI flow, which is cross-country difference in relative factor abundance, and start to locate production facilities in foreign countries to take advantage of factor-cost differentials in specific stages of production. These production stages are different in factor proportions and geographically separable. This kind of production fragmentation creates global production network and accelerate the development of GVCs.



Source: ECB (2014)

Figure 6: Schematic Illustration of the Main Drivers of GVCs

2.7.Developing countries and GVC: African Countries Perspectives

Many studies show that the participation and upgrading in GVCs is being considered as a promising approach for promoting development. The relation between development and participation is not automatic and outcomes can be uneven. Studies also show that developing countries have not better option than linking in GVC even with less benefits. At present, developing countries are not gaining the expected level of benefits from the participation in the GVCs. There are opportunities for these countries possessing comparative and competitive advantage growing as result of structural transformation in the economy of other regions and development in their own parts. Many writers and researchers are optimistic about the benefits from the increasing participation of developing countries in the GVCs however almost all emphasize on the need of leveling the home conditions to be gainful from the participation.

Gereffi & Fernandez-Stark (2011: pp. 2) emphasized the importance of GVCs for developing countries. They explained *"GVCs link firms, workers and consumers around the world and often provide a stepping stone for firms and workers in developing countries to integrate into the global economy. For many countries, especially low-income countries, the ability to effectively insert themselves into GVCs is a vital condition for their development. This supposes an ability to access GVCs, to compete successfully and to "capture the gains" in terms of national economic development, capability building and generating more and better jobs to reduce unemployment and poverty. Thus, it is not only a matter of whether to participate in the global economy, but how to do so gainfully."*

Pietrobelli (2008) identified the unavailability of many studies on the GVCs impacts on local producers. Depending on the empirical evidence, he concluded that the opportunities to benefit from GVCs exist for firms in LDCs but with threats of exclusions and marginalization. The major risk is the dependency on one buyer. Buyer may set a standard or performance target that needs to be reached by the producers. He came up with the point that to be benefited for a country from GVCs, the host conditions are important and the trading down strategy is an alternative way not the only one to benefits from the GVCS. It is consolidating their suppliers' role by focusing on economies of scale, high specialization and simple and labour-intensive technologies, and aim at mass markets through large-scale retailers.

Gibbo and Ponte (2005) conducted a detail study on GVC in SSA in the cotton, clothing, citrus, coffee, cocoa and fresh vegetables sectors. Their study suggests uneven trajectories within the continent—depending on which global value chain (GVC) is considered. The increased integration of some African industries in the global economy goes hand-in-hand with a greater marginalization of others. In some chains, new opportunities are materializing but have high costs and often come with benefits that are generally low, unpredictable, and nontransparent. They argue that exclusion and marginalization have been experienced as a result of the failure of African farms and firms to meet new expectations concerning quality, lead times, volumes, and prices, and their failure in actively shaping new standards to their advantage—including ones related to social and environmental concerns raised by Northern NGOs. According to this study, Africa faces daunting challenges not only from the new trade regime and domestic market liberalization, but also from the tightening demands associated with participation in GVCs. From the above examined six sectors by Gibbo and Ponte (2005), all but one GVCs have become

increasingly buyer driven in the preceding two decades. Different buyers drive these value chains—those with direct contact with consumers in citrus, clothing, and fresh vegetables; and branded processors/manufacturers in coffee and cocoa. An exception to this trend is cotton, where there is no clear group of lead firms.

One of the recent works on GVCs in Africa is " Capturing the Gains in Africa" by a group of researchers (Goger et al.,2014) from Center on Globalization, Governance & Competitiveness(Duke University). This supports the argument upgrading and sharing the gains from participation in GVCs were limited in Africa. Economic upgrading was uneven between the sectors the study conducted on (horticulture, apparel and tourism), and social upgrading even more so. However, they pointed out the recent changes in geographic end markets and trade patterns have brought about new opportunities and challenges for African countries seeking to derive broad development gains from participation in GVCs. The rise of South-South trade and expansion of lead firms within Africa and serving African consumers is very important to harness GVCs participation with other strategies to increase spillovers and enhance shared prosperity. This recent dynamic includes the emerging of regionalization, informalization and consolidation of lead firm market power in African GVCs.

The above paper focuses on three sectors: apparel, horticulture, and tourism. The case studies in Africa included Egypt, Kenya, Lesotho, Madagascar, Mauritius, Morocco, South Africa, and Uganda. From these case studies, the researchers highlighted challenges and opportunities with the development of regionalization, informalization and consolidation of lead firm market power in African GVCs. Trade liberalization, local labor market conditions, and the retail revolution in Africa have contributed to a growing trend of regional economic integration and expansion of

regional value chain, particularly in SSA countries that participate in regional free trade agreements. Regionalization presents opportunities for small and medium-sized producers to scale up and experience organizational learning as they adapt to increased standards when moving from national to regional to global chain participation, as evidenced in the horticulture section of their paper. Growing pattern of informalization across industry sectors led to lower access to decent work, secure employment, and social protections for informal workers. Due to trade liberalization, the market power of the lead firms has increased which makes SMEs struggling to stay competitive and exacerbates the uneven power dynamics within GVCs and RVCs resulting in a tendency of social downgrading due to lower bargaining positions for labor and smallholders.

They summarized from the findings by sector that economic and social upgrading are especially challenging to achieve in Africa. Inadequate infrastructure (high logistical costs), skill deficiencies, and gender disparities continue to be common barriers to upgrading across industry sectors. The combination of quota phase-out, regional trade agreements, and trade preference systems has influenced the structure and upgrading trajectories of African apparel sectors in significant ways and the major barrier to upgrading and RVCs is lack of a textile sector in SSA.

The main coverage of African Economic Outlook this year (2014) is Global value chain in Africa. This indicates that African countries are in need to increase their participation in GVCs and ready to do so. This yearly research book considers the development level of GVCs as best opportunity to Africa not to walk all the steps in the chain. It says GVCs hold the promise of boosting employment and structural transformation in Africa. According to Cattaneo et al.

(2013), Gereffi and Lee (2012), OECD (2013) cited in AEO (2014), in the past, for a country to industrialize it has to develop the domestic capacity to perform all major steps in the value chains of complex manufacturing products. Today, through linking in to an international production network, countries can establish a specific section of a product's value chain without having all the upstream capabilities in place.

The argument, whether GVCs is an opportunity or threat for African countries, has gotten wider coverage in the African Economic Outlook. It conducted a survey and 93% of responding experts on African countries considered global value chains to be opportunity rather than a threat. It also identifies the major opportunities and threats for African countries arising from GVCs. Accordingly, respondents view "job creation from new activities" as the top opportunities and "being locked into low value-added stages of GVCs" as main threat. Another finding is that African countries' participation in global value chains is growing particularly in primary goods and in backward integration even though share of gains from GVCs trade is small. In the case of Ethiopia, forward integration is higher than backward integration in the global value chains.

2.8. Overview of Ethiopian Industrial Sector: Textile and Garment Sub-sector

The government of Ethiopia has designed, and is implementing strategies, policies and plans to guide and manage the overall development of the country to achieve broad-based, accelerated, and sustained economic growth in order to eradicate poverty. During the PASDEP period, Ethiopian economy was growing faster than any time before and became one of the fastest

growing economies in the world. GDP growth rate was at 11% for the consecutive ten years up to the fiscal year 2009/2010(EEA, 2014; MoFED, 2010).

The government has formulated the five year (2010/11-2014/15) Growth and Transformation Plan (GTP) to carry forward the important strategic directions pursued in the PASDEP. With slight decline in growth rate, the growth of Ethiopian economy has continued in the GTP period. In the fiscal year 2011/12 and 2012/13 GDP was growing at 8.8% and 9.7%, respectively. Volume of Ethiopian economy in the fiscal year 2012/13 was 852.7 billion Birr measured at current market price. This long period robust growth rate is enough to reduce poverty. In the first three years of GTP period (2010/11-2012/13), the economy grew at average by 9.8%, which is a very nearest figure to the plan (11.1%) (EEA, 2014; MoFED, 2010). While service sector and agriculture sector took the leading share in the contribution of the overall growth, the industrial sector contributes 24% of the growth rate of the whole economy. This is attributed from its size in GDP; it is only 12 percent (EEA, 2014; MoFED, 2010; CSA, 2013).

The GTP is aiming at promoting industrialization by increasing contribution of the industrial sector in general and manufacturing sector in particular to transform the economy from agriculture lead to industry lead. The structure of the Ethiopian economy is characterized by the decline of agriculture in share of the value added of the GDP. Service sector became in the forefront position in fiscal year 2012/13 with 45% share of the total value added. Agriculture takes 42.7% share and industry 12.3% share of the GDP in the same period. However the contribution of industrial sector to overall growth increased from 6.6% in 2006/07 to 23.6% in 2012/13, its share in the GDP still remains very small. Beside this, the largest part of this growth

comes from construction sub-sector. The share of the manufacturing sub-sector, which includes large, medium, and small-scale manufacturing, is 4% and almost the same as the average for the PASDEP period (MoFED, 2010; EEA, 2014).

The GTP identifies 8 medium and large scale sub-industries to give particular emphasize in the industrial sector development strategy. Among these industries, textile and garment is in the forefront to maximize utilization of existing production capacity, increase export earnings, increase investment in the sub-sector (MoFED, 2010). To this end, the government augmented its effort through strengthening the Ethiopian Textile Industry Development Institute. The government of Ethiopia is carrying out establishment of new industrial zone in many of cities and towns of the country to boost investment inflow and industrial development. Textile and garment is the priority strategic sub-sector indentified for establishment in these new industrial zones. Textile and garment sub-sector is expanding through time though the development is not as planned. This sector exhibits good records in terms of value added growth, export, and import. Manufacturing value added has been growing, on the average, by 9.1% over the last 8 years. Except the textile and garment sub-sector, all the major sub-sectors have witnessed declining (EEA, 2014)

According to the information from Ethiopian Textile Industry Development Institute, the textile and garment sub-sector is growing from both sides: exports and imports. In fiscal year 2004/05, the export performance of the sub-sector was 6,759 USD. Last fiscal year (2013/14), increased by 12.5% from previous year, the total export was 111,353USD. The sector is showing significant increment in the export from year to year. Table 1 of annex part shows export trend of

Ethiopian textile and garment sub-sector for the last ten years. Import also increased by about 19% average for the last ten years. The 10 years trend of import in the sub- sector is shown in annex table 2.

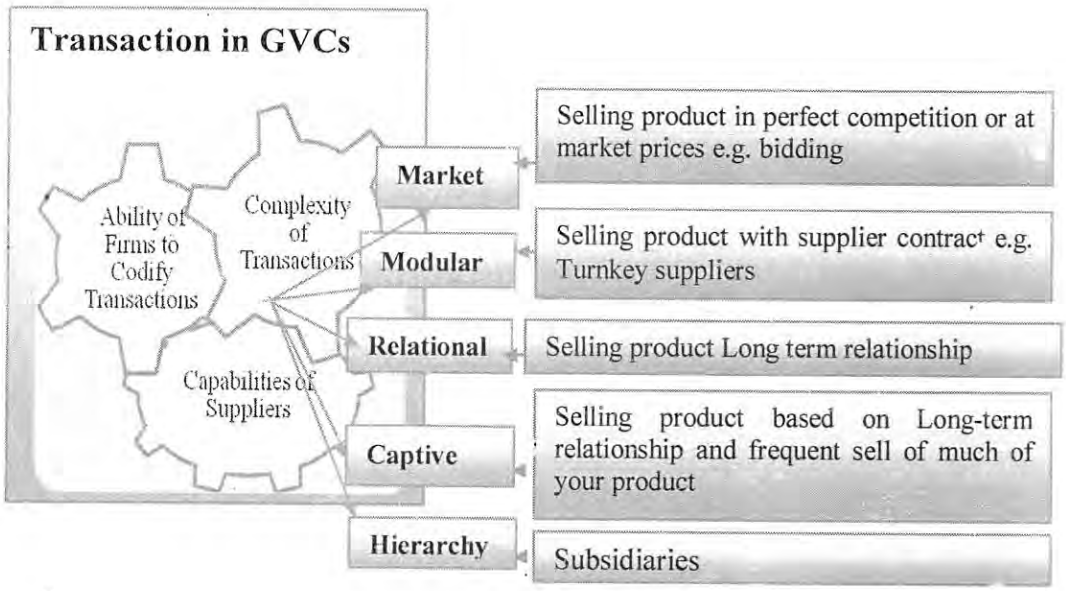
Employment generation is a key factor in the promotion of the development of the manufacturing industry. Transformation towards industrialization entails increased share of employment, value added, export earnings, etc of the manufacturing sector in the economy. While other medium and large manufacturing industries show poor performance, Textile sub-sector gained significant employment during the first two GTP periods. It shows a 42% employment growth in the period. In addition, increased wage was witnessed in the textile sub-sector during the years back might be due to the entry of export-oriented foreign investors (EEA, 2014).

Currently, there are around 110 firms in Ethiopia operating in the production of textile and garment products. From these firms, 18 are engaged in the integrated production, 19 are engaged in the textile production (four are spinning firms), 50 are engaged in the production of garment, 16 ginning, and six are in cultural clothing. Around 33 firms have sold their product to the foreign market in fiscal year 2013/2014. In leading exporter list, Ayka Addis, Else Addis , and Kombolcha Textile hold the first three positions.

2.9. Conceptual Framework for the Study

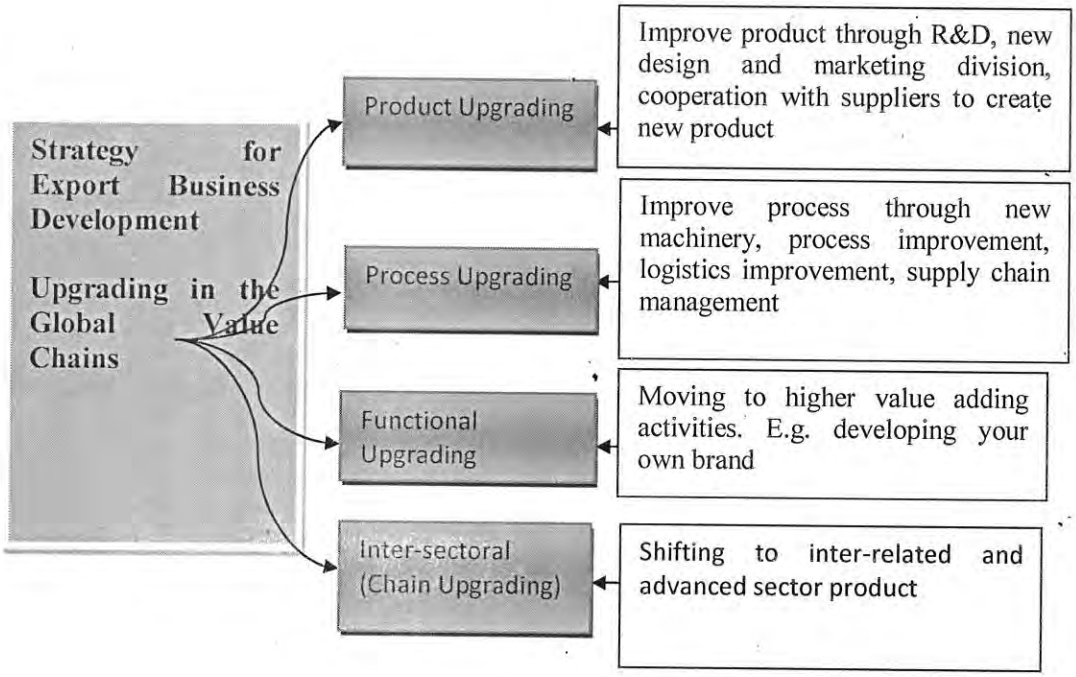
This section presents the systematic strategy of the study. Based on the reviewed literature presented above a conceptual framework is developed for the research. Determinants factors for

the development of different type of governance patterns within the transactions are described. These determinants are ability of firms to codify transactions, complexity of transactions and capabilities of suppliers. Whether these factors are high or low with transactions between the export buyer and exporting firms determine governance between the global buyers and suppliers. (Gereffi, Humphrey, & Sturgeon, 2005) indentified five possible combinations of magnitude of the determinant variables and generated five different governances type namely market, modular, relational, captive and hierarchy. The five governance types are represented by proxy description. The following figure illustrates the conceptual frame employed in this study to analyze the governance structure of the Ethiopian textile and garment sub-sector with respect to the global value chains.



Upgrading is strategy that firms employ to increase their export business. Economic upgrading is moving up the value chain into higher-value activities which enables firms to capture a higher share of value in the GVCs overall and enhances competitiveness. The four types of economic

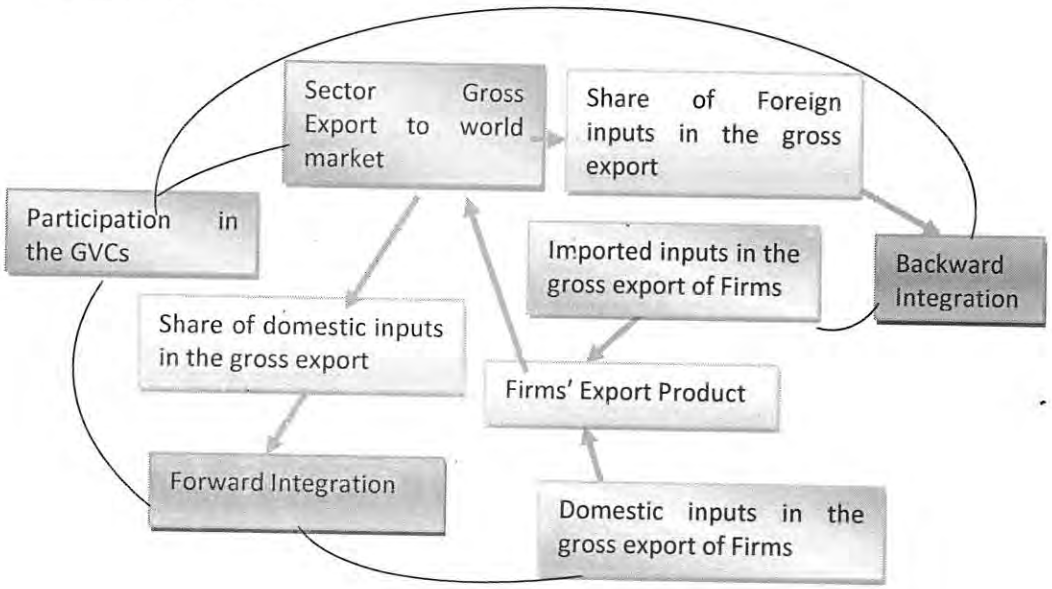
upgrading: process upgrading, product upgrading, functional upgrading, and chain upgrading are the mechanisms for firms to achieve their goal of catching higher value activities. Upgrading types are represented with proxy description as it is depicted in the following diagram.



In the analysis of the sub-sector's participation in the global value chains, the value added concept was employed. The share of foreign value added in a country's exports -termed "backward integration" -and the share of a country's value added in other countries' exports - known as "forward integration"- are the main measures of a country's participation in global value chains. A country's gross export to the world is the sum of the following five broad terms:

- Domestic value-added embodied in exports of final goods and services absorbed by the direct importer;
- Domestic value-added embodied in exports of intermediate inputs used by the direct importer to produce its domestically needed products;

- Domestic value-added embodied in intermediate exports used by the direct importer to produce goods for third countries ("indirect value added exports')
- Domestic value-added embodied in intermediate exports used by the direct importer to produce goods shipped back to source ("reflected domestic value added")
- Value-added from foreign countries embodied in gross exports ("foreign value added used in exports").



2.10. Empirical Studies on Textile and Garment Sector

Studies in different countries in the textile and garment sector show industrial upgrading plays significant role to compete in the international market. For example, Natsuda et al. (2009) found that even though the government of Cambodia created favourable environment for garment industry development, the industry faced high competition due to many impediments for upgrading. The challenges are lowest value-added segment in the global garment value chain, high dependence on the US market and foreign capital firms, and a lack of efficient technology

and management transfer to the local economy. Kenta(2007) in his work "Industrial Upgrading of the Vietnamese Garment Industry: An Analysis from the Global Value Chains Perspective" to examine Vietnamese garment industry upgrading strategy which aimed to increase value-added of garment exports through vertical integration and supply of original branded products, asserted increasing value-added by Vietnamese suppliers in the global garment value chain can be only done through either, or a mix of, process, product or functional upgrading. He advised policy makers to focus on how to support these three aspects of upgrading rather than emphasizing developing backward linkages and aiming a radical jump in industrial upgrading through promoting domestic vertical integration.

World Bank (2011) identified the main challenges of SSA low income countries for integration into global value chains as exogenous factor and endogenous factors. The exogenous factors reflecting changing dynamics in the global economy and in global clothing value chains and includes structure of the industry, global regulations, and global sourcing policies of buyers. The endogenous factors affect the SSA's supply response to global market opportunities, including physical and bureaucratic infrastructure, productivity, skills and capabilities, and entrepreneurship. According to the World Bank (referring Kaplinsky and Morris, 2008), all SSA economies face huge challenges in all the endogenous factors with the possible exception of South Africa and Mauritius. The other important aspect of clothing export in SSA is that exporting firms in the clothing sector are foreign-owned and part of triangular manufacturing networks. This has a great impact on the functional activities in SSA, on decision-making power, local linkage, spillovers, and even on the sustainability of the operations. This ownership structure results low possibility of taking over more functions with higher value added for local firms as these functions are ensured by the headquarters on a regional or global basis. Due to the

strategic choice of these foreign firms and lack of good operating environment in the countries, local firms concentrated in the production of low-value adding assembly functions. This shows that the upgrading challenges are not one side problem and it needs both developing skills and creating capabilities in SSA LICs and changing their specific role and integration in to global clothing value chains.

Gereffi et al. (2010) asserted that the most valuable activities in the apparel GVC are found in the design, branding, and marketing of the products. However, large global retailers and brand owners in the apparel industry perform these activities. These lead firms in most cases outsource the manufacturing process to a global network of supplier. Developing countries are also competing for foreign investment and contracts with global brand owners which results little leverage and low partition of the total value added along the chain for suppliers from these countries. Gereffi et al. (2005), in their famous work "The governance of global value chains" explained the rapid move of East Asia, which was the epicenter of apparel production, from captive to more complex relational value chains over the span of just a few decades. East Asian countries could move from apparel production in middle of nineteenth century to world-class textile in 1970s and 1980s. The key for their success was to move from assembly of imported inputs (export-processing) to a more domestically integrated and higher-value-added form of exporting (full-package supply).

There are no wide-ranging studies in the value chain of Ethiopian textile and garment sub-sector in general and none is available with global value chain framework. However, researches have been done on another aspect of the sub-sector. Tensae (2006) had conducted a study on the competiveness of Ethiopian garment sub- sector. He found that though the sector has

comparative advantage in terms of labour availability and its low cost, there is shortage of professionals and skilled labourers. Beside the problem of supply of capital to sub sector due to ill functioning and unclear working procedures of the financial market, lack of transparency and lack of international banking system knowledge and experience of banking institutes, he pointed out that financial incentives are biased to exporting garment firms. The same study indicated that in addition to the small-scale operation and high competition in the domestic and international market, garment firms and the industry generally faces problems on the availability, quality and cost of inputs.

The impact of supply chain management practice in the competitive position of Ethiopian texile firms was assessed by Endalew (2010) using quantitative method. The findings and conclusion is towards the need of applying supply chain management practices for competitiveness both locally and globally. In addition, Rahel (2010) in her study performance and measurement and improvement of Ethiopian garment industries concluded actual performance of the industry is hindered by both internal and external factors. The internal factors include poor quality of garment, low productivity, poor performance measurement practice, under-utilization of resources, lack of information about market and poor skill of workers. The general business environment of the country is considered as external factors. This one also focused on the factors affecting performance. Another study by Hiwotie (2010) strengthened that Ethiopian textile and garment sector has a competitive advantage.

World Bank (2006) analyzed the efficiency of the value chains of garment in Ethiopia to identify the potential intervention in order to make the value chains more competitive. It found out that

Ethiopian cotton- garment has substantial opportunities both at regional and international market. However fierce competition, mass customization, increased leverage of buyers, post-MFA quota free environment, and AGOA pose both threat and opportunity for sector. Both production and supply chain inefficiencies along the cotton- to -textile value chain also prevent the sector from becoming a global player though there are clear market opportunities at regional level.

Tebarek (2011) examined the role of social network within local but also global value chains in case of Ethiopian leather and leather products industry. He employed mixture of value chains and network approaches for exploring processes and micro-level interactions used by individuals to construct and maintain networks.

The above and other studies conducted in Ethiopia in the area of value chain in general and in textile and garment sub-sector in particularly; are far from the recent global value chain concepts. It is found out that none of them tried to look value chain concepts from the global perspective. Either they are focused only on simple value chain of a single commodity or to the maximum, they go to the level of supply value chain. Most studies in the textile and garment sub-sector focused on the competitiveness in terms of a single variable might be labour cost, marketing strategy, or regulatory issues or they evaluate the performance at firm level. Moreover, the available studies might touch issue of international trade but none tried to see the detail issues of the today's international trade operation and production network with respect to the power relation of the buyer and suppliers. We can say all saw trade with the traditional concept of international trade: the exchange of goods and services between two countries. Thus, there is clear gap in the area of global value chain study in Ethiopian Textile and garment sub-

sector and it is valuable to find out the governance, upgrading potential, and participation level of Ethiopian Textile and Garment sub-sector in the global value chains.

Chapter Three

3. Research Methodology

3.1. Research Design

The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004).

A descriptive research describes the state of affairs, as it exists at present. It includes surveys and fact-finding enquiries of different kinds. The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening. The methods of research utilized in descriptive research are survey methods of all kinds, including comparative and co-relational methods (Kothari, 2004).

It is required to select a research method that allows to explore, examine and have in-depth understanding of how the industry operates and is structured and examine the experience of firms within the global value chains. Further, it is required a research method that allows the researcher to assess the sub-sector within GVC theoretical framework.

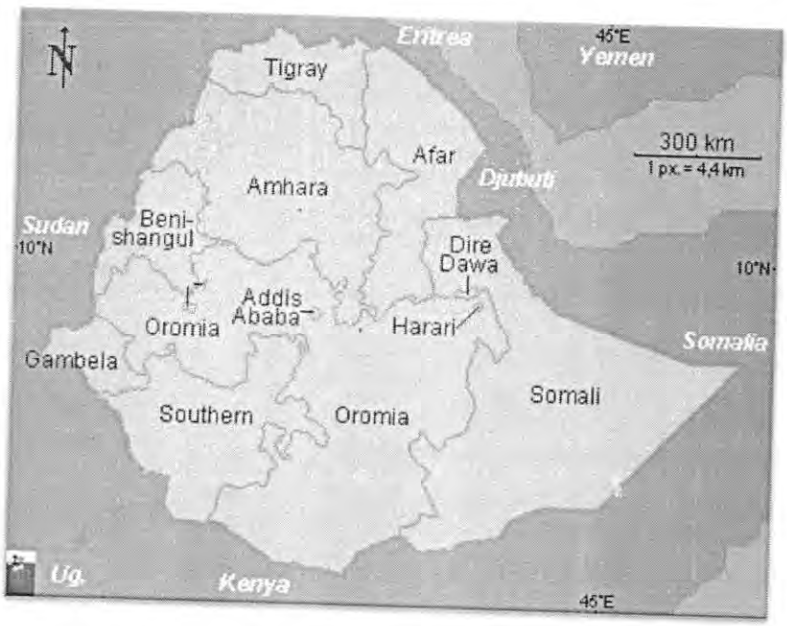
The objective of this study is to assess the Textile and Garment sub-sector of Ethiopia within the Global value chains taking features of governance, upgrading and participation in global market. It is more appropriate to apply a descriptive survey research design from the point of achieving the objectives of the study. The researcher used the descriptive survey research design to accomplish this study.

The three common approaches to conducting research are quantitative, qualitative, and mixed methods. With the mixed methods approach to research, researchers incorporate methods of collecting or analyzing data from the quantitative and qualitative research approaches in a single research study. That is, researchers collect or analyze not only numerical data, which is customary for quantitative research, but also narrative data, which is the norm for qualitative research in order to address the research question(s) defined for a particular research study (Williams, 2007). The researcher in this study employed the mixed model of research approach. The quantitative method that was employed in this study is a descriptive statistics that is expressed in frequencies, rates, percentages, and measure of central tendency. They used to give explanations to typology of governance, upgrading practices and participation in the GVCs of the studied sub-sector.

To have a better understanding of the industry and widen understanding of organization and structure, qualitative and quantitative data such as structures, distribution of textile and garment factories, performance of the sector, number of foreign and local firms, sectoral investment growth, and so forth were collected from secondary sources. Furthermore, qualitative and quantitative data were collected via survey to analyze the type of governance, upgrading practices in the sector and participation of the sector in the GVC.

3.2. Study Area

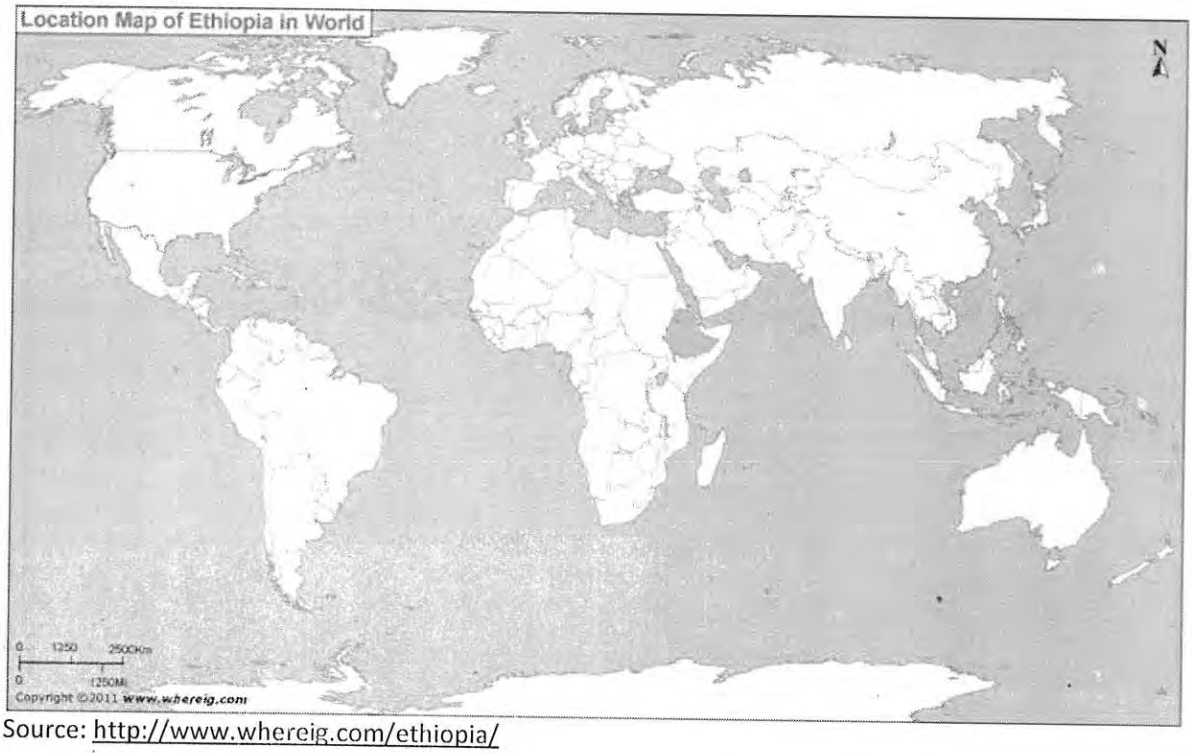
Ethiopia, officially known as the Federal Democratic Republic of Ethiopia, is a country located in the Horn of Africa. It is bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. With over 90 million inhabitants, Ethiopia is the most populous landlocked country in the world, as well as the second-most populous nation on the African continent after Nigeria. It occupies a total area of 1,100,000 square kilometers (420,000 sq mi), and its capital and largest city is Addis Ababa. Currently, Ethiopia has nine ethnically based and politically autonomous regional states and two chartered cities, the latter being Addis Ababa and Dire Dawa.



Source: http://www.crwflags.com/fotw/flags/et%28.html

According to the IMF, Ethiopia was one of the fastest growing economies in the world, registering over 10% economic growth from 2004 through 2009. It was the fastest-growing non-oil-dependent African economy in the years 2007 and 2008. World Bank indicated

Ethiopian economy has experienced strong and broad based growth over the past decade, averaging 10.8% per year in 2003/04 - 2012/13 compared to the regional average of 5.3%.



Source: http://www.whereig.com/ethiopia/

3.3. Data Source

Both primary and secondary data sources were employed to get reliable information for the study. While Primary data were collected through face-to-face firm level survey, secondary data were collected from published and unpublished materials like reports for different purposes, strategy and policy document, books, journals, working papers, research findings of various scholars on the topic under investigation and other publications.

Literature review is an in-depth and critical assessment and evaluation of other people's research or studies. This part of the data collection process provided the study with existing knowledge based on relevant empirical research, producing a base-line description of the industry and basic information about the firms that are operating in the sector and were surveyed. The purpose of a literature review was to have understanding of existing knowledge and to extract significant information about the industry structure, organization, and policy. Particularly in this kind of study where the conceptual framework has not been yet applied widely in the context of Ethiopia, literature review was very important and main source of ideas and information in all section of the research. Above all, manufacturing is not a leading and well developed economic sector in Ethiopia and studies on this sector are not widely available with locally customized new and progressive methodology. This limitation was addressed by customizing and extracting useful methods and ideas from research works in the countries where their industrial development process is similar with Ethiopia's real condition.

3.4. Sampling Techniques

This research focuses on the global aspect of the Ethiopian textile and garment sub-sector. Its main objective is to evaluate the level of engagement and its facet of the sub- sector in the GVCs. Without the presence of integration with the global market, this study is value-less. As a result, exporters are the main target of data collection as far as this particular research is concerned.

In this kind of research in which the conclusion from the findings would be general, source of data and its reliability are very crucial. Clearly, there is a need to collect the information from most relevant sources and thus a purpose sampling technique was applied. Considering the need

of focusing on the objectives of the research, based on the information from Ethiopian Textile Industry Development Institute, all 33 firms that exported part of their product in textile and garment sub-sector in 2013/2014 fiscal year were included as the study population considered the source of data. Thus, as the universe is very small number, a census was conducted during primary data collection for the study. Although factories of firms are located in different region of the country, all firms have office in Addis Ababa. Fourteen firms' factories and offices are found in Addis Ababa. The factories of remaining 19 are out of Addis Ababa. Seven of firms' factories are found in the towns surrounding Addis Ababa (Sebeta, Gelan, Alemgena, Dukem, Legetafo). Others base their factory in different regional towns: Dire Dewa(two firms), Arba Minich(one firm), Bahirdar(one firm), Adama(four firms), Kombolcha(one firm), Mekele(one firm), Adewa (one firm) and Debre Zeit(one firm). All the factories found in Addis Ababa were visited and interviewed at factory site. Three of the factories located in the surrounding of Addis Ababa were also interviewed at factory site. Other firms were contacted at their office in Addis Ababa.

3.5.Data Collection Instruments

The data collection instrument that was employed for the study is semi- structured questionnaire. The firm level face-to-face survey was conducted after the qualitative and quantitative information from secondary sources and literature review were examined.

The survey method is a more systematic method used to gather data or information from individuals and it attempts to elaborate on and understand the basic characteristics or experiences of large and small populations to which these individuals belong (Enanoria, 2005). In a face-to-

face survey, an interviewer is physically present to ask the survey questions and to assist the respondent in answering them. There are a number of benefits of the face-to-face survey method of data collection, especially in terms of data quality compared to other types of survey. For instance, respondents can ask interviewers/researchers for clarification if they find questions to be confusing or ambiguous. It allows for complex questions to be asked and provides researchers with a fairly high degree of control over the data collection process and environment. It also offers the highest response rates obtainable (Doyle, 2005). Semi-structured questions is a more commonly used interview technique that follows a framework in order to address key themes rather than specific questions and it allows a certain degree of flexibility for the researcher to respond to the answers of the interviewee and therefore develop the themes and issues as they arise.

In survey data collection, respondents will have difficulty in understanding the theoretical and technical terms used by GVC research including governance and upgrading. Governance was thus identified using three key determinants, i.e. the complexity of transaction, the codifiability of transaction, and the competence of suppliers. Literature shows that respondents could not fully understand the technical term; and they were unable to understand the different types of governance in simple terms such as market, modular, relational, captive and hierarchy and hence could not answer the question.

To be practical, technical terms were simplified to respondent by explaining concepts that were associated with and represented governance type theoretically. Descriptions of terms are annexed.

3.6. Data Analysis

Data analysis depends on both the objectives of the study and the nature of the variables in the data collected. The quantitative method that was employed in this study is descriptive statistics that are expressed in frequencies, cross tabulation, percentages, ratios, rates, measures of central tendency and they are the bases for the explanations on governance typology, upgrading type, and participation level of the sector in GVCs.

To generate data and identify the typology of GVCs governance, upgrading types and sectoral participation in GVCs, Microsoft Excel, and Statistical Package for Social Science (SPSS) software were used. In the data analysis process, information and findings are presented using tables, graphs, charts, and other illustration mechanisms.

This study took the exporting firms as population for collecting data and to answer the research questions. It had been tried to survey all exporting firms with face-to-face manner. Out of 33 firms, 29 of them could be accessed and gave response to the survey questionnaire; from the non-respondent two of them were not willing to give information and for the other two responsible staffs were not available in the research timeframe. Out of the 29 respondents, one response was incomplete due to the fact that the firm is under rehabilitation process and has stopped exporting. The response from another one was also incomplete as the staff had no full information. As a result, 27 firms were considered in the analysis.

3.7. Limitation of the study

Studies have not been conducted in Ethiopia on export manufacturing sectors from the GVC perspectives. GVC is a wide concept and at stage of infancy according to great researchers in the field. The study tried to employ the latest concepts of the GVC developed by different researchers. Due to time and finance constraint and partly due to lack of experience, this research is an assessment of the textile and garment sector of Ethiopia with respect to GVC focusing governance, upgrading and participation.

Chapter Four

4. Data Presentation and Analysis

This chapter presents the results of the analysis of the data obtained from the respondents. The results are organized into two groups: (1) Descriptive statistics of typology of governance, upgrading practices and participation in the Global Value chains experienced by Ethiopian textile and garment sub-sector; and (2) mapping the Global value chain with respect to Ethiopian Textile and garment sub-sector.

4.1. Background of Firms Considered in the Analysis

According to the yearly performance report prepared by ETIDI on sub-sector by the end of 2013/2014 fiscal year, about 33 companies have exported their product to the global market. Their export product includes yarns, fabrics, garments, and cultural clothing. The composition of firms under the analysis was that, seven of them were textile firms, nine were integrated firms, and 11 were garment-producing firms. As it can be seen from the table 6, about 41% of the exporting firms considered in study are garment manufacturers.

Table 3: Business Engagement of Firms

Industry Group	Frequency	Percent	Cumulative Percent
Textile	7	25.9	25.9
Integrated	9	33.3	59.3
Garment	11	40.7	100.0
Total	27	100.0	

Source: Survey Data, December 2015

4.1.1. Reliability of Respondents

Most of the respondents are professional employees at level of General Manager or in marketing department. During the data collection, great effort had been exerted to meet with right practitioner and get reliable information from firms. The respondent rate well represents the population considered: around 82 percent of the population have responded completely to all the questions. The position and responsibility of the respondents in firm give a confidence on the reliability of the data collected. Almost 52 percent of the respondents were at the highest management level in the firm as it is seen on table 7.

Table 4: Position of the respondents in the company

Respondents	Frequency	Percent	Cumulative Percent
General/ Deputy manager	14	51.9	51.9
Marketing manager/Expert	13	48.1	100.0
Total	27	100.0	

Source: Survey Data, December 2015

4.1.2. Firms size in terms of Capital, Organization Nature and Employment

These variables indicate the size and organizational strength of firms in the sector. Out of the 27 firms assessed in the study, 12 have a capital of less than 50 million Birr, 8 have greater than 200 million Birr and 7 of them have a capital between 50 million and 200 million. Seventeen of the firms employed more than 200 hundred people, three firms employed less than 50 people and the remaining seven employed within 50 and 200 people. Most of the firms, around 74% or 20 in number, are organized under the form of private limited company, five are share companies, and the rest three are sole- proprietorship businesses. It can be said that most of the exporting firms

are formed and operated within the private limited company form of business entity. Most firms have low amount of capital and employ low number of workers. This implies that firms have low capacity in terms of capital, organizational strength, and workforce. Table 8 shows the detail of firms' capacity in terms of capital, organizational form, and employment.

Table 5: Firms' Registered Capital, level of Employment, Organizational Formation

Firms' Registered Capital	**Frequency**	**Percent**	**Cumulative Percent**
<50million	12	44.4	44.4
50-200million	7	25.9	70.4
>200million	8	29.6	100.0
Total	27	100.0	
Number of Employees by Firms	**Frequency**	**Percent**	**Cumulative Percent**
<50	3	11.1	11.1
50-200	7	25.9	37.0
>200	17	63.0	100.0
Total	27	100.0	
Organizational Forma of Firms	**Frequency**	**Percent**	**Cumulative Percent**
Sole-Proprietor	2	7.4	7.4
Private Limited Company	20	74.1	81.5
Share Company	5	18.5	100.0
Total	27	100.0	

Source: Survey Data, December 2015

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4.1.3. Ownership Structure of the Exporting Firms

The distribution of firms in terms of ownership has an implication on the contribution of the sub-sector for the national economy and its level of development: private sector participation and investment. Private foreigners own higher numbers of firms in the exporting category; the local private firms are 10 and there are 3 local public firms exporting to the global market. This means more number of foreign owned firms participate in the global value chains than the locally owned firms. The situation calls more participation and integration of local firms to the global market. The implication would be local firms need to learn and adopt skills for building competitive capacity to participate in the global value chain. The table below shows the frequency of ownership among firms.

Table 6: Ownership of firms

Ownership	Frequency	Percent	Cumulative Percent
Private Local	10	37.0	37.0
Private Foreign	14	51.9	88.9
Public Local	3	11.1	100.0
Total	27	100.0	

Source: Survey Data, December 2015

4.1.4. Export and Local Sale Share of Firms

The share of export and local sale are indicators of how much firms give emphasis to the global market and local market. While the average share of export sale within the firms under

consideration is 56.22%, the local market takes the remaining share of 43.78 %. This shows much of the production by these firms is exported and has a connection with global value chain. As it is depicted in the following consecutive tables, there is average deviation of 31.729(Std. deviation). This means there is a great deviation between firms in their export share from their total production and in turn to the global market involvement.

Table 7: Export and Local Sale: Descriptive Statistics

Export Sale	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance
Export Sale	27	99	1	100	1518	56.22	31.729	1006.718
Valid N	27							
Local Sale	**N**	**Range**	**Minimum**	**Maximum**	**Sum**	**Mean**	**Std. Deviation**	**Variance**
Local Sale	27	99	0	99	1182	43.78	31.729	1006.718
Valid N	27							

Source: Survey Data, December 2015

4.2. Production Process of Textile and Garment Industry

An overview of the production process of the textile and garment is important to understand the value chain of the industries. Further, the relationship between textile and garment industries is crucial to relate the value chains in the industry. Here it is necessary to present the production process of both the textile and garment manufacturing in order to make clear the link between textile and garment producing firms. The following chart shows the production process of textiles.

Flow Chart of Textile Production Process

Input/Raw Materials →→ Processing Steps → →→→→→ Output

Textile Fibers →→→→→→→ Yarn Manufacturing →→→→→→→→→→→→→ Yarn

(cotton, wool, (Spinning Mill)

silk, synthetic, jute) ↓

↓

Yarn→→→→→→→→→ Fabric Manufacturing→→→→→→Grey Fabrics

(Weaving/Knitting Industry)

↓

Grey Fabrics→→→→→→→→Wet Processing →→→→→→Finished Fabrics

(Dyeing, Printing & Finishing Industry)

↓

Finished Fabrics→→→→→ →Garment Manufacturing→→→→→→ Garments

(Garment Industry)

Source: http://textilelearner.blogspot.com

Garment manufacturing is an extension of textile industry in which the output of textile industry is converted in to final consumable products. Like the textile industry, garment manufacturing has its own stepwise production process. In value chain concept, every step of a production process has a value-adding role on the product. Stepwise garments manufacturing sequence on industrial basis is presented here under and Table 11 describes the detail job and the method of doing the work.

Garments Production Process

Design / Sketch → Pattern Design → Sample Making → Production Pattern → Grading → Marker Making → Spreading → Cutting → Sorting/Bundling → Sewing/Assembling → Inspection → Pressing/ Finishing → Final Inspection → Packing → Dispatch

Table 8: Garment Production Process Activities

Operation	Activities	Method
Design/ Sketch	It is given by buyers to manufacturers containing sketches including measurements of particular styles	Manual/Computerized
Basic Block	Basic block is an individual component of garments without any style of design (without Allowance, Style, Design)	Manual/Computerized
Working Pattern	When a pattern is made for a particular style with net dimension regarding the basic block along with allowance then it is called working pattern.	Manual/Computerized
Sample Garments	To make a sample, this will be approved by buyer. After making a sample, it is sent to buyer for approval to rectify the faults	Manual
Approved Sample	After rectify the faults, sample is again sent to buyers. If it is ok then , it is called approved sample	Manual
Costing	Fabric costing Making charge Trimmings Profit	Manual

Production Pattern	Making allowance with net dimension for bulk production	Manual/Computerized
Grading	If the buyer requires different sizes, so should be grade as S, M, L, XL, XXL	Manual/Computerized
Marker Making	Marker is a thin paper which contains all the components for different sizes for a particular style of garments	Manual/Computerized
Fabric Spreading	To spread the fabrics on table properly for cutting	Manual/Computerized
Cutting	To cut fabric according to marker dimension	Manual/Computerized
Sorting & Bundling	Sort out the fabric according to size and for each size making individual bundles	Manual
Sewing	To assemble a full garments	Manual
Ironing & Finishing	After sewing we will get a complete garment which is treated with steam ironing & also several finishing processes are done for example extra loose thread cutting	Manual
Inspection	Should be approved as initial sample	Manual
Packing	Treated by Polyethylene bag	Manual
Cartooning	After packing, it should be placed in cartooning for export	Manual
Dispatching	Ready for export	Manual

Source: http://textilelearner.blogspot.com

4.2.1. Products Produced by the Firms under this Analysis

Surveyed firms were asked to choose type of products produced from the list of cotton yarn, other yarn, weavon fabric, knitted fabric, clothing, and accessories. This question makes the

researcher to know the product diversity of firms and the concentration of products in the sub-sector. In terms of product diversity, the table below shows out of the total twenty-seven firms, 10 firms produce only clothing, four produce only weavon fabric and one produces only cotton yarn. The remaining firms (12) produce mix of products maximum up to four products from six choices. With maximum diversity, one firm produces the basic textile products (cotton yarn, other yarn, weavon and knitted fabric). Surprisingly, no firm produces accessories.

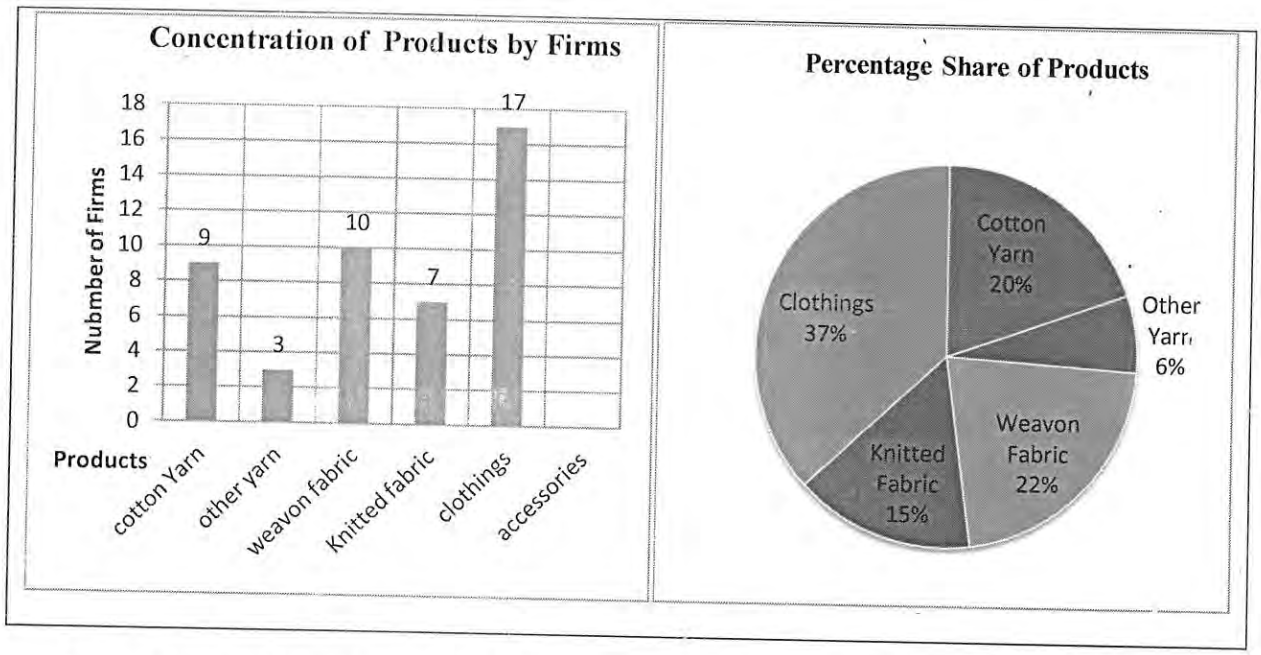
Table 9: Product Type of Firms

Products	Frequency	Percent	Cumulative Percent
Cotton yarn	1	3.7	3.7
Cotton yarn, other yarn, weavon fabric, knitted fabric	1	3.7	7.4
Cotton yarn and weavon fabric	2	7.4	14.8
Cotton yarn, weavon fabric, knitted fabric, clothing	1	3.7	18.5
Cotton yarn, weavon fabric, clothing	1	3.7	22.2
Cotton yarn and knitted fabric	1	3.7	25.9
Cotton yarn, knitted fabric, clothing	1	3.7	29.6
Cotton yarn and clothing	1	3.7	33.3
Other yarn and weavon fabric	1	3.7	37.0
Other yarn, knitted fabric, clothing	1	3.7	40.7
Weavon fabric	4	14.8	55.6
Knitted fabric and clothing	2	7.4	63.0
Clothing	10	37.0	100.0
Total	27	100.0	

Source: Survey Data, December 2015

In aggregate, clothing is the most produced product by exporting firms; out of the assessed 27 firms 17 of them produce clothing and it is about 37% of the firms. Weavon fabric is produced

by 22 percent of assessed firms. Figure 7 depicts number of firms for export products and percentage share of products in terms of firms. It assures the explanation in the review literature that the major part of export performance by the sub-sector comes from garment industry. This is also a clear indication that Ethiopian firms are at the labour intensive and low value adding stage of production in the global value chain.



Source: Survey Data, December 2015

Figure 7: Concentration of Products by Firms

4.3. Global Value Chains Governance typology

Identification of the type of global value chain governance in which Ethiopian textile and garment sub-sector is operating is one of the objectives of this study. In the survey questionnaire, firms were asked to choose from the five options regarding how they are related with their export buyers. The question was presented as "How is your relationship or buying dynamics with your

export buyers?" To make understandable for respondents, the five types of global value chains were presented in clear terminologies. The perfect competition or market price (e.g. bidding) selling type was for "Market Governance"; selling with supplier contract(e.g. Turn-key supplier) was for " Modular Governance"; selling because of long term relationship represent "Relational Governance"; frequent selling of much of their product with long-term relationship (80% of the product) represents "Captive Governance", and selling to subsidiaries represents "Hierarchy type of Governance." This question is an important question in the research since the response determines the GVC governance in which the Ethiopian textile and garment sub-sector is operating.

Some of the firms under assessment of this study have given multiple responses and others gave a single response. The frequency of responses from respondent is presented in Table 13. Three firms said they have only a market relation with their export buyers. Five of the firms indicated that they have related with their export buyers with only modular type of governance. Two firms have singled out the relational type of governance for their relation with their export buyers. The majority of firms, 13 out of 27, specified that their relationship with their export buyers is frequent selling of much their product with long-term relationship (80% of the product) which is the captive type of global value chains governance.

Though firms gave multiple responses to the question, none included "Captive Governance" in their multiple answers. Four of respondents combine "Relational type of governance" with market, modular, and hierarchy. There is no firm that chose hierarchy alone for the relationship with export buyers; only one firm chose it in combination of market and relational type of

governance. The captive type of global value chain governance has a share of 48.1% percent in terms of number of firms and 18.5% of firms have only modular type of global value chain governance with their buyers. Around 11% of the firms have only market type of global value chains governance with their global buyers.

Table 10: Type of GVCs Governance by Number of Firms

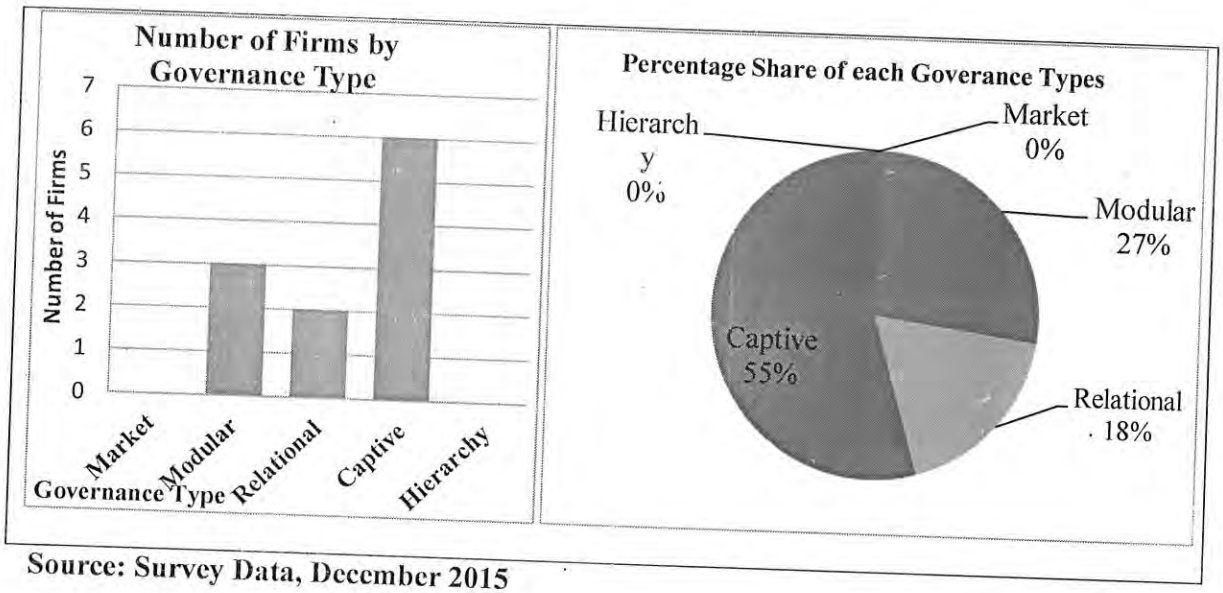
Governance*	Frequency	Percent	Cumulative Percent
Market	3	11.1	11.1
Market & Relational	1	3.7	14.8
Market, Relational & Hierarchy	1	3.7	18.5
Modular	5	18.5	37.0
Modular & Relational	2	7.4	44.4
Relational	2	7.4	51.9
Captive	13	48.1	100.0
Total	27	100.0	

Source: Survey Data, December 2015

*** Governance type is asked as represented in the annex part.**

It would be necessary to see the type of global value chains governance with respect to the business engagement of firms. Out of the nine integrated firms, six of them have a captive type of global value chain governance; one has only modular; and two have modular and relational type of global value chain governance. Dominated by captive governance, the three type global value chains governances are concentrated in the integrated group of firms. The following

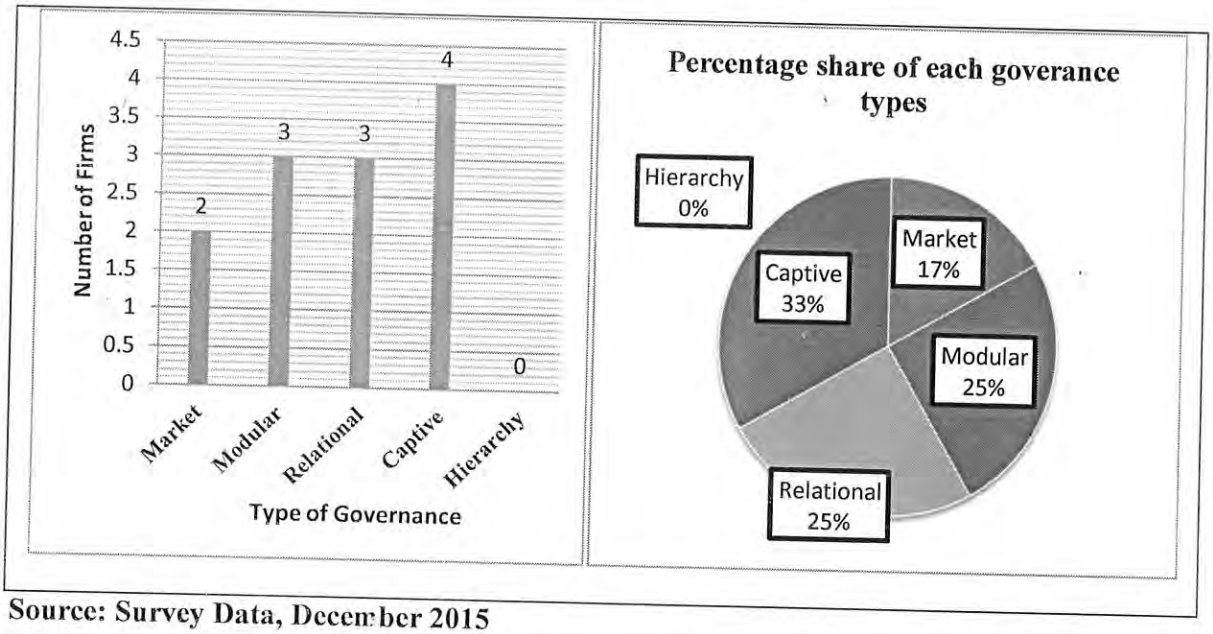
figures show the share of each type of global value chains governance with respect to integrated firms.



Source: Survey Data, December 2015

Figure 8: Type of GVCs governance in the Integrated Industry

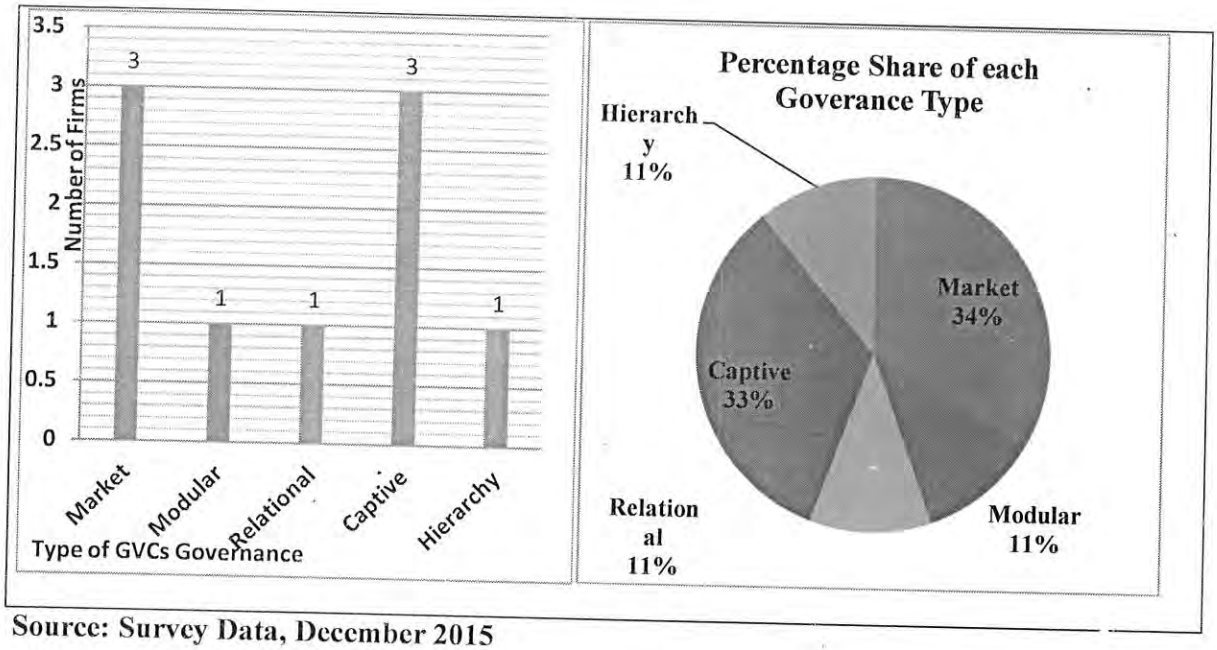
Within the garment industry still the captive type of global value chain is the dominant one thought lesser in proportion than the integrated firms. The four types of relations are distributed with slight variation. Out of the total 11 firms, four have captive type of governance with their global buyers, equally with modular; three firms have relational type of global value chains governances. The market type of governance is observed only in the relationship of two firms with their export buyers in the garment industry. The captive type of governance has 33 % share in terms of number of firms from garment manufacturers. The following figures show the share of each type of global value chains governance distribution within the garment firms under assessment by this study.



Source: Survey Data, December 2015

Figure 9: Number and Percentage Share of each Governance Type in the Garment Industry

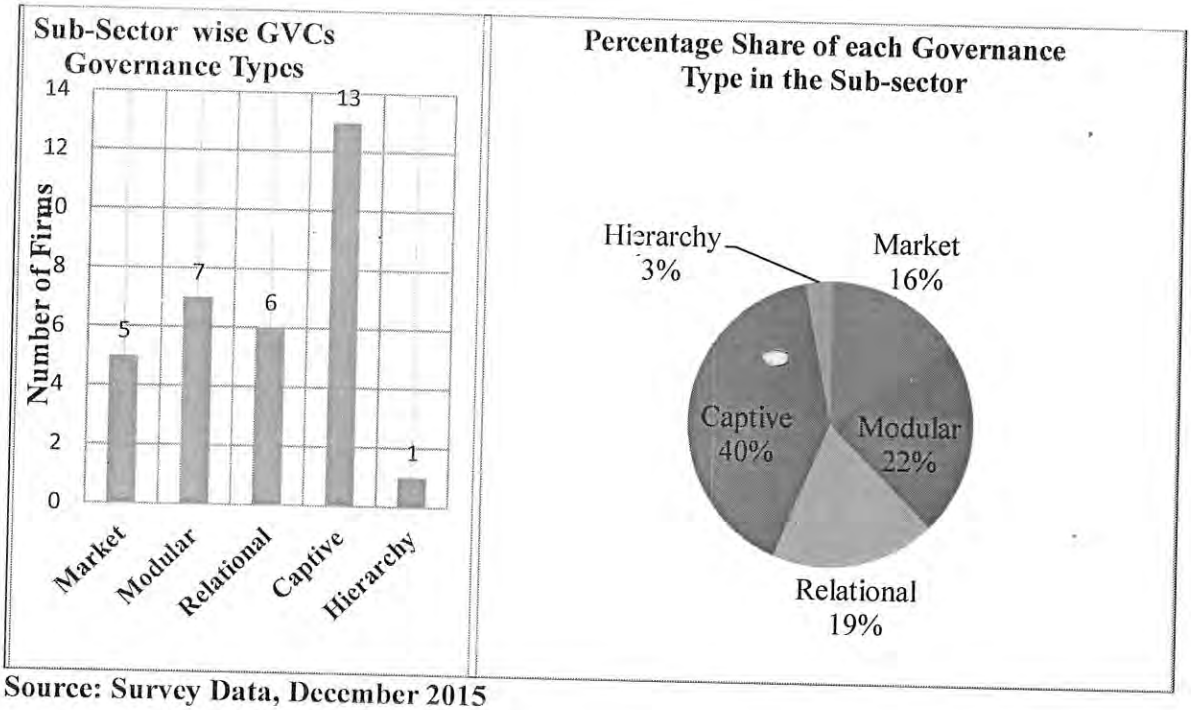
In the Textile manufacturing firms, there is existence of all types of relations. Three have a market type of governance with their global buyers; equally, three firms have the captive type of relationship with their export buyers. In the group of textile manufacturing firms, equally for each, one firm has relationship of modular, relational and hierarchy type of global value chains governances with buyers. The captive and market global value chain governance take equal percentage share in general number of firms in the textile manufacturing. It might be because that textile firms have a better domestic demand due to forward linkage and have the bargaining power both at domestic and global market so that market type of global value chains governance has been observed in higher number of firms than the garment and integrated industries of the sub-sector.



Source: Survey Data, December 2015

Figure 10: Distribution of GVCs Governance Type in the Textile Industry

The global value chains governance type in which the textile and garment sub- sector of Ethiopia is operating can be seen from the cumulative of the above three group of firms in the sub-sector. The assessment is done on twenty-seven firms out of 33 exporting firms in the sub-sector in the 2013/14 fiscal year. In the three divisions of the sub-sector industries, the captive global value chains governance is the dominant both in number of firms and percentage share. Thirteen firms are operating purely with captive governance and they haven't been within other type of global value chain governances. As it is shown in the figure 11, 40 % of the firms considered in this study are exporting their product under captive global value chains governance. This implies that the sub-sector is highly dominated by captive global value chains governance in the global market. The implication of each governance type with Ethiopian textile and garment firms is seen below.



Source: Survey Data, December 2015

Figure 11: Distribution of each Type of GVCs Governance in the Textile and Garment Sub-sector of Ethiopia

The main characteristics of the five types of the global value chain governance are organized and described in the next paragraphs sourced from review literature and web pages.

https://www.microlinks.org/good-practice-center/value-chain-wiki/types-value-chain-governance

http://www.rug.nl/research/ggdc/activities/workshops/eframe/slides/session2_vanbiesebroeck.

Market Relation:

When transactions are easily codified, product specifications are relatively simple, and suppliers have the capability to make the products in question with little input from buyers, asset specificity will not be significant and the market governance exists. In this case, buyers respond to specifications and prices set by suppliers. Because the complexity of information exchanged is relatively low, transactions can be governed with little explicit coordination. This relation

requires little or no formal cooperation between actors and the cost of switching to new client is low for producers and suppliers. The central governance mechanism is price rather than a powerful lead firm. The linkages between value chain activities are not very "thick" because the information that needs to be exchanged and knowledge that needs to be shared is relatively straightforward. For the existence of such relation, suppliers need to have well established network and be good competitor in the international market. In addition, suppliers are required to be within the locally highly linked industry. Ethiopian textile and garment firms are not at the position of being highly competitors in the global market. As it is indicated earlier, most of the firms are at low level of employment creation, with simple organizational formation, have small capital and operating at the low value adding stage of production of the global value chain. Thus, the market governance is not attainable with the current performance level of Ethiopian textile and garment sub- sector, specially for garment and integrated firms.

Within the sub-sector, textile firms might have the possibility to have market based relation with their buyers. This is due to the fact that textile firms have the opportunity to exploit both local and foreign demand as they are positioned at upstream of the global value chain. Creating of market based relation with global buyers can be easy for Ethiopian textile firms and it will be advantageous for moving up along the functional upgrading. A well-structured and efficient innovation system may help to reduce the complexity of transactions, and therefore make transactions based on market and the risk of falling into a captive relationship diminishes.

Modular Value Chains Relation

In the modular relation, the ability to codify specifications extends to complex products; product architecture is modular and technical standards simplify interactions by reducing component

variation and by unifying component, product, and process specifications. Suppliers have the competence to supply full packages and modules which internalizes hard to codify (tacit) information, reduces asset specificity and the need of buyer's for direct monitoring and control. Linkages based on codified knowledge provide many of the benefits of market linkages – speed, flexibility, and access to low-cost inputs – but are not the same as classic market exchanges based on price. In process of transferring information from a lead firm to a supplier, there is much more flowing across the inter-firm link than information about prices. Because of codification, complex information can be exchanged with little explicit coordination, and so, like simple market exchange, the cost of switching to new partners remains low. Suppliers in modular value chains tend to take full responsibility for process technology and often use generic machinery that spreads investments across a wide customer base. Linkages are necessarily thicker than in simple markets but at the same time codification schemes and the internalization of coherent realms of knowledge in value chain "modules," such as design or production, can keep interactions between value chain partners from becoming highly dense and idiosyncratic.

Most of Ethiopian textile and garment firms are at entry level of the global value chain and they do not have the competency to supply full packages and modules which internalizes tacit information, reduces asset specificity and the need of buyer's for direct monitoring and control. So they cannot take full responsibility for process technology and use generic machinery that spreads investments across a wide customer base. As it is described earlier, Modular relation is exhibited among the integrated and garment firms. Modular relation is beneficiary for integrated firms as they are comparably more capable to supply full packages than the other two groups of firms. This is due to the fact that integrated firms have the options to perform both the downstream and upstream production stage of textile and garment and get in-house inputs for

downstream activities. Ethiopian integrated firms would be more advantageous by moving towards creating modular relation with their export buyers.

Relational value chains relation:

This relation occurs when product specifications cannot be codified, transactions are complex, and supplier capabilities are high. This is because tacit knowledge must be exchanged between buyers and sellers, and because highly competent suppliers provide a strong motivation for lead firms to outsource to gain access to complementary competencies. There is strong inter-dependency between buyer and supplier and both make relationship-specific investments; products are highly customized. The mutual dependence is regulated through reputation, social and spatial proximity, family and ethnic ties, and the like. Imposing costs on the part that breaks a contract is another handling mechanism. The exchange of complex tacit information is most often accomplished by frequent face-to-face interaction and governed by high levels of explicit coordination which makes the costs of switching to new partners high. Dense interactions and knowledge sharing are supported by the deep understanding value chain partners have of one another, but unlike the codification schemes that enable modular networks, this tend to be idiosyncratic and thus difficult and time-consuming to re-establish with new value chain partners.

In this study, relational value chain relation is observed among garment and integrated firms of Ethiopia. With the characteristics of relational relation, it is more advantageous for Ethiopian garment and textile firms because these firms could learn skills, develop technological capability, and establish local supply chain with component and material suppliers. Particularly garment

firms will be benefited more from relational governance because there is long upstream chain to create domestically inter-linkage with component and material suppliers.

Captive value chain relation:

In the case of captive value chains, suppliers ability to codify – in the form of detailed instructions – and the complexity of product specifications are both high but supplier capabilities are low. The low supplier competence in the face of complex products and specifications requires a great deal of intervention and control on the part of the lead firm, encouraging the build-up of transactional dependence as lead firms seek to lock-in suppliers in order to exclude others from reaping the benefits of their efforts. Captive suppliers are frequently confined to a narrow range of tasks – for example, mainly engaged in simple assembly – and are dependent on the lead firm for complementary activities such as design, logistics, component purchasing, and process technology upgrading. Captive inter-firm linkages control opportunism through the dominance of lead firms, while at the same time providing enough resources and market access to the subordinate firms to make exit an unattractive option.

The asymmetric power relationships in captive networks force suppliers to link to their customer in ways that are specified by, and often specific to a particular customer, leading to thick, idiosyncratic linkages. Since the core competence of the lead firms tends to be in areas outside of production, helping their suppliers upgrade their production capabilities does not encroach upon this core competency, but benefits the lead firm by increasing the efficiency of its supply chain. Captive types of governance structures of value chains imply that distributors (lead firms) enforcing standards/regulations, could substitute suppliers whenever other supplier with higher compliance capabilities is identified. Captive would face more difficulties to develop a

relationship with the same resources with other buyers, the length of the relationships creates path dependence (lock-in) between the partners, reducing the chances of substituting one another. The expected relationship length higher than the industry average is associated to higher captivity of the supplier to the buyer.

With all the above description, captive relation is not a favourable relation for Ethiopian firms under consideration. However, it is the easiest way to engage in the global value chain and Ethiopian firms can be provided with enough resources and market access from buyers so that they can build their capacity for the better relation like modular or market. Integrated firms have a better chance to escape from being captive as they are linked both from the backward and forward. With innovation system, integrated firms will be at better position to exploit the opportunities from the captive relation. Textile firms are not exposed to captivity as compare with garment and integrated firms due to the wider demand chain for their products. Ethiopian garment firms are the least beneficiary from the captive relation and exposed to long-term captivity under lead firms. This is because there is a need to create domestically integrated industry linkage to establish more gain-full relations and garment firms are positioned at low value adding of the value chain and need to build capability to extend beyond simpler tasks.

Hierarchy Relation:

It is established when product specifications cannot be codified, products are complex, and highly competent suppliers cannot be found, then lead firms will be forced to develop and manufacture products in-house. This governance form is usually driven by the need to exchange tacit knowledge between value chain activities as well as the need to effectively manage complex webs of inputs and outputs and to control resources, especially intellectual property. This

governance pattern is characterized by vertical integration (i.e."transactions" take place inside a single firm). The dominant form of governance is managerial control. Firms either invest offshore directly or buy goods and services from foreign firms. One company can have total control over another– it is a hierarchy. An asymmetric value chain is usually a long-term relationship, having as coordinator the producer or the buyer, and is commonly run as a hierarchical system. The coordinator can implement an extended corporate governance structure, without taking into account partners' interests.

This governance relation is observed within the firms which have head quarter in foreign countries. It is useful relation for newly established firms and small enterprises as it helps to learn managerial skill and governance structure under the umbrella of the big firms. In the case of Ethiopian textile and garment firms, this relation will be advantageous for attracting foreign direct investment and knowledge spillover to the local firms from the multi-national companies. Integrated firms are tended to have hierarchy governance relation because there is a great possibility either the upstream or the downstream activities can be relocated and established in another country. This relation is highly beneficial for firms operating at upstream activities (For example textile) and have head quarters in abroad for the downstream activities (like marketing, distribution).

4.3.1. Export Buyers

In survey data collection, firms were asked their buyers type in the global market. This variable tells the lead firms type, the level of firms' position in the value chain and to what extent they have power on their products and in the global market. Most of the firms are selling their product to branded marketers. About 57 % of the firms, fifteen of the surveyed firms; sell their product

only for branded marketers. Only three of firms sell their product to retailers. Selling to retailers is found mostly with cultural clothing producers and in the strong historical established companies like Dire Dewa Textile, which has its own brand. Two firms sell their product to retailers and branded marketers and only one firm has the experience of selling its product to retailers, branded marketers and branded manufacturers. The cultural clothing producers have a comparative advantage of high domestic value adding and would have the opportunity to sell their product to the cultural tied buyers. There are firms also selling their products to buying houses, wholesaler stores, and directly to consumers. However, the share of their export sale is very low. This indicates that the branded marketers are dominant buyers of the textile and garment sub-sector of Ethiopia. With the above-discussed type of governances, the dominant lead firms in global market with respect to the Ethiopian textile and garment sub-sector are brand marketers and most of the local firms have a little role than producing the product. These brand marketers monitor and control Ethiopian firms for the compliance of their requirements. On the other hand, it is an opportunity for Ethiopian firms to participate in the GVCs and learn the global trade skills from these brand marketers.

Table 11: Type of Export Buyers

Buyers Type	Frequency	Percent	Cumulative Percent
Retailers	3	11.1	11.1
Retailers & Brand Marketers	2	7.4	18.5
Retailers, Branded Marketers, & Branded Manufacturer	1	3.7	22.2
Branded marketers	15	55.6	77.8
Branded Marketers & Branded Manufacturer	1	3.7	81.5
Branded manufacturer	3	11.1	92.6
other	2	7.4	100.0
Total	27	100.0	

Source: Survey Data, December 2015

Table 12: Cross Tabulation of Business Engagement and Export Buyers

Business Engagement * Export Buyers Cross Tabulation								
Business Engagement	**Export Buyers**							**Total**
	Retailers	**Retailers & Branded Marketers**	**Retailers, Branded Marketers, & Branded Manufacturer**	**Branded marketers**	**Branded Marketers & Branded Manufactur er**	**Branded manufactur er**	**Other**	
Textile	1	2	0	1	0	2	1	7
Integrated	1	0	1	6	0	1	0	9
Garment	1	0	0	8	1	0	1	11
Total	3	2	1	15	1	3	2	27

Source: Survey Data, December 2015

4.4. Upgrading Trends by Firms in the Sub- sector

The second main objective of this research is to analyze the upgrading trend and potential of the sub-sector in the global value chains. In the survey questionnaire, a question was included to identify the techniques firms applied for the past three years for their business growth in the export market was included. As in the case of the governance, the researcher here also used clear phrases to represent the technical terms of different upgrading types. In the methodology part of the study, the representative phrases, and explanation for product, process, functional and chain (inter-sectoral) upgrading are described. Other than the four upgrading trajectories, there was also a "no improvement" option in choices to represent upgrading has not done. In this study, upgrading refers to only economic upgrading and it does not include other aspects of upgrading. The upgrading type is an indicator of firms' capacity, position, and potential for capturing the gain in the global value chains participation. Profit comes from the upgrading to hold

combination of high value activities in the value chains. Accordingly, firms were assessed based on their experience of upgrading practices for the growth business in the export market.

The result shows that out of the 27 firms, seventeen of them gave a single answer and the remaining ten gave multiple answers. Eleven of the single answer respondents were carrying out product upgrading for the last three years, four of them were doing process upgrading, functional and chain upgrading each were performed by one firm. From the multiple respondents, the mix of product and process upgrading took the highest number of firms: eight. One firm did three of the upgrading types (product, process & functional).

Table 13: Type of Upgrading by Firms

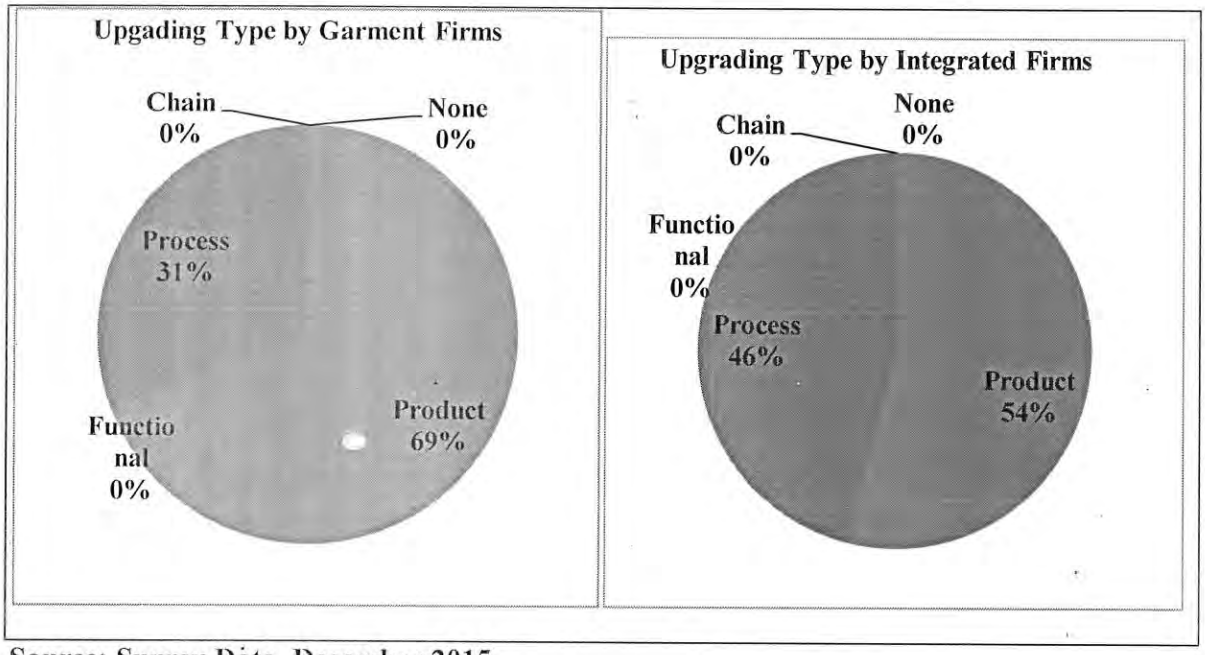
Upgrading Type*	Frequency	Percent	Cumulative Percent
Product	11	40.7	40.7
Product & Process	8	29.6	70.4
Product, Process & Functional	1	3.7	74.1
Product & Functional	1	3.7	77.8
Process	4	14.8	92.6
Functional	1	3.7	96.3
Chain/Inter-sectoral	1	3.7	100.0
Total	27	100.0	

Source: Survey Data, December 2015

* Upgrading type is asked with the phrases represented in the methodology part of the study.

In the integrated firms, only product and process upgrading were used as techniques for the growth of business in the global market during the past three years. The same is true for garment industries. Though in both cases product upgrading was intensively applied, in garment

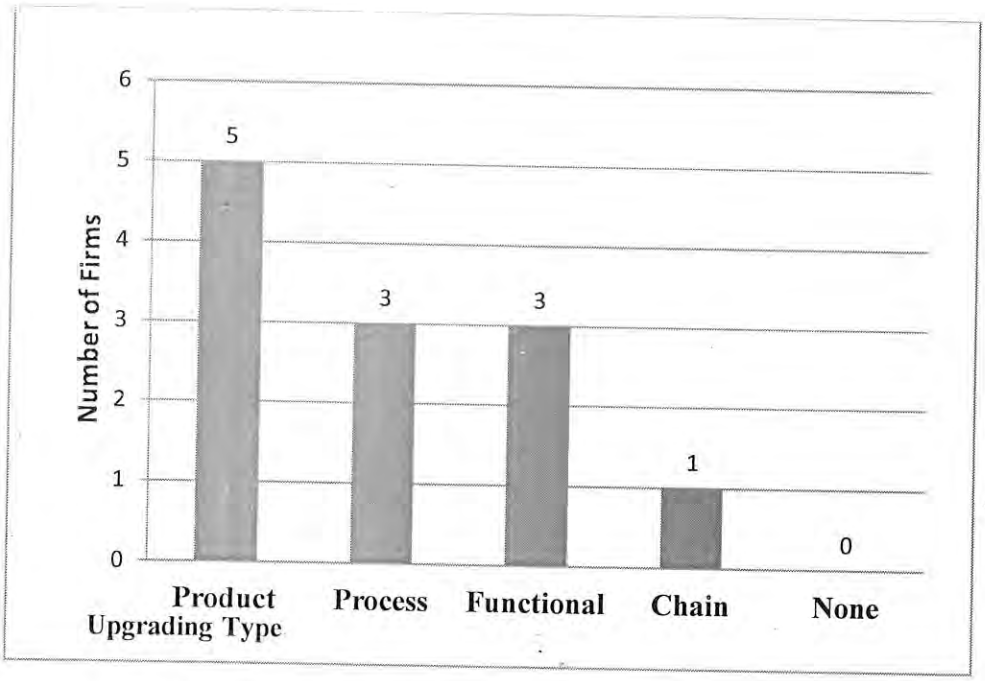
industries the extent was higher than in the integrated firms was. The intensity of the product and process upgrading in the garment and integrated firms is shown on the following figure.



Source: Survey Data, December 2015

Figure 12: Type of Upgrading in the Garment and Integrated Firms

All the upgrading types have occurred in the group of textile firms yet the product upgrading considerably done by most of the firms. Out of seven assessed textile firms, five of them performed product upgrading and; equal three textile firms did process, and functional upgrading. One firm used chain upgrading for its business growth model in the global market. The following figure shows the type of upgrading used by textile firms for as growth model of their business in the global market. Seventy one percent of the textile firms adopted product upgrading and equal 43 % of firms implemented process and function upgrading to increase their business in the global market in the last three years. On the Figure 13, the diversity of upgrading types approached by textile firms can be easily seen.



Source: Survey Data, December 2015

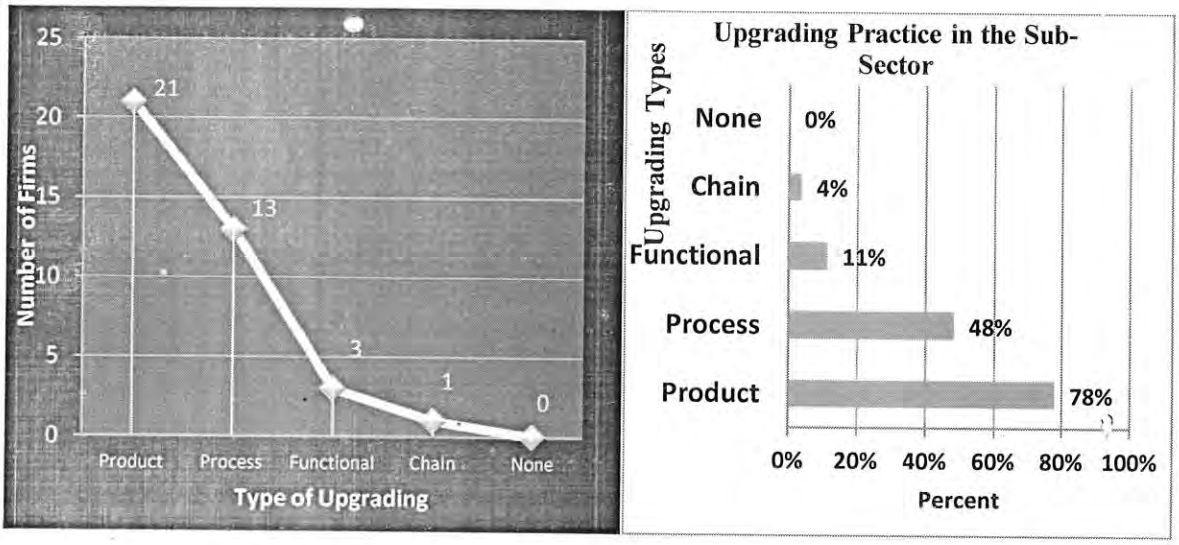
Figure 13: Upgrading Activities by Textile Firms

At the level of the sub-sector, out of the twenty-seven of exporting firms, twenty-one of them have been using product upgrading to increase their business in the export market. Thirteen applied process upgrading as business model for their export market. A few numbers of firms did the other types of upgrading: functional by three firms and chain upgrading only by one firm. Seventy eight percent of firms opted product upgrading as their business model for export market growth and followed by process upgrading having 48 percent of the firms have been putting into practice it for business improvement in the last three years. This is a witness for the application of product and process upgrading both extensively and intensively in the textile and garment sub-sector of Ethiopia.

In the past, for a country to industrialize it had to develop the domestic capacity to perform all major steps in the value chains of complex manufactured products. Today through linking in to an international production network, countries can establish a specific section of a product's value chain without having all the upstream capabilities in place. Labor-intensive production stages like garment are moved to countries with a lower wage level. It is easier to integrate in to GVCs for garment firms though upgrading can be difficult as competition between providers at each stage is high and most value added is captured by the lead firms which mostly control distribution and marketing. Ethiopian textile and garment firms have a competitive advantage in the garment export as labour wage is low in Ethiopia. These firms have potential for more integration in the global value chains by specializing in the garment production of their competitive advantage, and upgrade their participation by building a competitive supply base of intermediate goods and by enhancing the quality of their exports.

The key for success in the moving up of upgrading trajectories and escaping the captive value chain governance is creating a more domestically integrated industry and higher value added form of exporting broadly known as in the industry as full package supply. In a situation where firms are locked in to low value added stage of GVC, it would be challenging to creating domestically integrated industry. Ethiopian firms must be committed to developing in the local market to reap long-term benefits from GVC. In the process of creating domestically integrated industry and upgrading in the global value chains, factors like lead firms' commitment to developing local linkage, meeting standard requirements, promoting local entrepreneurship, and enhancing domestic technical capacity are the critical areas to work on.

Participation in GVCs secures demand for production and increases the security and predictability of income; on the other hand, it may lead to a captive relationship where the supplier is a price–taker and foregoes economic freedom in the case of low capability of suppliers. This study found out that existence of such situation in the participation of Ethiopian textile and garment sub-sector in the global value chain. Ethiopian firms can strengthen their position and move up to a more value added product in the chain through product and process upgrading practice. These upgrading can done through advanced production technology, quality management skill, good design, rich know how on process management, efficient procurement network, software and other ICT processing complex tasks. The following figures show the share of each upgrading type in the sub-sector by number of firms.



Source: Survey Data, December 2015

Figure 14: Upgrading types by number of firms and its percentage cover.

4.4.1. Support from Buyers

To understand the level of buyer's power and the stage of functional upgrading the firms are positioned, firms were asked what support they are getting from their lead buyers. The

alternatives were : finance, human resource development, product design, manufacturing & technology, market, and research and development. Even though multiple responses were found, most firms get support in product design. Market is the second area in which buyers support local producers. Almost 26 % of the firms considered in this analysis get support from buyers only in terms of product design. About 22 percent of the firms (6 in number) in the aspect of receive both product design and market support. It is interesting to note that 3 firms do not get any support from buyers. The following table describes type of support firms are getting from their global buyers.

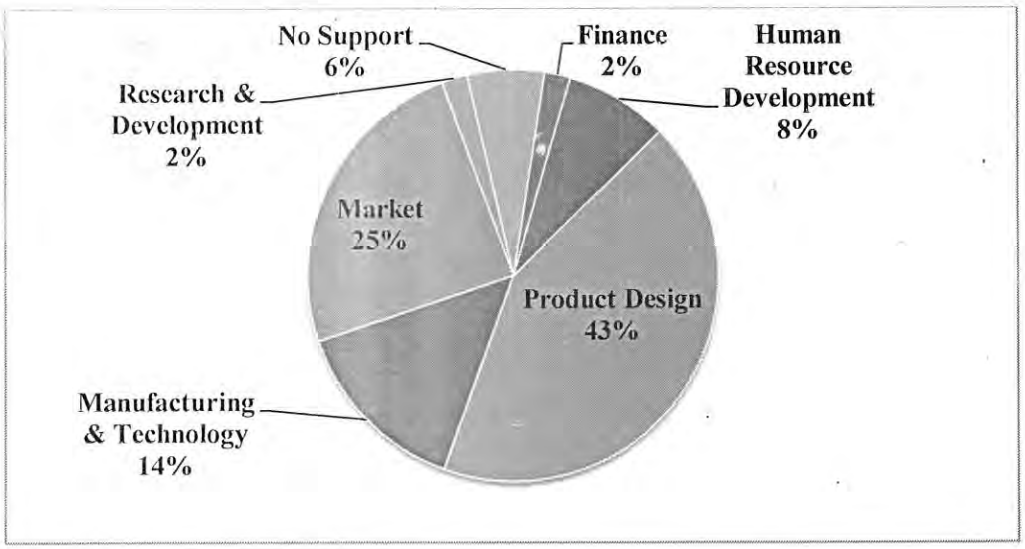
Table 14: Support from Buyers

Supports from Buyers	Frequency	Percent	Cumulative Percent
Finance, HRD, Product design, Manufacturing & Technology, Market, R&D	1	3.7	3.7
HRD, Product design,	1	3.7	7.4
HRD, Product design, Manufacturing & Technology	1	3.7	11.1
HRD & Market	1	3.7	14.8
Product design	7	25.9	40.7
Product design, manufacturing & Technology	2	7.4	48.1
Product design, manufacturing & Technology, Market	2	7.4	55.6
Product design & Market	6	22.2	77.8
Product design, Market & R&D	1	3.7	81.5
Manufacturing & Technology	1	3.7	85.2
Market	1	3.7	88 9
No Support	3	11.1	100.0
Total	27	100.0	

Source: Survey Data, December 2015

Generally, export buyers in terms of product design and market significantly support the sub-sector. In the GVCs literature, supports from buyers in terms of product design, and market are given in the first two stages of functional upgrading. In the case of Ethiopian textile and garment

sub-sector, export buyers significantly support local firms with product design and market. About 43 percent get support in the product design from buyers and 25% of the firms are supported in the market aspect. This is an implication of the development stage of Ethiopian textile and garment sub-sector. They are at the entry level of global value chain by supplying low value products. With the support of the global buyers, firms can commence upgrading from process and product, then move up to functional upgrading by improving given technologies and absorbing new technological capabilities. Ethiopian firms can take the support from buyers as the good opportunity to move up from where they are now. The figure below shows the percentage share of each kind of supports offered from buyers with respect to number of firms under consideration.



Source: Survey Data, December 2015

Figure 15: The Percentage share of kinds of supports from buyers in the number of firms

4.4.2. Reason for Business Improving in the Export Market

A question to find out the reasons for upgrading or business improving was presented in questionnaire for respondents. This variable helps to identify the initiator for business improvement in the export market. It answers what forced the firms for upgrading. The options were commitment of owner, increase in competition, buyers assist upgrading and new standard or regulation forces to upgrade. Nine of the firms improve their business only due to the owners' commitment. Five firms said they improved their business in global market due to the commitment of owner and increase in competition. Only one firm said its improvement of business in the export market was the result of buyer assistance for upgrading. Multiple reasons are more frequent than one reason for business improvement in the export market (see Table 15).

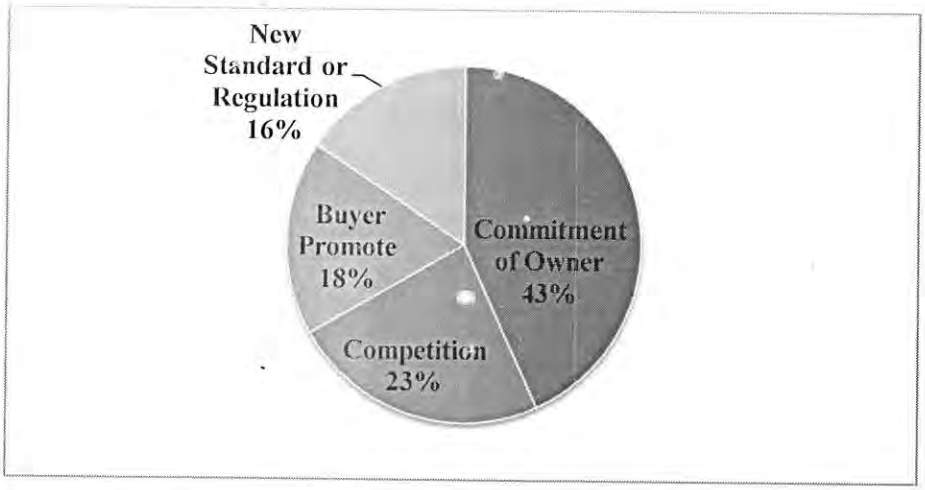
Table 15: Reason for Business Improving in the Export Market

S. N.	Reasons for Business Improvement	Frequency	Percent	Cumulative Percent
1	Owner commitment	9	33.3	33.3
2	Owner commitment & Increase in Competition	5	18.5	51.9
3	Owner commitment, Increase in Competition & Buyers assist upgrading	2	7.4	59.3
4	Owner commitment, Increase in Competition, Buyers assist upgrading & New standard or regulation forces	2	7.4	66.7
5	Owner commitment & Buyers assist upgrading	1	3.7	70.4
6	Owner commitment, Buyers assist upgrading & New standard or regulation forces	1	3.7	74.1
7	Owner Commitment & New standard or regulation forces	2	7.4	81.5

8	Increase in competition & Buyer assist upgrading	1	3.7	85.2
9	Increase in competition, Buyer assist upgrading, New standard or regulation forces	1	3.7	88.9
10	Increase in competition & New standard or regulation forces	1	3.7	92.6
11	Buyer assist upgrading	1	3.7	96.3
12	New standard or regulation forces	1	3.7	100.0
	Total	27	100.0	

Source: Survey Data, December 2015

About 43 percent of firms improve their business due to owners' commitment. This is an indication of Ethiopian firms' capacity in the face of global buyers. Since firms have less option to switch to other buyers, they are committed to stay in the business without major enforcement from buyers. It indicates the low competitiveness of Ethiopian firms in the face of their export buyers. Figure 6 shows reasons for business improvement for Ethiopian firms in the export market.



Source: Survey Data, December 2015

Figure 16: Reasons for business upgrading by firms

4.5. Participation of the Sub-Sector in the Global Value Chain

The last and third main objective of this study is to measure the participation level and direction of integration of textile and garment sub-sector of Ethiopia in the global value chains. In order to analyze this question of the research, firms were assessed based on four criteria. These four criteria are indicators of level and direction of both forward and backward integration. It is quite clear that in our country, input- output data for international trade at industry level are not easily found or not available. To overcome this problem, the researcher used four questions:1) Major export destination 2) Major source of foreign inputs 3) Share of foreign value in the gross export of firms 4) Share of domestic value(value added) in the gross export of firms. These four questions were directly presented to respondents. Based on these four criteria, the researcher assessed the global value chains participation of the Ethiopian textile and garment sub-sector.

4.5.1. Domestic Value Added and Forward integration

Respondents were asked to estimate and put the percentage share of domestic value added in their gross export. Forward integration is the share of a country's value-added exports that are embedded in the exports of other country. For this study, it was impossible to find data on how much of the domestic value added is going to be embedded in the export of other countries.

Participation in forward linkages of GVCs, is the extent of domestic value- added that enter export of other countries. Robert Koopman et.al (2010) divided gross exports into final demand and intermediates. Within intermediates, they further divide those goods that are consumed by the direct importer from those goods that are processed and exported by the direct importer for consumption or further processing in a third country.

Gross Export =Final goods exported to importer country + Intermediates absorbed in importer country + Processed and exported to third countries + Processed and exported back to exporter country

Key decomposition equation states that a country's gross export to the world is the sum of the following five broad terms:

1. Domestic value-added embodied in exports of final goods and services absorbed by the direct importer;
2. Domestic value-added embodied in exports of intermediate inputs used by the direct importer to produce its domestically needed products;
3. Domestic value-added embodied in intermediate exports used by the direct importer to produce goods for third countries ("indirect value added exports')
4. Domestic value-added embodied in intermediate exports used by the direct importer to produce goods shipped back to source ("reflected domestic value added")
5. Value-added from foreign countries embodied in gross exports ("foreign value added used in exports").

The sum of (1), (2), and (3) equals each country's value-added exports to the world; the sum of (1), (2), (3), and (4) equals domestic content in a country's gross exports. The domestic content is the gross base for measuring forward integration. In this study, domestic value added is considered as indicator of forward integration.

Within the domain of 27exporting firms on which this study based for the analysis, the maximum domestic value added found is 100% in the case of cultural cloth producing firm and the minimum is 10 % in the garment firm. The average domestic value added in sub-sector is 54.3 %

and this is the percentage used for the calculation of the forward integration level of the sub-sector in the global value chain. The deviation between firms' domestic value adding is high: the standard deviation is 32.065. The following table shows the descriptive statistics of domestic value added by the 27 firms.

Table 16: Average sub-sector Domestic Value Added : Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Domestic Value added	27	90	10	100	54.30	32.065	1028.140
Valid N	27						

Source: Survey Data, December 2015

There is great variation in the domestic value adding nature of the three industry of the sub-sector. The average domestic value added in the integrated firms is 47 % and it is 42% in the garment industry. However, in the textile industry, the average domestic value adding is 84 % which is much higher than those of the other two group of industries. Many of the firms in the textile industry are at high domestic value adding position where-as high number of firms are at low level of domestic value adding in the garment industry. The proportion of forward integration within the global value chain is high for textile industry and low for garment industry. It is due to the fact that textile production is the starting of the value chain for textile and garment manufacturing and textile industry uses higher amount of primary inputs which are available locally than garment industry. Another reason is that most of garment firms are working on the bases of CMT so that much of the inputs come from buyers. The following table shows the distribution of domestic value adding by business engagement.

Table 17: Domestic Value Added * Business Engagement Cross Tabulation

Domestic Value Added Share(%)*	Business Engagement						Total Number of Firms
	Number of Textile Firms	Total Value Added	Number of Integrated Firms	Total Value Added	Number of Garment Firms	Total Value Added	
10					1	10	1
20	1	20	2	40	3	60	6
25			1	25	1	25	2
30			1	30			1
35			1	35			1
38					1	38	1
40					1	40	1
41					1	41	1
60			1	60	1	60	2
70			1	70			1
80			2	160	0	0	2
90	3	270			1	90	4
95					1	95	1
98	1	98					1
99	1	99					1
100	1	100					1
Total	7	587	9	420	11	459	27
Average Domestic Value Added Share(%)		84		47		42	0

Source: Survey Data, December 2015

* Based on the Estimation by Firms

The forward integration of the sub-sector is highly skewed towards USA and EU markets. Out of 27 firms, five export their product only to the USA market. Six firms export their product to only USA and EU market. About 19 percent of the firms export their product only to the USA market and about 41 percent of the exporting firms export their product to either USA market or EU

market. Two firms export only to Chinese market and one firm exports to only EU market. Table 18 shows number of exporting firms to each export market.

Table 18: Export Destination for Firms Product

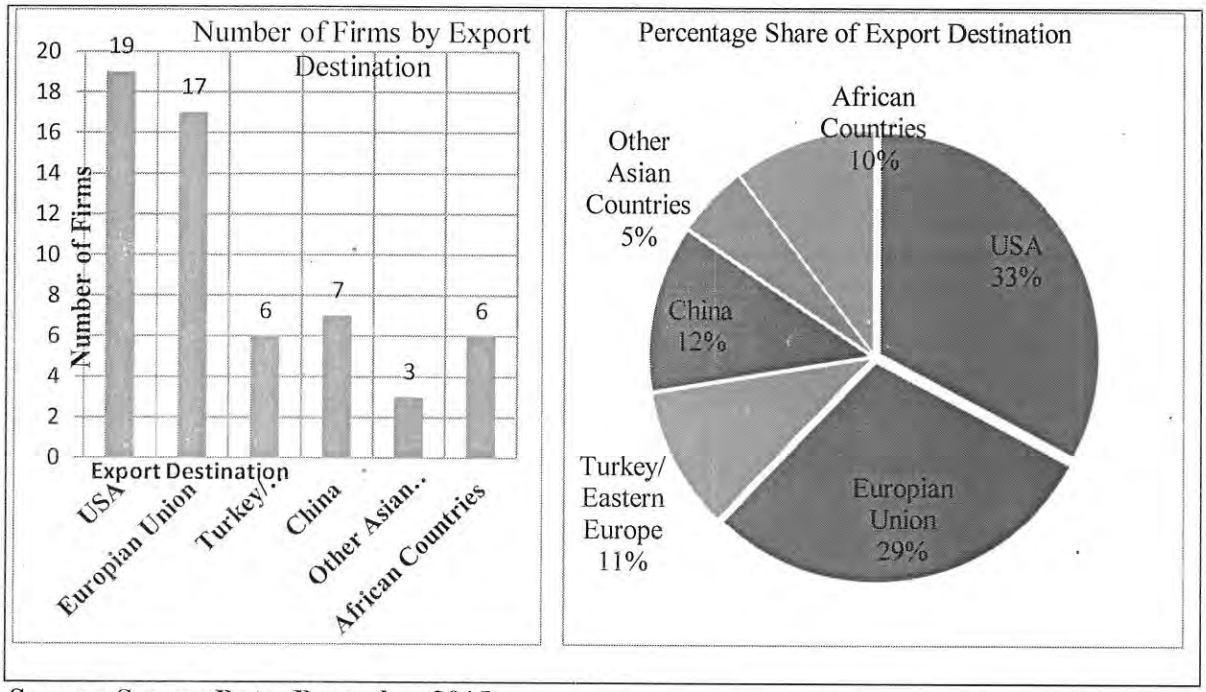
Export Destination	Frequency	Percent	Cumulative Percent
USA	5	18.5	18.5
USA & EU	6	22.2	40.7
USA & EU Turkey/Eastern Europe	1	3.7	44.4
USA, EU, China	1	3.7	48.1
USA, EU, China, other Asian Countries*	1	3.7	51.9
USA, EU, other Asian Countries ,African Countries	1	3.7	55.6
USA, EU, African Countries	1	3.7	59.3
USA, African Countries	2	7.4	66.7
USA, EU, Turkey/ Eastern Europe, China, other Asian Countries	1	3.7	70.4
EU	1	3.7	74.1
EU, Turkey/Eastern Europe	2	7.4	81.5
EU, Turkey/Eastern Europe, China	1	3.7	85.2
EU, China	1	3.7	88.9
Turkey/Eastern Europe, African Countries	1	3.7	92.6
China	2	7.4	100.0
Total	27	100.0	

Source: Survey Data, December 2015

* Other Asian Countries include Pakistan, India, Thailand, Taiwan, Indonesia, Kong Hong, Malaysia, and Bangladesh.

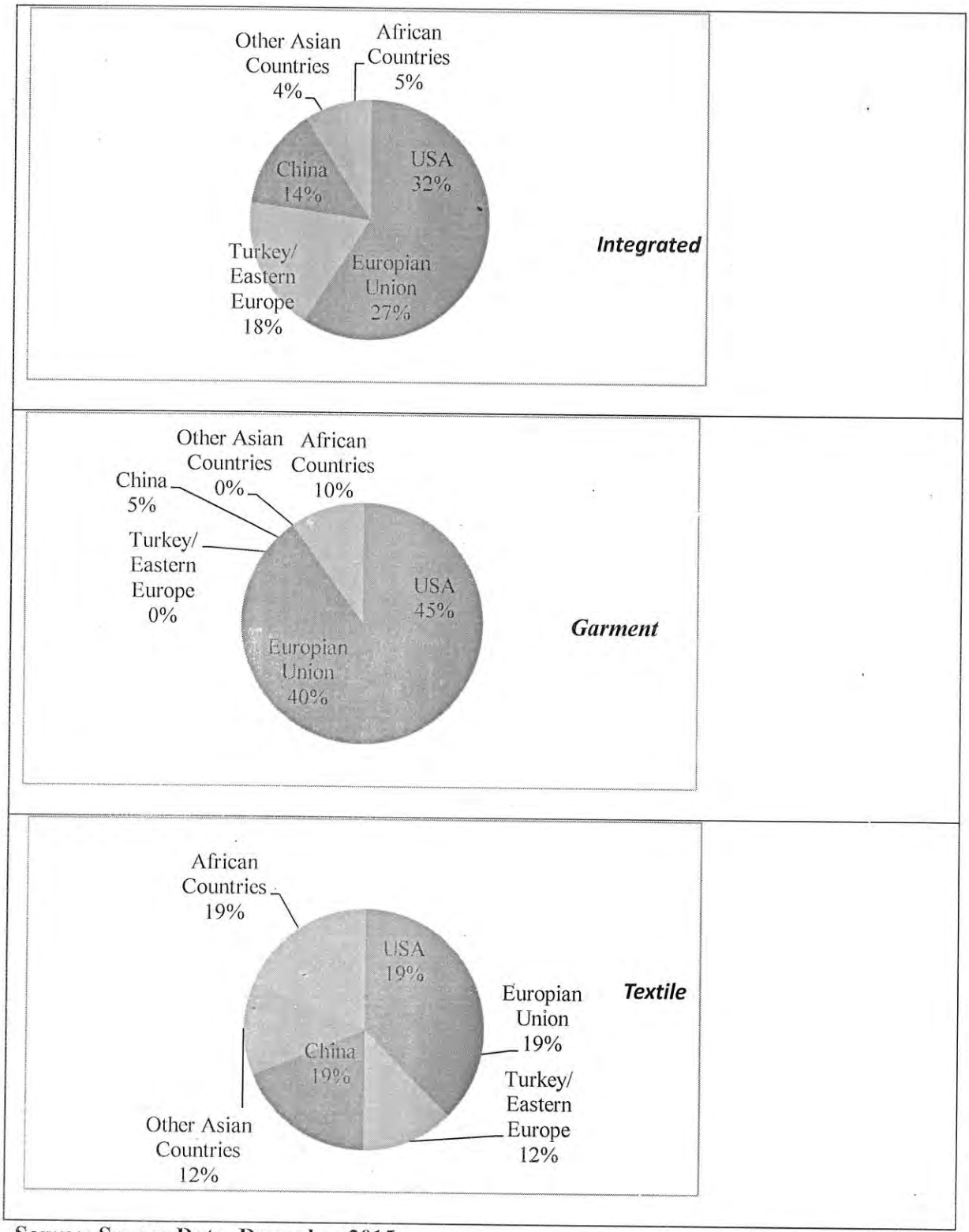
In aggregate terms, 19 and 17 firms export their product to USA and EU market, respectively. Asian countries excluding China are least recipient of export product of Ethiopian textile and

garment sub-sector. Regional forward integration of firms is low: only six firms export to African countries. With regard to the percentage share of export market, USA market holds 33 percent of the share and EU market has 29 % share. Figure 17 shows the number of firms and market share by export destination. There is also variation in the destination of export products by each group of business engagement. The garment industry is much skewed to USA and EU market than the other two groups of industries. Figure 18 compares the intensity of export destination by the industry group.



Source: Survey Data, December 2015

Figure 17: Number of firms and percentage share by export destination.



Source: Survey Data, December 2015

Figure 18: The variation of export destination by industry group.

4.5.2. The Foreign Value Added /Backward Integration in the Global Value Chain

The foreign value added is the portion of the gross export that comes from other countries and embedded in the export of Ethiopian textile and garment sub-sector in the case of this study. The backward integration is the percentage share of foreign value added in a country's export. It looks back from the perspective of a country's exports across foreign inputs into local production. Through the survey questionnaire, firms were assessed in terms of the foreign value added content of their exports. It is found that there is a firm producing its export product at zero percent share of foreign input for example in the case of cultural clothing products and there is a firm producing its exports product with 90 percent share of foreign input in the case of garment industry. At average 45.7% of the gross export of firms under consideration contains a foreign value added content. It was counted as export of the sub-sector while it was not produced locally and not part of the domestic value added. Measuring trade in value added in the today's international trade is to avoid this double counting and to net out counting effect of global value chains on global trade. The following table shows the share of foreign value added in the gross export of firms.

Table 19: Foreign Value Added : Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Foreign Value Share	27	90	0	90	45.70	32.065	1028.140
Valid N	27						

Source: Survey Data, December 2015

The foreign value added share of the gross export in terms of the business engagement, is the reverse of the domestic value added data. An average foreign value added share of gross export

is high in the garment industry and low in the textile industries. This is because most textile firms use cotton fiber from domestic market to produce their product. Looking at industry level, the average foreign value added content of gross export of each group is 16 %, 53% and 58% in the textile, integrated and garment industry, respectively. There is an increasing move from textile to garment industry. This is due to the foreign input consumption level of each industry. The garment industry uses much of foreign inputs and textile industry uses much of domestic input. It also indicates that high backward integration with global value chain is found within the garment industries and low backward integration exists in the textile industries. The following table depicts the distribution of foreign value added share in each group of industries.

Table 20: Foreign Value Added Share * Business Engagement Cross Tabulation

Foreign Value Added Share (%)*	Business Engagement						Total Number of Firms
	Number of Textile Firms	Foreign Value Added	Number of Integrated Firms	Foreign Value Added	Number of Garment Firms	Foreign Value Added	
0	1						1
1	1	1					1
2	1	2					1
5					1	5	1
10	3	30			1	10	4
20			2	40			2
30			1	30			1
40			1	40	1	40	2
59					1	59	1
60					1	60	1
62					1	62	1
65			1	65			1

70			1	70			1
75			1	75	1	75	2
80	1	80	2	160	3	240	6
90					1	90	1
Total	7	113	9	480	11	641	27
Average Foreign Value Added		16	1	53	2	58	

Source: Survey Data, December 2015

*** Based on the Estimation of Firms**

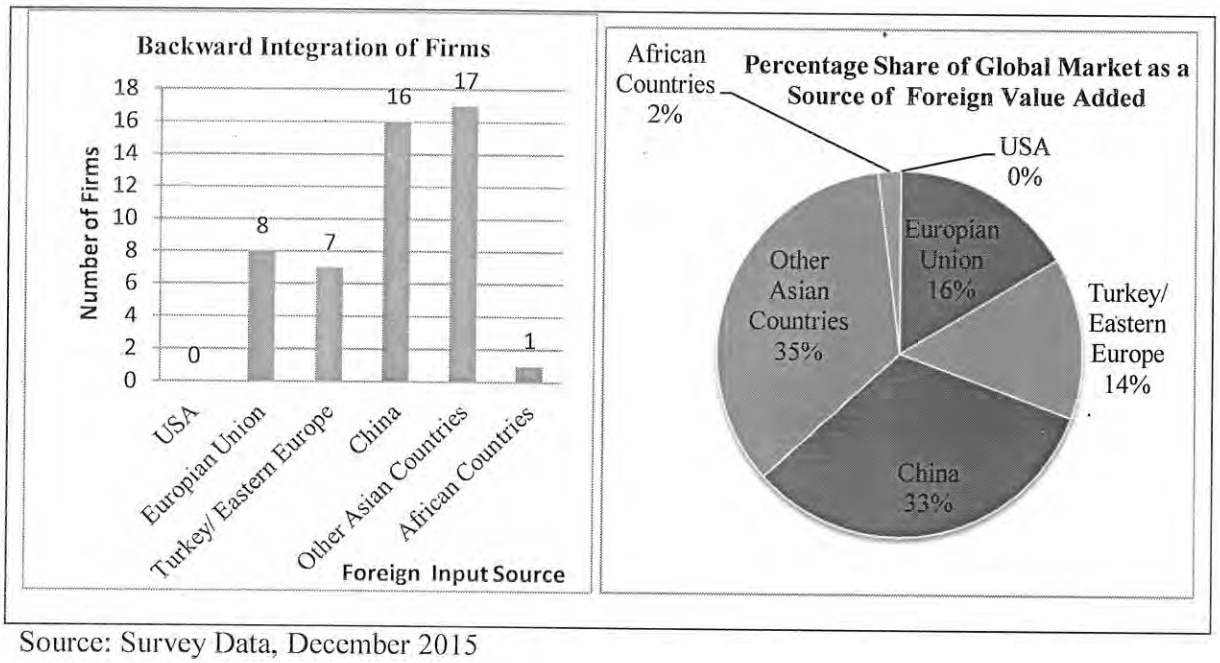
Unlike the export destination , the sources of foreign input is skewed towards Asian countries. Four firms sourced their foreign input only from China; three firms imported their foreign input only from other Asian countries; seven firms get their foreign inputs from both China and other Asian countries. About 52% of the firms sourced their foreign inputs from either China or other Asian countries. Three firms imported their intermediate inputs only from EU. There is no any firm importing foreign inputs from USA and thus the sub-sector has zero backward integration with USA market. Firms have high backward integration in the global value chains with Asian markets. China alone takes about 15 percent of firms for the contribution of foreign value added in the Ethiopian textile and garment firms gross export. Aggregate about sixteen firms imported foreign inputs from China for the production of export products. "Other Asian Countries"(group) are more backward integrated with Ethiopian firms in the textile & garment sub-sector. About 35% and 33 % of examined firms imported foreign input from "Other Asian Countries and China, respectively and include in their gross export. Regional backward integration here also low: only one firm imports its inputs from African countries. In Table 21 shows the distribution of foreign value added by number of firms for each world market assumed in this study.

Figure 19 shows the number of firms and percentage share of global markets source for foreign value added of firms in their gross export product.

Table 21: Foreign Value Added Source/ Backward Integration of Firms

Source of Foreign Inputs	Frequency	Percent	Cumulative Percent
Not use any foreign inputs	1	3.7	3.7
EU	3	11.1	14.8
EU, Turkey/ Eastern Europe, China, Other Asian Countries	3	11.1	25.9
EU, China	1	3.7	29.6
EU, Other Asian Countries	1	3.7	33.3
Turkey/ Eastern Europe, China, Other Asian Countries	1	3.7	37.0
Turkey/ Eastern Europe, China, Other Asian Countries	2	7.4	44.4
Turkey/ Eastern Europe, African Countries	1	3.7	48.1
China	4	14.8	63.0
China, Other Asian Countries	7	25.9	88.9
Other Asian Countries	3	11.1	100.0
Total	27	100.0	

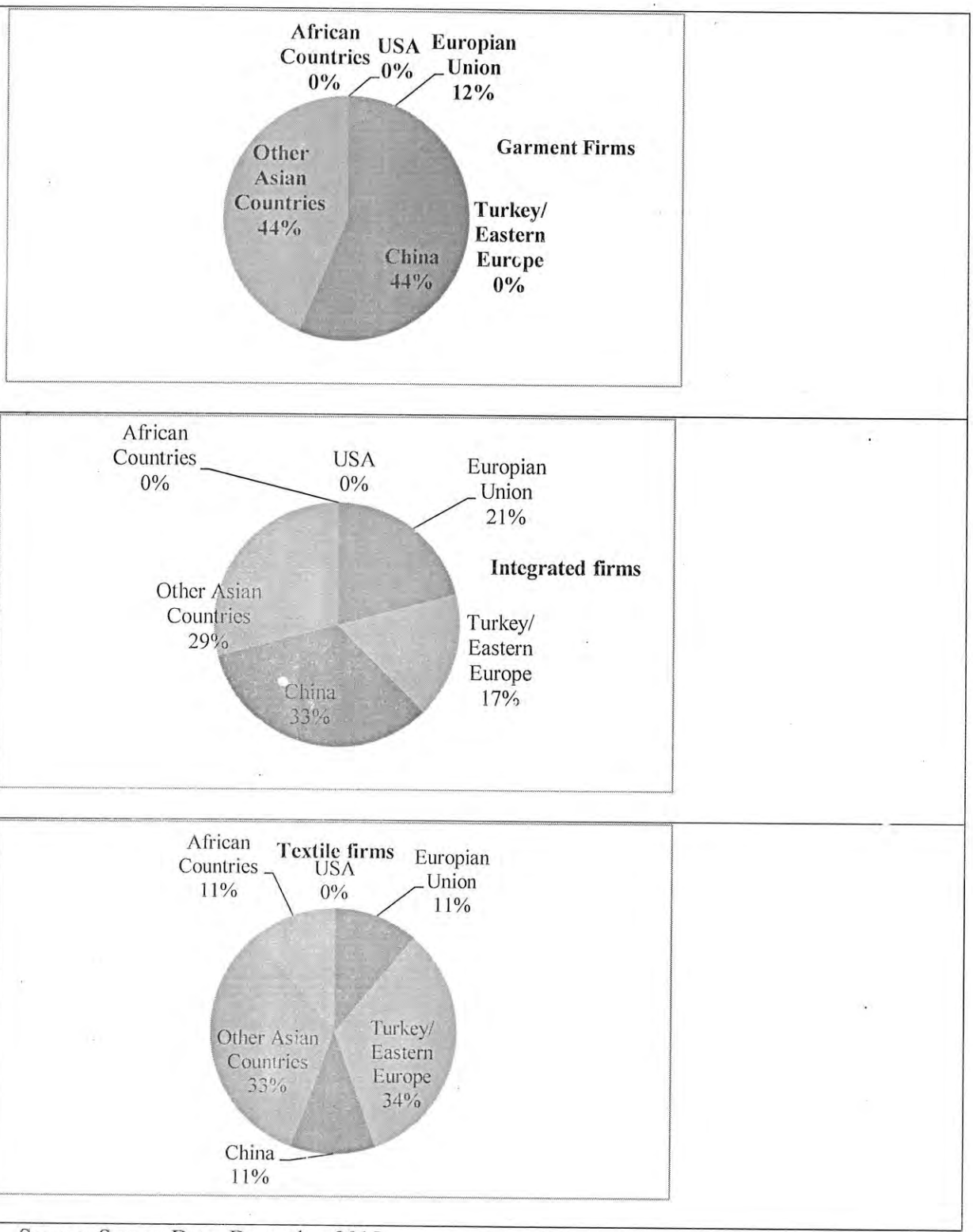
Source: Survey Data, December 2015



Source: Survey Data, December 2015

Figure 19: Backward Integration of Firms

There is variation in the strength of backward integration among industry groups. Out of eleven examined garment firms, 88% of them have backward integration with either China or other Asian countries. Integrated firms are better integrated with EU than the other two industry groups. Textile firms are more integrated with Turkey / Eastern Europe. In term of regional backward integration, mostly because of the primary inputs consumption, textile firms are at better position than the other two groups of industry, which have no back ward integration with African countries at all. Figure 20 compares the frequency of firms in each industry groups in their backward integration with global markets assumed in this global value chains analysis.



Source: Survey Data, December 2015

Figure 20: Backward integration of firms by industry group

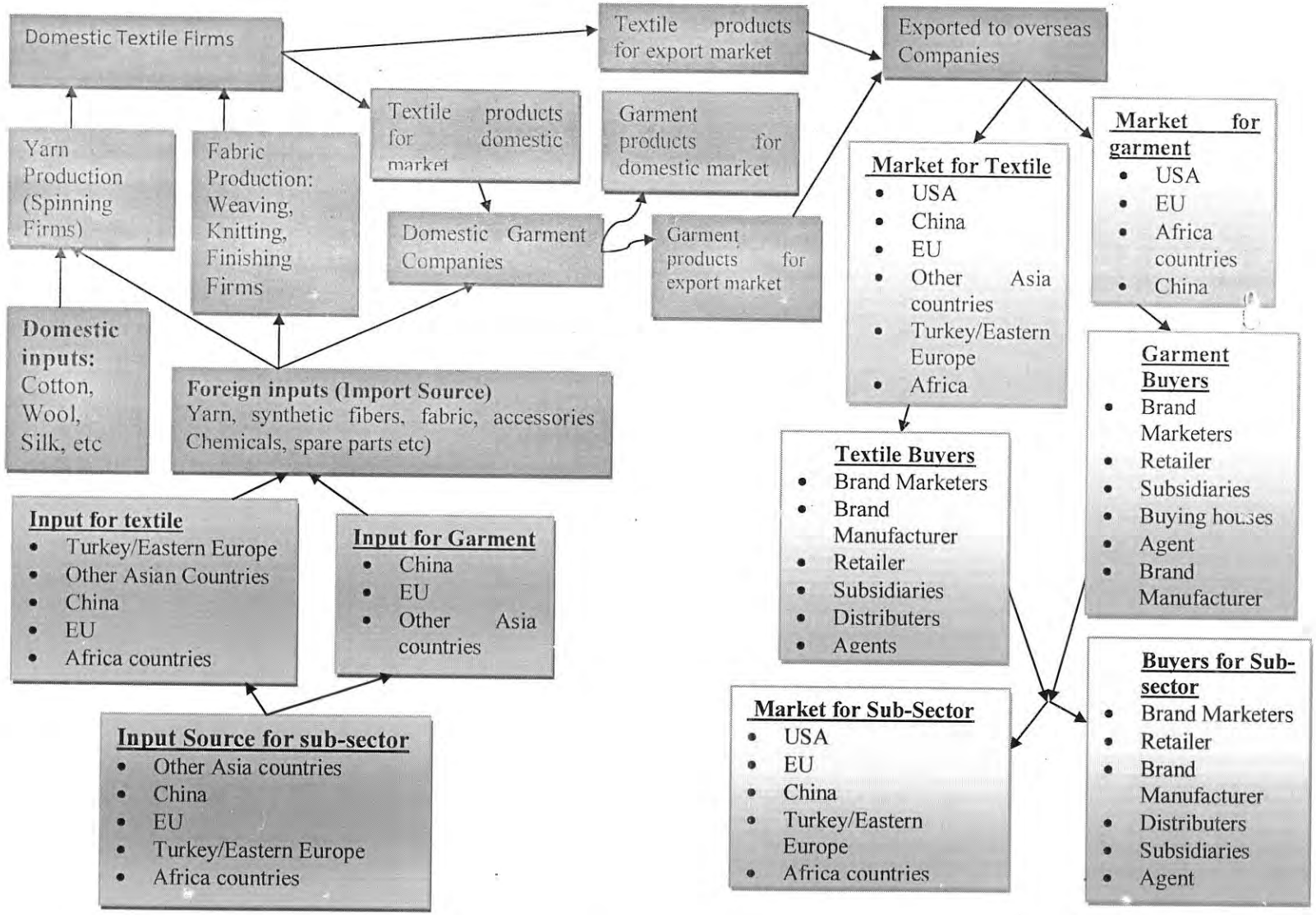


Figure 21: The network of global value chain with respect to Ethiopia textile and garment sub-sector

Chapter Five

5. Summary of Findings and Recommendations

5.1. Summary of Research Findings

Governance Typology

This study presented the prevailing GVCs governance types of the Ethiopian textile and garment sub-sector is influenced. The study aims to show the need that growth and investment strategies in sub-sector take in to consideration the GVCs in promoting export. The GVCs governance influence potential paths to upgrading. Whether a global value chain is controlled by a producer or a buyer strongly impacts the opportunities for firms to move into higher value- added activities. According to many literatures, buyer-driven chains are more open and easy to access allowing for a wider range of upgrading pathways, but they also tend to be competitive and can be captive. This study found that in Ethiopian textile and garment sub-sector higher number of firms, which is 41%, have purely a captive global value chains governance with their export buyers.

The captive global value chains governance can exist in when there is high ability of information codification in the transaction relation, high complexity of product specifications in condition suppliers are low in capabilities. In the captive GVCs governance, small suppliers depend on one or a few buyers that often wield a great deal of power. Captive suppliers are frequently confined to a narrow range of tasks- for example mainly engaged in simple assembly -and are dependent on the lead firm for complementary activities such as design, logistics, component purchasing and process technology upgrading. In garment chain of this type of governance structure, buyers often specify the characteristics of the product to be made by their supplier. It is also

acknowledged in literature that textile and garment global value chains, lead firms include retailers and brand owners and are typically headquartered in the leading markets—Europe, Japan, and the United States.

The study found that 37% the exporting firms produced only clothing, about 56% of export buyers were brand marketers, 43% of firms got support from export buyers in terms of product design, 85% of export destination is USA and EU. Ethiopia enjoys favorable market access conditions to the two major clothing import markets (like AGOA). The preferential market access might play a role for major destination of clothing export to EU and United State markets. Garment firms in Ethiopia are generally only in charge of manufacturing; sales, merchandising and marketing, product development and design, logistics, and largely input sourcing are located at the buyers. This would be problematic as Ethiopian firms have no direct access to sourcing and selling networks. The specific integration of Ethiopian firms into global clothing value limits the possibility for taking over more functions with higher value added as these functions are ensured by the buyers. Ethiopian textile and garment sub-sector remains concentrated into clothing production and a major challenge to the sub-sector growth would be the lack of diversification in markets and products. Clothing exports are highly concentrated with regard to end markets. The end-market diversification is crucial for Ethiopia clothing exports to sustain and grow.

Upgrading types

The second objective this study was the upgrading experiences and potentials of upgrading in the Ethiopia textile and garment sub-sector. According to GVCs theory, governance structure and

authority and power relationships within the value chain determine the performance and upgrading ability of an industry. Researchers ,Stark et al.(2011), supported the argument that lead firms tend to perform the most valuable activities in the apparel value chain—design, branding, and marketing of products— and in most cases, they outsource the manufacturing process to a global network of supplier. According to Humphrey and Schmitz (2000), the different forms of global value chains governances have an influence on performance and upgrading practices. They argue that in the captive value chain, suppliers experience fast product and process upgrading but make little progress in functional upgrading.

The results from the data analysis seem to confirm what literature says about upgrading and governances. Above 85 % of exporting firms experience either product upgrading or process upgrading. Eleven out of thirteen firms under captive governance, experience product and process upgrading in the Ethiopian textile and garment sub-sector. Many of the firms export clothing to brand marketers in developed countries. From the total exporting firms in sub-sector, 21 got support from export buyers in product design that is 78% of the firms. Twelve firms got support in terms of market. As result, buyers control the high value chains and local producers are positioned at low value adding stages which is at the low level of functional upgrading. So the findings of the analysis confirmed the Ethiopian textile and garment sub-sector is at lower stage of functional upgrading in which firms perform assembly/CMT.

Therefore, with the current situation of captive global value chains governance structure, the sub-sector has potential of product and process upgrading. In terms of functional upgrading, it has a

long way to move on the stage of trajectories though, according to GVCs theory, achieving functional upgrading under captive global value chain is not easy and possible.

Participation in the Global Value Chains

The GVC approach provides a view of international trade that differs radically from that found in economic trade theory. Global trade in goods and services includes significant amount of double counting. Value adding trade statistics aim to identify the double counting in gross trade figures and show where value is created in global production chains. The growing importance of GVCs has led to the realization that the need to netting out its double counting on global trade.

At the industry level, the average foreign valued added is a proxy for the extent to which industry value chains are segmented and termed as backward integration. It indicates what part of an industry's gross exports consists of inputs that have been produced in other countries. It is the share of gross export that is not adding to GDP. The domestic value added share is the share of the gross exports that contributes to GDP. The global value chains participation is measured by the percentage of backward and forward integration in the gross export of a sector. The forward integration is the part of the domestic value added which is embedded in the export of other countries. This study use the foreign value added share and domestic value added to measure level of participation in the GVCs and to identify the extent of integration with global markets.

The finding of this study assured that Ethiopian textile and garment sub-sector has higher domestic value added in the textile industries and low domestic value added in the garment industries. 84 % of the gross export is domestic value added in the textile industries and it is 42 % in the case of garment industries. The sub-sector has 54.3% and 45.7% of domestic value

added and foreign value added share from the gross export, respectively. Generally, the Ethiopian textile and garment sub-sector is more forward integrated than backward.

Ethiopian textile and garment sub-sector exports much of its product to the USA and EU markets. At average 62 % of the firms sold their product only either USA or EU markets. 85 percent of garment firms sold their product only in the USA market. This confirmed that the Ethiopian textile and garment sub-sector is highly dependent on USA and EU markets for export sell. In terms of backward integration, Asian Countries including China were the main sources of foreign inputs. 68 % of the firms imported their foreign inputs from these countries. No firm imported foreign inputs from USA. Therefore, the sub-sector is highly integrated with Asian market in terms of backward link.

5.2. Recommendations

- Ethiopia has potential for the development of textile and garment industries as it has huge labour resource and it has a long historical culture in weaving and knitting. The growth and transformation plan and other development strategies have identified the sub-sector as one of priority sector in the industrial development of Ethiopia. As result, having all these efforts and in today's global production networks, development policies on the sub sector must be value-chain specific using global value chains with greatest identified potentials. There need to be increasing capabilities in the diversification of export products and upgrading the current position of the sub sector to escape from captive governance structure and join to gainful global value chain governance.

- As many literatures pointed out captive global value chains is not ideal governance structure for functional upgrading. The domestic environment is the spring board to increase competitiveness in the global market. Thus, within Ethiopian textile and garment sub-sector, there is a need to expand and grow capabilities in more domestically integrated and higher-value added form of exporting to move successfully from captive to more complexes relational and modular value chains governance. This would foster the growth of strong industrial clustering and glomeration and favorable conditions for functional upgrading.
- Ethiopian textile and garment sub-sector has a forward link with the more developed countries' market. It has also geographical advantage for the emerging economies like India to source foreign inputs. This potential should be optimally exploited by creating domestically integrated and more productive industries. Optimization of upgrading opportunities in the sub-sector requires specific policy formulation for global value chains integration based on competitive and comparative advantages the industry has in the backward and forward integrations.

5.3. Direction for Future Research

It is necessary to acknowledge limitations of the present study that may provide opportunities for future research. This study was conducted mainly through the questionnaire survey with limited previous research work availability with GVCs framework on the sub-sector. So, the depth of the research is limited. Future studies can consider this lack of depth in to account and study on:

1. GVCs participation of Ethiopian textile and garment sub-sector using detail and full data of the whole Domestic Value Adding and Foreign Value Adding Components.
2. Relation of GVCs governance and performance of firms
3. The relation of GVCs governance and industrial and firm level upgrading

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Annex

Descriptions

Proxy Terms for Type of Governance used in the Survey Questionnaire

Conceptual Terms of Governance	Terms in survey	Justification
Market	Bidding or perfect competition	Markets governance is governed by a markets mechanism that buys and sells products with little interaction and the switch cost is low. This implies that in this governance the interaction between buyers and sellers is governed by price. Hence, this corresponds to the perfect competition conditions.
Modular	Supplier contract/Turnkey supplier	Suppliers in modular value chains tend to take full responsibility for process technology and often use generic machinery that spreads investments across a wide customer base; this implies a turnkey service to lead firms.
Relational	Long-term relationship	Firms in relational governance have mutual dependence through reputation, social and spatial proximity, family and ethnic ties. Trust and reputation are built up over time or are based on dispersed family and social groups. So this implies that these firms have a long-term relationship with international buyers.

Captive	Long-term relationship and sell more than 80% of your product	Small suppliers tend to be 'captive' by larger, dominant buyers. Such networks are frequently characterized by a high degree of monitoring and control by the lead firm. This means that domestic producers have a long-term relationship with and rely on several large firms for their revenue.
Hierarchy	Subsidiary firm	This governance pattern is characterized by vertical integration, i.e. domestic producers are subsidiaries of lead firms.

Description of upgrading in the survey

Theoretical terms of upgrading trajectories	Terms in the survey
Product upgrading	Improve product e.g. R&D, new design & marketing, cooperation with suppliers to create new product
Process upgrading	Improve process e.g. new machinery, process improvement, logistic improvement or supply chain improvement
Functional upgrading	Develop your own brand
Chain/inter-sectoral upgrading	Transform to production of related product e.g. producing leather products

Tables

Table 1: Export value of Ethiopian Textile and Garment Industries (in '000' USD)

S. N	Product Type	1997 (2004 /05)	1998 (2005/ 06)	1999 (2006/ 07)	2000 (2007/ 08)	2001 (2008/ 09)	2002 (2000/ 10)	2003 (2010/ 11)	2004 (2011/ 12)	2005 (2012/ 13)	2006 (2013/14)
1	Yarn	0	0	0	0	3,717	8,522	9,124	8,891	23,464	28,016
2	Textile	2,897	4,181	4,421	4,565	3,708	6,325	22,984	8,284	9,599	6,321
3	Garment	3,446	6,848	8,043	9,674	6,630	6,667	26,734	63,090	61,009	72,025
4	Cultural Garment	416	73	154	373	383	1,696	3,382	4,361	4,916	4,738
5	Others	-	-	-	-	-	-	-	-	-	254
Sum		**6,759**	**11,102**	**12,618**	**14,612**	**14,438**	**23,210**	**62,224**	**84,626**	**98,988**	**111,353**
YI (%)			**64.3**	**13.7**	**15.8**	**-1.2**	**60.8**	**168.1**	**36**	**17**	**12.5**
AYI (%)		**43**									

Source: ERCA; ETIDI (2014)

Table 2: Last 10 Years Import of Ethiopian Textile and Garment Industries (In '000 USD)

Year	Yarn	Textile	Garment	Sum	Growth Rate
	Value(In'000)	Value(In'000)	Value(In'000)	Value(In'000)	
2004	13,486.00	63,159.40	68,731.10	145,376.50	3%
2005	19,753.10	90,456.90	64,381.30	174,591.30	20%
2006	13,695.60	131,526.10	74,101.30	219,323.00	26%
2007	17,215.50	116,433.50	84,404.90	218,054.00	-1%
2008	27,245.10	96,243.20	83,195.50	206,683.80	-5%
2009	23,235.30	132,076.10	114,151.70	269,463.10	30%
2010	30,361.20	170,442.40	113,389.00	314,192.60	17%
2011	29,070.70	100,601.90	131,005.20	260,677.80	-17%
2012	49,425.40	112,759.30	243,857.41	406,042.11	56%
2013	50,680.25	124,271.29	284,219.00	459,170.54	13%

Source: ETIDI

Table 3: Number of Employees by Manufacturing of Textile &Garment (1983-2006 E.C.)

	Sex	Years																							
		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006*
Textile and Wearing Apparel Industry	Total	34,708	34,047	33,497	34,449	34,903	32,441	31,797	29,283	29,504	27,499	28,004	26,064	26,221	26,706	23,307	26,199	29,306	18,223	24,259	30,724	19,233	44,264	46,019	48.644
	Male	18,355	18,066	17,317	18,100	18,419	17,269	16,964	15,992	16,408	16,474	15,992	14,467	14,655	14,680	12,663	13,215	14,586	9,506	11,129	14,116	9,108	17,677	18.378	19.981
	Female	16,353	15,981	16,180	16,349	16,484	15,172	14,833	13,291	13,096	11,025	12,012	11,597	11,566	12,026	10,644	12,984	14,720	8,717	13,130	16,608	10,125	26,587	27,641	28.663

Source: CSA; ETIDI

Appendix

Appendix-I: Questionnaire

Addis Ababa University

College of Development Studies

Department of Regional and Local Development Studies

Survey Questionnaire

This questionnaire is designed to analyze the textile and garment industry of Ethiopia in the Global Value Chain. The objective of the questionnaire is to collect information in order to identify the governance typology, upgrading potential and participation level of the sector in GVCs. The research output is mainly to fulfill the partial requirement of **Masters of Arts**. The information gathered will be used fully and with due attention for academic purpose only. I therefore, would like to assure you that the data collected will not be misused in anyway. Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the paper.

General Instructions

- Please try to give your answer to all questions
- In all cases where answer options are available, please tick your answers on the space provided.
- For questions that demands your opinion, please try to honestly describe as per the questions on the space provided.

QUESTIONS

1. Interviewee name _____ Postion _____

   Company name _____ Address _____

2. Capital Registration

   - ☐ Less than 50 million Birr
   - ☐ 50 to 200 million Birr
   - ☐ More than 200 Million Birr

3. Number of employment

   - ☐ Less than 50 employees
   - ☐ 50 to 200 employees
   - ☐ More than 200 employees

4. Type of business

   - ☐ Family business/ Sole proprietary
   - ☐ Private Limetted Company
   - ☐ Share company
   - ☐ Corporation

5. Engagment of the company

   - ☐ Textile manufcturers only
   - ☐ Integrated
   - ☐ Garment manufacturers only

6. Ownership of your company

   - ☐ Private Local
   - ☐ Private Foreign
   - ☐ Public Local
   - ☐ Public Foreign

7. What are your products ? (can choose more than one)

- ☐ Cotton yarn
- ☐ Other yarn
- ☐ Weavon fabric
- ☐ Knitted Fabric
- ☐ Clothings
- ☐ Accessories

8. Please estimate what percentage of total sales is from these products

Local=_____% of Sale

Export=_____% of Sale

Total = 100% of sale

9. How is your relationship or buying dynamics with your export buyers?

- ☐ You sell your product in perfect competition or at market prices e.g. bidding
- ☐ You sell your product with supplier contract e.g. turnkey suppliers
- ☐ Long term relationship
- ☐ Long-term relationship and frequent sell of much of your product (eg. sell 80% of your product)
- ☐ Subsidiaries

10. Who are most your export buyers?(more than 1 choice)

- ☐ Retailers
- ☐ Branded Marketers
- ☐ Branded Manufacturer
- ☐ Other please specify _____

11. Where do you export your products to ? (more than 1 choice)

- ☐ USA _____
- ☐ European Union _____
- ☐ Turkey (Eastern Europe) _____
- ☐ China _____
- ☐ Other Asian Countries _____
- ☐ Africa Countries _____

12. From where do you import your inputs for your product ? (more than 1 choice)

- ☐ USA _____
- ☐ European Union _____
- ☐ Turkey /Eastern Europe _____
- ☐ China _____
- ☐ Other Asian Countries _____
- ☐ Africa Countries _____

13. How much percentage of foreign and domestic input value your gross export products have?

- ☐ Foreign input value =_____%
- ☐ Domestic added value =_____%

Total = 100%

14. Which of these techniques has been your key growth for business in the export market in past 3 or more years? (more than one choice)

- ☐ Improve product through R&D, new design and marketing division, cooperation with suppliers to create new product

- ☐ Improve process through new machinery, process improvement, logistics improvement, supply chain management
- ☐ Develop your own brand
- ☐ Shifting to inter-related and advanced sector product
- ☐ No improvement

15. Are there any supports from buyers in the following factors?(more than 1 choice)

☐ Finance	Yes ☐	No ☐
☐ Human Resource Development(Training)	Yes ☐	No ☐
☐ Product design	Yes ☐	No ☐
☐ Manufacturing & Technology	Yes ☐	No ☐
☐ Market	Yes ☐	No ☐
☐ Research & Development	Yes ☐	No ☐

16. What are the reasons for business improving in the export market? (more than 1 choice)

- ☐ Commitment of owner e.g. Change in strategy
- ☐ Increase in competition
- ☐ Buyers firms promote/ assist upgrading
- ☐ New standard or regulation forces to upgrade

THANK YOU VERY MUCH FOR YOUR VALUABLE TIME

Appendix-II: Lists of Exporting Firms in the Ethiopian Textile and Garment Sub-Sector at the end of Fiscal Year 2013/14.

S. N.	Company/Factory Name	Ownership Citizen	Type of Company/Factory	City	Phone Number
1	Selen Dawa Textile S.C.	Foreigner	Integrated	Dire Dawa	0116611515 0112511252
2	Almeda Textile P.L.C.	Ethiopian	Integrated	Adwa	0347711483 0347711543
3	Etur Textile P.L.C.	Foreign	Textile	Adama	0116634081
4	Arbaminch Textile S.C.	Ethiopian	Integrated	Arbaminch	0468110409
5	Ayka Addis Textile P.L.C.	Foreigner	Integrated	Alemgena	0113871179 0116616951
6	Bahirdar Textile S.C.	Ethiopian	Integrated	Bahidar	0582200104
7	Else Addis Industrial Development P.L.C.	Foreigner	Integrated	Adama	0116632837 0116632845 0116632847
8	Kombolcha Textile S.C.	Ethiopian	Integrated	Kombolcha	0335510211 0335510'03
9	Kebire Enterprise (Maa Garment and Textile)P.L.C.	Ethiopian	Integrated	Mekele (Kuya)	0344420188
10	Nas Foods Dire Dawa Textile Factory P.L.C.	Ethiopian	Integrated	Diredawa	0251113488
11	Saygin Dima Textile S.C.	Foreigner	Integrated	Sebeta	0113383969

12	M.N.S. Manufacturing P.L.C.	Foreigner	Integrated	Legetafo	
13	Al-Asr Industries P.L.C.	Foreigner	Textile/Fabric	Dukem	0116188987
14	Al-Mehdi Industries P.L.C.	Foreigner	Textile/Fabric	Dukem	0116616834 0116616835 0116616836
15	Addis Garment S.C.(Augusta)	Foreigner	Garment	Addis Ababa	0113711791 0113715216
16	BM Ethiopia Garment and Textile S.C.	Foreigner	Garment	Addis Ababa	0114423455
17	Concept International Ethiopia P.L.C.	Ethiopian	Garment	Addis Ababa	0114422602 0114421874
18	Feleke Garment P.L.C.	Ethiopian	Garment	Addis Ababa	0114196167 0114196169
19	GG Super Garment P.L.C.	Ethiopian	Garment	Debrezeit	0114337500 '0114337501
20	GMM Garment P.L.C.	Ethiopian	Garment	Addis Ababa	0114197374 0114197375
21	Knit To Finish P.L.C.(Garment Express)	Ethiopian	Garment	Gelan	0114450038 '0114450039
22	Lucy Garment Industry P.L.C.	Ethiopian	Garment	Addis Ababa	0114426188 0111525285
23	Nazareth Garment S.C.	Ethiopian	Garment	Adama	022 112 3427 0115516880
24	NovaStar Garment Factory	Ethiopian	Garment	Gelan	0114450222

	P.L.C.				
25	Vitcon Garment P.L.C.	Ethiopian	Garment	Addis Ababa	0116292365
26	Wossi Garment Design Factory P.L.C.	Ethiopian	Garment	Addis Ababa	0114422440
27	VillageIndustry P.L.C.	Foreigner	Garment	Addis Ababa	0114404864
28	Desta Garment(Bekimar) Industries P.L.C.	Ethiopian	Garment	Addis Ababa	0116299953
29	Adama Development P.L.C.	Ethiopian	Spinning	Adama	0221100746
30	Muya Ethiopia P.L.C. (Sara Abera Garment)	Ethiopian	Cultural Clothes	Addis Ababa	0111234015
31	Saba Silk/Saba Har P.L.C.	Foreigner	Cultural Clothes	Addis Ababa	0113215112 0113215113 0111711786
32	Trio Craft P.L.C.	Ethiopian	Cultural Clothes	Addis Ababa	0114440075 0116297060 0114400752
33	Sami Mohammed Abdela Export P.L.C. (Nigist Ethiopia P.L.C.)	Ethiopian	Cultural Clothes	Addis Ababa	0111728080 0115539773 0115539775

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