



## **An Impact of Global Value Chain participation on Textile and Apparel Exports with reference to Ethiopia**

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#### **Abstract:**

The concept of Global value chains provides a better understanding of the value creation process and helps understand how this value is captured, held, and leveraged in all industries. The Global value chain approach offers a global view of the World's industries

from two perspectives: governance and upgrading. The former focuses mainly on leading companies and how their supply chains are organized on a global scale. At the same time, the latter involves the strategies that countries, regions, companies, and other actors use to maintain or improve their positions in the global value chain from this perspective, the case of the textile and apparel industry can be seen as a clear

example of the strategic use of Global value chain in a competitive and dynamic business world. The Ethiopian textile and garment industry is at par with many countries. It is a hub for buying apparel, fabrics, and other accessories required for garment designing. The purpose of this paper is to analyze the value chain and how it influences the textile and apparel exports in Ethiopia. For the purpose of the paper, secondary data were collected from the various sources like in internet sites, and related data sources were cited in the literature review for the purpose of data analysis. The findings of the study showed that Ethiopia is more competitive in the textile and apparel exports and also it can be used by policy makers to evaluate the competitiveness of the country. Social implications the findings can be used to assess social upgrading issues in the textile and apparel sector.

**Keywords:** Transformation, Textile, Apparel, Accessories, Competitiveness.

## 1. Introduction:

The Ethiopian textile and apparel industry have been striving with a lot of hurdles. But with the right government policies, disseminating more knowledge about specialized machines to the local people, and inducting them to contribute towards their own countries, the textile and apparel industry can boost economic growth and be more inviting to the international market. China is helping Ethiopia improve environmental, social, and labor standards in the textile sector. China attaches great importance to its cooperation with Ethiopia's textile sector and consistently supports the sustainable development of the country's textile industry through various means such as trade and investment. With a population of over 100 million, Ethiopia continues to attract more Chinese investors to its textile industry. There are over 30 Chinese textile companies in Ethiopia. If one were to look at the number of investors in Ethiopia, Chinese investors take the lion's share. The role of China in Ethiopia's foreign direct investment is immense. More than 80,000 new jobs have been created in industrial parks in the last Ethiopian fiscal year which ended on July 7 with Chinese companies hiring the largest number of job seekers, especially women. The China has been very generous in promoting foreign direct investment in Ethiopia, particularly in the textile and apparel sector. China has contributed a lot in introducing new technologies and promoting environmental, social and governance (ESG) practices in the textile sector in Ethiopia and beyond. An enabling environment will be created to promote sustainable textile industry development and raise awareness of ESG among all stakeholders in the textile industry in Ethiopia and beyond. Latest statistics show that over 75% of Ethiopia's textile imports came from China in 2021, a significant increase from 49% in 2010." It can be cleared that as one of Ethiopia's leading foreign investment sources, China has provided capital, equipment, technical expertise, and management skills for local factories. The growth of the apparel industry is directly proportional to the setting up of an industrial strategy. This step will ultimately provide a boost for industrial development within the state. The Ethiopian government prioritizes and designs incentives and policies to attract buyers and investors because of the rising global competition.

**Objective of the Study:** The objective of the study is to analyze the impact of Global value chain participation on Textile and Apparel exports with reference to Ethiopia.

## 2. Review of Literature:

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### **3. Materials and Methods:**

The empirical study of impact of global value chain participation on Textile and apparel exports in Ethiopia and analyzing the role played by various explanatory factors. However, the analysis of global value chain from a macroeconomic perspective. Their methodology decomposes a country's gross exports, providing several indicators like exports of textile and apparel production. The local supply of intermediate products is one of the main direct export channels attracting FDI, and specialization in the early stages is associated with the production of local inputs obtained by foreign investors. Hence, one aspect to be considered as a possible explanatory factor for participation in global value chain is the degree of tariff protection, as this factor acts as a barrier to trade flows, among which trade in intermediate products associated with the global value chain linkages is becoming increasingly essential. Thus, it is interesting to verify the relationship between the level of textile and apparel exports and participation in global value chain.

Among the explanatory factors of global value chain participation, Textile and Apparel exports stands out as a determining element when analyzing the insertion of countries in the framework of international productive fragmentation. In this regard, various studies point to a positive relationship between exports and participation in global value chain. However, no conclusive results can be found in the literature on the role played by exports. Therefore, studying the relationship between exports and global value chain participation is interesting. In general, it is assumed that there is a positive relationship between them. This hypothesis is based on the role of multinational companies as major actors in global value chain.

Another explanatory factor of global value chain participation is the labor cost, since labor has traditionally been a critical factor, especially in manufacturing or assembly tasks, usually off shored to developing countries. However, the progressive cheapening of global products has led to an unstable competitive framework and the explanatory relevance of this factor may sometimes be unclear. Hence, it is also interesting to analyze the influence of labor costs on countries' participation in global value chain. Based on these assumptions, an econometric model has been estimated using panel data. This empirical analysis considers a production of textile and apparel of Ethiopian country for 10 years.

A total of two independent variables have been selected. The two first repressors are exports of textile and apparel, which, expressed as a percentage of GDP, and labor cost, expressed as a percentage of value-added. Therefore, the two considered models are as follows, where the expression relating to the dependent variable is a generic expression of the global value chain participation, which can refer indistinctly to total participation. The reason for using panel data is motivated by the suspicion that participation in global value chain is influenced by unobservable factors that correlate with observed variables, such as the factors mentioned above. Therefore, it is assumed that the panel techniques contribute to obtaining consistent estimates of the effect of the variables observed, offering greater possibilities at the time of facing the usual problems in this type of empirical approach.

### **Validity and Reliability Test:**

All data collected in regard to the impact of global value chain participation on textile and apparel exports of Ethiopian country needs to go through Validity and Reliability tests. Validity and Reliability tests increase transparency and reduce bias in this qualitative research.

Validity concerns the study's success at measuring what it is set out to measure. Internal validity is believed to be more credible via triangulation method and external validity is related to transferability, application in other areas with a similar setting (Leung, 2015). Meanwhile, a reliability test will be done with the aim of consistency in yielding the same results, where it can be replicated.

#### Data Availability:

The data used to support the findings of this study are available from the corresponding author upon request.

#### Conflicts of Interest

The authors declare that they have no known conflicts of financial interest or personal relationships that could have appeared to influence the work reported in this paper

#### 4. Discussions:

This section presents the econometric estimations, these analyses aim to explore the influence of variables such as exports and textile tariffs on Global value chain participation, concerning participation, as indicated in the methodological section. International trade allows economies to integrate and increase their participation in global value chain trade flows, so that activities along a value chain can be carried out by exports or outsourcing. For example, in apparel, China has been the most dynamic exporter worldwide in clothing since 2001, when it joined the World Trade Organization (WTO).

**Table1:Top10 End Markets of Apparel Exports from Ethiopia**

	Value(\$USMil)						ShareofTotal(%)					
	2009	2011	2012	2013	2014	2019	2009	2011	2013	2015	2017	2019
<b>World</b>	<b>2</b>	<b>5</b>	<b>6</b>	<b>24</b>	<b>99</b>	<b>121</b>						
<i>EU-15</i>	0	1	1	5	27	49	83.2	17.3	12.6	41.3	72.5	72.8
Germany	0	0	0	3	24	40	0.2	7.3	0.7	27.7	59.5	59.3
UnitedStates	1	4	5	7	12	15	1.1	78.9	84.0	54.5	15.8	17.7
Austria	0	0	0	2	6	6	0,8	0,4	0,1	2,9	8,6	8.7
UnitedKingdom	-	0	0	1	6	4	0,0	0,3	0,5	0,1	2,2	3,5
Switzerland	0	0	0	1	4	2	0.2	0.4	0.2	0.0	1.5	2.1
Poland	-	0	0	0	2	1	0.0	0.0	0.1	0.6	2.9	1.8
CzechRepublic	1	0	0	0	3	1	0.0	0.0	0.0	0.6	1.9	1.6
Turkey	-	0	-	2	8	1	0.0	0.0	0.0	0.2	1.3	1.1
SlovakRepublic	-	0	-	2	4	1	0.0	0.3	0.0	0.2	1.0	1.0
Canada	-	0	0	1	3	1	0.1	0.7	0.6	0.7	0.2	0.7

*Source: UNCOMTRADE 2020; apparel represents HS9261+62; exports represent partners' imports.*

From the above analysis it can be cleared that end export markets are very concentrated in Ethiopia regarding textile and apparel, the major end markets for Ethiopian exports are the EU-15, which accounted for almost 73 percent of total exports in 2019. The bulk of these exports go to Germany (59 percent) and Austria (9 percent). This can be explained by a large integrated Turkish firm supplying a buyer serving the German and Austrian market and accounting for around 60 percent of exports. Generally, Turkish firms export to the EU. The US market accounted only for around 18 percent in 2019 with the Czech Republic, Poland, Switzerland and Turkey being other important, albeit smaller, markets (Table1). Recent data on US apparel imports from Ethiopia indicates that US exports have increased by more than 30 percent since 2019 and account now for almost US\$18 million (USITC 2020). This is due to

the rise of global value chain participation. US exports are expected to increase further in coming years when wave three investors reach capacity. The share of EU-15 apparel imports grew also in 2020 but only by 3 percent.

**Table: 2 Top10 End Markets of Textile Exports from Ethiopia**

	2009	2011	2013	2015	2017	2019	2009	2011	2013	2015	2017	2019	'11	'13	'19
<b>World</b>	<b>6</b>	<b>18</b>	<b>29</b>	<b>41</b>	<b>62</b>	<b>76</b>									
Turkey	1	2	4	16	22	28	3.2	2.9	0.5	66.5	48.5	51.1			
EU-15	2	8	12	14	19	23	90.3	90.0	80.3	22.9	21.7	35.2			
Germany	0	2	3	6	6	12	4.6	17.6	21.0	7.0	5.6	22.7			
China	1	1	2	2	5	5	0.0	2.8	0.3	8.2	26.9	9.8			
Italy	1	2	3	2	9	5	43.2	18.6	21.1	9.7	14.4	9.6			
Austria	0	1	1	0	0	1	2.1	0.0	1.3	0.0	0.9	2.2			
Switzerland	0	-	0	0	0	0	0.0	0.0	1.1	0.2	0.1	0.6			
Poland	-	0	1	0	0	1	0.0	0.1	6.0	0.3	0.3	0.6			
Belgium	0	2	1	0	0	0	15.6	27.3	9.2	2.0	0.8	0.5			
CzechRepublic	1	2	1	1	1	2	0.1	0.0	1.0	0.1	0.1	0.5			
Nigeria	-	-	1	-	0	0	0.0	0.0	0.0	0.0	0.2	0.4			

Source: UNCOMTRADE2020; apparel represents HS9250-60+63; exports represent partners' imports.

Textile exports have also risen from US\$41 in 2015 to US\$76 in 2019. This is primarily related to the emergence of Turkey as a major end market, accounting for more than half of all textile exports, and linked to Turkish investors. In contrast, the share of the EU-15, which historically accounted for more than 90 percent of textile exports, has decreased to around a third (Table 2). The lion shares of textiles going to Turkey and China is made up of cotton yarn and, in Turkey's case, also of knitted fabric, while exports to the EU-15 are dominated by made-up textiles. It is expected that the share of textile exports to Turkey will decrease with some Turkish textile mills planning to also invest in apparel production in Ethiopia.

Locally owned, older, and integrated firms tend to export to the EU with local apparel firms that were more recently established exporting largely to the US. The latter is related to the AGOA advantage and the higher acceptance of CMT production of US buyers. US buyers seem to be very concentrated, with the same workwear and sportswear buyers having been named repeatedly by local firms. These buyers source polyester rich items from Ethiopia given the higher duty advantage. These products are also quite standard and have longer delivery and lead times. Fewer locally owned firms seem to export to the EU. A big challenge is providing full package production which particularly European buyers demand. Further, some firms stated that EU buyers demand higher quality, more fashion items, and lower volumes, which they see as disadvantageous.

**Table3: Ethiopia's Apparel and Textiles Exports to the World**

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Apparel</b>									
Total value (\$,mio)	44	52	66	68	73	77	79	84	91
Annual growth rate(%)	264	18	26	4	22	31	28	33	27
<b>Textiles</b>									
Total value(\$,mio)	39	29	46	49	52	54	60	60	64



Annual growth rate (%)	63	-26	60	12	07	06	09	1.3	7.2
Total value (\$,mio)	1	5	5	0	6	5	8	7	09
<b>A&amp;T: Total value (\$,mio)</b>	<b>83</b>	<b>81</b>	<b>112</b>	<b>117</b>	<b>125</b>	<b>138</b>	<b>139</b>	<b>144</b>	<b>155</b>

*Source: UNCOMTRADE(2016).*

However, the domestic market is still important, not only for domestic firms but also for foreign owned firms — even though the government aims at pushing the latter group solely into exporting. This attractiveness is related to a 96.6 million population with an increasing share of consumers, but also to protection of the domestic market in textile and apparel. The importance of the domestic market is also demonstrated by high apparel imports, particularly from China, accounting for US\$377 million in 2019.

Subsequently, they climbed to around 125million in 2015. Since then, they continued to rise substantially and accounted for around US\$155 million in 2019. The following year, exports continued to climb — particularly to the US — reaching an estimated US\$73 million. Although Ethiopia's share in the global apparel export market is still not visible, it is gradually emerging as an important newcomer amongst SSA apparel exporters. Textile exports accounted for US\$ 64million in 2019, including US\$20 million in made up, US\$18million in cotton yarn, and US\$9million in knit fabric. Hence, in 2019, textile and apparel exports together accounted for US\$ 155 million (Table1). Despite the strong growth, textile and apparel exports still account only for 09 percent of total exports in 2014 — but are up from 01 percent in 2011. TIDI (2016) reports, however, that the export share of textile and apparel in total exports was 7.2 percent in 2019, and in total manufacturing exports 23 percent.

As discussed in the above two econometric models have been estimated to capture some of the determinants of total participation (TPART). The independent variables selected are the textile exports, where TEX refers to textile exports and AEX refers to Apparel exports. The ratio of textile and apparel exports value added to global value chain impact. The main descriptive statistics for these variables are shown in table.4

**Table 4.** Main statistics of the variables included in the model.

<b>Variabl</b>	<b>Mean</b>	<b>Median</b>	<b>S. D</b>	<b>Min</b>	<b>Max.</b>
TPART	50.5	50.4	9.76	25.9	81.9
TEX	6.90	4.99	5.89	0.00	60.00
AEX	70.6	32.2	198.	0.613	1.99 × 10 <sup>3</sup>

Source: Author's elaboration based on information from OECD and UNCTAD.

**Table 5.** Results of the econometric estimation (time fixed effects) for total (TPART) GVC participation. Period: 2011–2019.

<b>Total (TPART)</b>	<b>GVC Participation</b>	
	<b>Model I</b>	<b>Model II</b>
Constant	36.9778 (3.3072)	37.2433 (2.7351)

TEX	0.4301 (0.1175)	---
AEX	0.0445 (0.0467)	0.0569 (0.0422)
R <sup>2</sup>	0.83	0.86
rho	0.67	0.67

Source: Author's elaboration based on information from OECD and UNCTAD Note:

The standard error is indicated in brackets. Indicate significance at 0.01%, 0.05% and 0.1%, respectively.

**The estimated regression model** is:  $=0.66+0.38*x_1+0.62*x_2$  Where,  $x_1$  and  $x_2$  represents  $\ln(IFA)$  and  $\ln(PC)$  respectively. The parameters  $\alpha=0.38$  is output elasticity of IFA factor and  $\beta=0.62$  is output elasticity of PC factor, means that an 1% increase in IFA leads to a 0.38% increase and an 1% increase in PC leads to a 0.62% increase in exports of textile and apparel respectively. Which is explained by the diminishing marginal returns from exports from Ethiopia to global countries  $\alpha+\beta=1$  tell us about constant growth of exports in the long run. The both elasticity's reflecting the proportional contributions of each factor to any increase in total Exports

**Empirical Results:** Results of regression analysis show the strong positive relationship between the input and output variables and confirms the validity of the model ( $\text{Prob}(F)<0,01$ ). The explanatory

**Table. 6**

Variable	Coefficient	Std. Error	t-statistic	p-value	Significance
Constant	0.66	0.04	18.40	0.0000	***
x1	0.38	0.02	24.47	0.0000	***
x2	0.62	0.01	56.38	0.0000	***
R 2	0.99	Akaike info criterion	-6.84		
Adjusted R2	0.99	Schwarz criterion	-6.70		
S.E. of regression	0.01	Hannan- Quinn criterion	-6.84		
F-statistic	53118	Prob (F)	0.0000		

118 Prob (F) 0.0000 \*\*\* denotes significance of coefficients at 1%.

Source: Calculated by authors

## 5. Results:

The government of Ethiopia's second Growth hand Transformation Plan (GTPII) identified the export sector as one of the key drivers of economic transformation and sets out a plan to aggressively increase the performance of the sector. The robust performance of exports in Ethiopia observed in the 2009 and 2019 period has mainly been due to favorable trends in the country's terms of trade. The other potential reason for this robust performance in exports



could also be due to the global value chain participation and depreciation of the real exchange rate of Birr against the US dollar between these periods. The dismal performance in exports observed since 2011-12 and particularly after 2013-14 also coincides with a lack of favorable terms of trade as well as an appreciation of the real exchange rate of the birr.

End export markets are very concentrated in Ethiopia, regarding textile and apparel, the major end markets for Ethiopian exports are the EU-15, which accounted for almost 73 percent of total exports in 2019. This can be explained by a large integrated Turkish firm supplying a buyer serving the German and Austrian market and accounting for around 60 percent of exports. Recent data on US apparel imports from Ethiopia suggests that US exports have increased by more than 30 percent since 2019 and account now for almost US\$18 million (USITC 2020). This is due to the Global value chain participation in textile and apparel industry in Ethiopia. However, the domestic market is still important, not only for domestic firms but also for foreign owned firms — even though the government aims at pushing the latter group solely into exporting. This attractiveness is related to a 96.6 million population with an increasing share of consumers, but also to protection of the domestic market in textile and apparel. The importance of the domestic market is also demonstrated by high apparel imports, particularly from China, accounting for US\$377 million in 2019.

Subsequently, they climbed to around 125 million in 2015. Since then, they continued to rise substantially and accounted for around US\$155 million in 2019. The following year, exports continued to climb — particularly to the US — reaching an estimated US\$73 million. Although Ethiopia's share in the global apparel export market is still not visible, it is gradually emerging as an important newcomer amongst SSA apparel exporters.

## **6. Conclusions:**

This paper is based on the recognition of the important role played by global value chain participation in textile and apparel exports of Ethiopia, because of international fragmentation of production, which particularly affects manufacturing sectors such as the textile and apparel industry. In this sense, different conclusions can be drawn from a comparative perspective; the analysis of the global value chain participation shows interesting results. Another relevant finding is Ethiopia growing importance in the origin of the value-added incorporated in Mexican and U.S. textile exports. Which currently have residual importance as the origin of the value-added of Ethiopia textile and apparel exports (2011–2019). However, the effect of other variables, such as export tariff and labor costs, depends, to a large extent, in Ethiopian country considered and this research highlights the profound changes the textile sector has undergone in a highly competitive and globalized context.

Active government policy intervention is necessary to successfully participate in global value chain and benefit from it. Economic upgrading is not an automatic to social upgrading, it is a drive of social upgrading in the GVC upgrading process and it needs complementary policy which will promote social upgrading through maximization of the sustainable development impact of GVC activities. Strong social policies are required to create an equal distribution of opportunities and outcomes from the participation of GVC. The above reviewed articles are the combination of literature review, case study and research articles which are more explored on the upgrading process in the Global Value chain system and the whole article mention in their issue that GVC is an opportunity for the developing countries to gain economic and social upgrading, but they more discuss on the economic upgrading issues and less emphasize on the social upgrading issues and on what has to be done to solve the social

related issues. In this regard government's implementation capacity is very important, even if it will be hard for Ethiopia to have a strong bureaucracy as in China, at least in the short run, the government of Ethiopia needs to be committed and capacitated to implement its policies and strategies in order to managing the global value chain participation effectively.

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