

Industrialization Policy of Ethiopia

**Expected Roles of Japanese Investment and
Industrial Cooperation**



**Kenichi Ohno
GRIPS Dev. Forum
Tokyo, Dec. 2015**



Dry port

2015



Light Rail in Addis Ababa



Adama Sci. & Tech. University



French wine made in Ethiopia

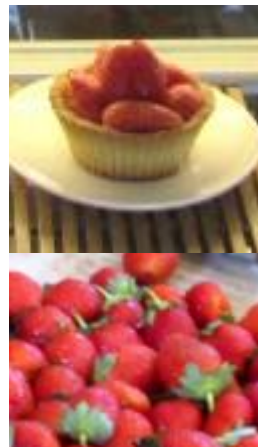


Building Addis-Djibouti Railway

Addis-Adama Expressway



Strawberries



Topics

- ❑ Japanese industrial cooperation—Kaizen & industrial policy dialogue
- ❑ Industrialization policy of Ethiopia
- ❑ Recent arrival of manufacturing FDI
- ❑ Industrial zone policy
- ❑ Proposed Japanese Investment Area

For details see GDF's "Ethiopia Information Kit for Japanese Businesses" (revised Dec. 2015, circulated).

Related materials are downloadable at www.grips.ac.jp/forum-e

Ethiopia-Japan

Industrial Policy Dialogue

PM Meles requested kaizen & policy dialogue from Japan on the occasion of IPD-JICA Africa Taskforce Meeting (chaired by Prof. J.E. Stiglitz) at Addis Ababa, July 2008.

Kaizen (by JICA)

- Phase 1 (2009-11)—30 pilot firms improved
- Phase 2 (2011-14)—EKI established, 249 firms coached, a total of 409 kaizen consultants trained
- Phase 3 (2015-2019)—advanced kaizen, teaching others

Policy dialogue (by GRIPS & JICA)

- 18 sessions held with PM, ministers & operational level. Also, exchange of letters, policy proposals, third country missions & TICAD events.
- Study concrete cases in Asia & Africa, and propose pragmatic policies based on Ethiopian reality.
- JICA cooperation to implement what was discussed.

Ethiopia-Japan Industrial Policy Dialogue

2008 2009 2010 2011 2012 2013 2014 2015 2016 ...

PM Meles

PM Hailemariam

Industrial Policy Dialogue

Preparation

Phase 1 (2009-11)

Phase 2 (2012-15)

(Proposed
Phase 3

Africa Taskforce Meeting Jul. 2008

Official launch Jun. 2009

Final session May 2011

Start Jan. 2012

TICAD V

Malaysia mission

PM Abe visit

Final session Oct. 2015

JICA's Industrial Cooperation

Kaizen Phase 1
(30 pilot companies)

Kaizen Phase 3
(Advanced level)

Kaizen Phase 2
(Institution & human resource)

Metal industry survey

(With Germany)

Champion Products

Branding & promotion

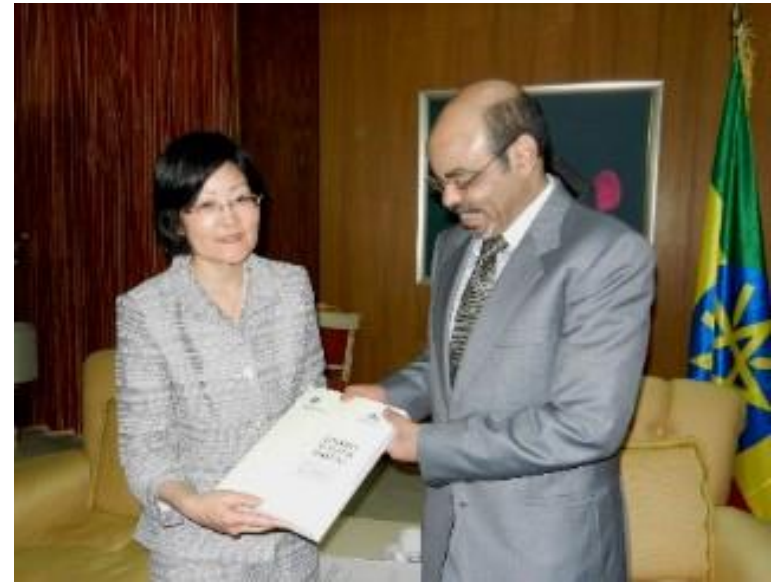
Note: Black boxes indicate three-level policy dialogue in Addis Ababa (PM, ministers, operational level).



With Former PM Meles at PM Office at the conclusion of Phase 1

Senior Economic Advisor Newai

Presenting JICA's Kaizen Report





High Level Forum (Aug. 2014)



Lecture at Civil Service University
(Economic Development of Japan)



Dr. Arkebe



PM Hailemariam



At MoFED

Uniqueness of Ethiopia

- ❑ Ethiopia's resolve to industrialize and learn from Japan & East Asia is remarkable. Such resolve is not seen in Vietnam or Indonesia.
- ❑ Ethiopia wants to move fast. Our advice to go slow & steady is not heard. We must work with Ethiopia in full knowledge of this difference in our national attitudes.
- ❑ If Ethiopia's resolve & speed is combined with enhanced policy capability on the ground, sustainable growth and industrialization will become possible. There is a long way ahead, and Japan wants to be a good friend & advisor.
- ❑ For Ethiopia, Japan is a small player in trade, ODA & FDI. But we bring East Asian knowledge and provide high-quality industrial support, and Ethiopia appreciates this. Our cooperation will be valued even more if Japanese firms arrive in greater number.

Next Five-year Plan (GTP2)

- Becoming a middle-income country by 2025—this is to be achieved not by natural resources or foreign capital but by the growth of agriculture & industry through investment and technology learning.
- Ethiopia shall be the leader of light manufacturing in Africa, and one of the leaders in manufacturing in Africa.
- A new chapter on *Quality, Productivity & Competitiveness* will be added. GTP2 also mentions these terms throughout.
- Kaizen Philosophy is also mentioned throughout GTP2.
- Light manufacturing is top priority, but heavy, high-tech, and future industries are also studied and promoted.

Note: In 2013 PM Hailemariam asked GRIPS to support the drafting of GTP2, and we responded by offering many ideas. Many of them (■) were actually adopted. The GTP2 draft is in the final stage, to be approved and published by early 2016.

Industrial Policy Dialogue

Issues Discussed in 2015

- ❑ Manufacturing FDI is relocating to Ethiopia. **Maintain labor advantage** by improving productivity & keeping wages within productivity increase. Join the Flying Geese. Do not imitate excessive wage hikes observed in Southeast Asia.
- ❑ Unskilled labor may be the current focus, but introduce policies to **level up technology & skills**. East Asia can teach strategic FDI attraction, enhancing domestic firms, and linking the two.
- ❑ Keep up with Kaizen Month (September). Elevate Kaizen to national movement, and start teaching other countries.
- ❑ Japan will soon establish JETRO office in Addis, and seriously work on Japanese Investment Area.
- ❑ Ethiopia's industrial capacity is still low. Focus on light manufacturing rather than heavy, high-tech, and future industries. Poor investment climate must be improved rapidly and greatly.

Kaizen Factories supported by JICA



Tire factory



PVC pipe factory





Amharic 5S on stairs

Seiton of tools



Mr. Getahun,
Director of EKI



Factory Kaizen Officer
receiving visiting EKI expert



Reporting muda elimination
achieved by kaizen



Incoming Manufacturing FDI

- ❑ From about 2009, export-oriented light manufacturing FDI (garment, footwear) began to enter Ethiopia, at \$1-2 billion per year on implementation basis.
- ❑ At least 1,500 firms from Turkey, India & China, of which over 500 are operational. Many engage in manufacturing. Ayka (Turkey, integrated production of knit apparel) was the first and the largest.
- ❑ These three countries are global top exporters of garment. They relocate factories overseas because of rising wages at home. AGOA & EBA tariff privileges are also attraction.
- ❑ George Shoe (Taiwan) will soon be Ethiopia's largest exporter of footwear. A US Group is bringing many Asian suppliers to a new industrial zone, to be operational in 2016.

Manufacturing FDI

(Selected from corporate HPs and e-news)

(As of Nov. 2015)

Firm	Home	Sector	Production in Ethiopia	Employees	Year	Remark
Ayka	Turkey	Knit garment OEM	Integrated production of mid-range knitted goods for Western markets	7,000	2009	Expanding; has a plan to build rental factory apartments.
Huajian	China	Footwear OEM	Footwear for EU & North America	3,500	2012	Expanding; has a plan to build an IZ.
H&M	Sweden	Apparel	Apparel for Western markets		2012	Opened office in 2012; production contracts with local factories
George Shoe	Taiwan	Leather shoe OEM	Footwear for US & Chinese markets	800	2013	Operating in Bole Lemi 1; building a leather IZ in Mojo.
Tesco	UK	Large retail	Apparel for Western markets			Opened office in 2014.
Pittards	UK	Leather products	Leather gloves, bags, garments	1,430	2011	730 in production, 700 in tannery; plan to expand to 5,000 in 5 years.
GE	US	Conglomerate	Medical device for African market		2014	Plan to build factory; products to be exported by Ethiopian Airlines.
Shri Vallabh Pittie	India	Spinning	Cotton fiber		2014?	Building the largest spinning factory in Africa.
Kanoria	India	Denim	Denim cloth	350 (plan)	2012?	Factory under construction; using latest technology including robots.
Myungsung Medical Center	Korea	Medical service	Medical service for domestic market	120	1994	A hospital with 161beds.
Hiroki	Japan	High quality leather goods	Leather jackets, shoes, products	30	2013	Started production in rented factory space in 2014. Shoes are contracted out to local producer.

Manufacturing FDI (cont.)

Firm	Home	Sector	Production in Ethiopia	Employees	Year	Remark
Jay Jay Mills	India	Babywear	Babywear for western markets (one type only)	100	2014	Production at Bole Lemi 1. Engaged in CMP contract.
Arvind	India	Denim	Jeans (export to EU & US using tariff privileges)		2014	Using imported materials from India.
Shints ETP Garment	Korea	Garment	Outer & sports wear (for US market using AGOA)	4,800 (plan)		Occupies 5 sheds in Bole Lemi 1. 2nd overseas factory after Vietnam.
Beconnected	Belgium & Holland	Apparel accessories	Design prints and tags for apparel	100	2014	Moving from Asia to Africa. Operation at Eastern Industry Zone.
Unilever	UK & Holland	Food and consumer goods	Detergent, health care products, beverages, ice cream, etc.		2014	Attracted by large population & demand. Success in Vietnam to be replicated in Ethiopia. At Eastern IZ.
Heineken	Holland	Alcoholic beverages	Beer	280	2011	Besides own brand, acquired local brands (Harar, Walia). New factory built in 2015.
Castel	France	Alcoholic beverages	Wine, beer	800	2007	Besides own brand, acquired local brand (St. George). Started producing Rift Valley Wine in 2014.
Diageo	UK	Alcoholic beverages	Beer		2012	Acquired local Meta Beer in 2012. New factory built in 2015.
BMET	Turkey	Cable	Home, building & telecom cables for domestic sales	700	2010	Importing materials from Malaysia & India; equipment from Turkey.

Ethiopia's Attraction for FDI

1. Labor advantage

Low wage (unskilled wage about \$50/mo.), ample supply, serious and nimble-fingered workers, learning attitude

2. Proactive government

Policy learning from Japan & East Asia, quick top-down decisions, PM & ministers work hard, Kaizen Fever, sectoral & Kaizen Institutes, upward mobility, little corruption

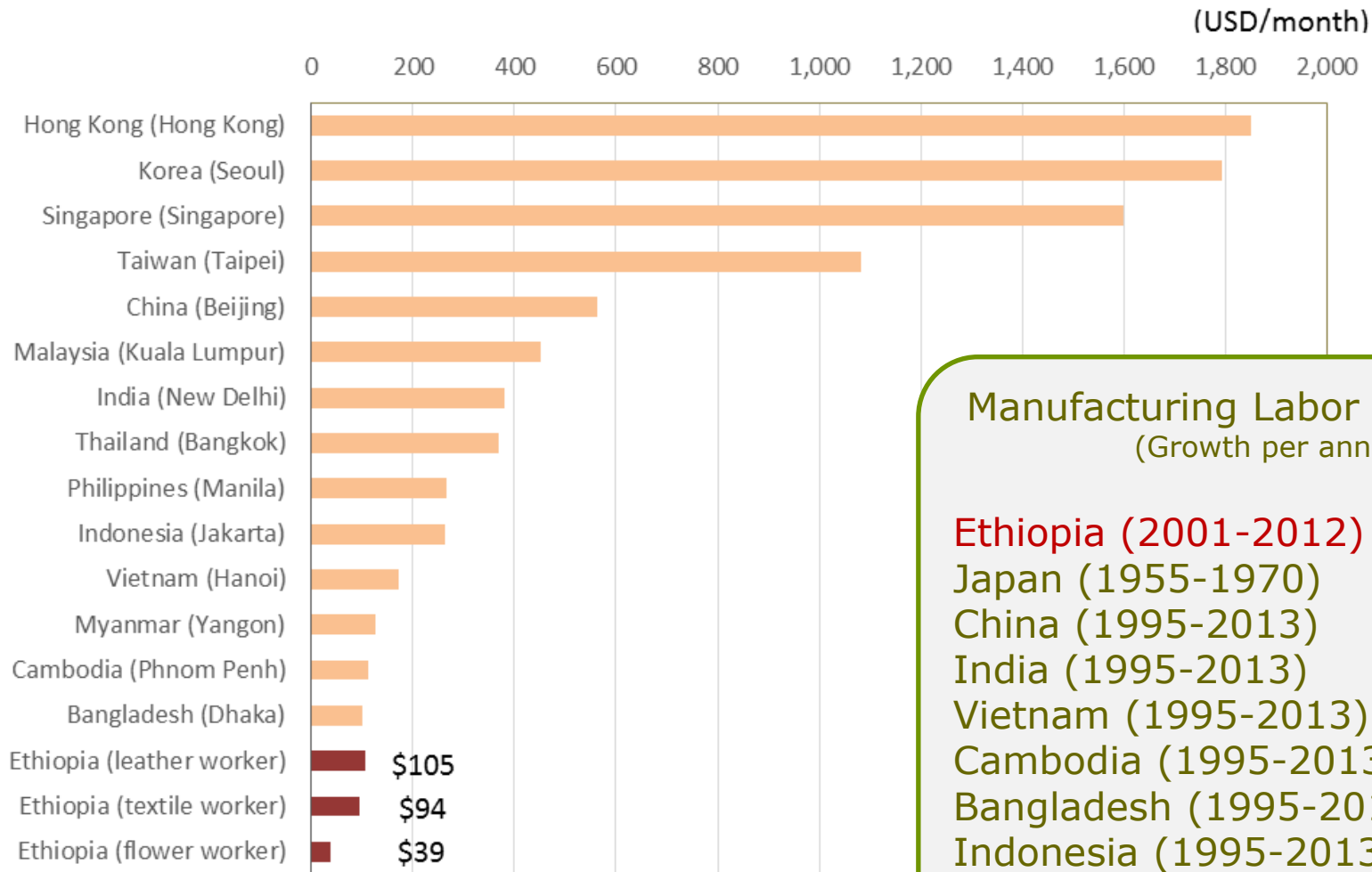
3. Comfortable environment

Political stability, personal security, highland climate, lack of communicable diseases

Others

Unique agro & mineral products, large population, growing construction demand, BOP market, cheap power & water, EDB loans, Ethiopian Airlines, AU & UNECA headquarters...

Wage and Labor Productivity (2015)



Manufacturing Labor Productivity (Growth per annum)

Ethiopia (2001-2012)	2.7%
Japan (1955-1970)	10.0%
China (1995-2013)	8.8%
India (1995-2013)	4.8%
Vietnam (1995-2013)	4.5%
Cambodia (1995-2013)	4.3%
Bangladesh (1995-2013)	2.9%
Indonesia (1995-2013)	2.1%
Thailand (1995-2013)	1.9%
Malaysia (1995-2013)	1.6%
Philippines (1995-2013)	0.7%

Source: Asian Productivity Organization
except Ethiopia & Japan.

Source, JICA survey (2015) for Ethiopia, and JETRO annual survey for others.

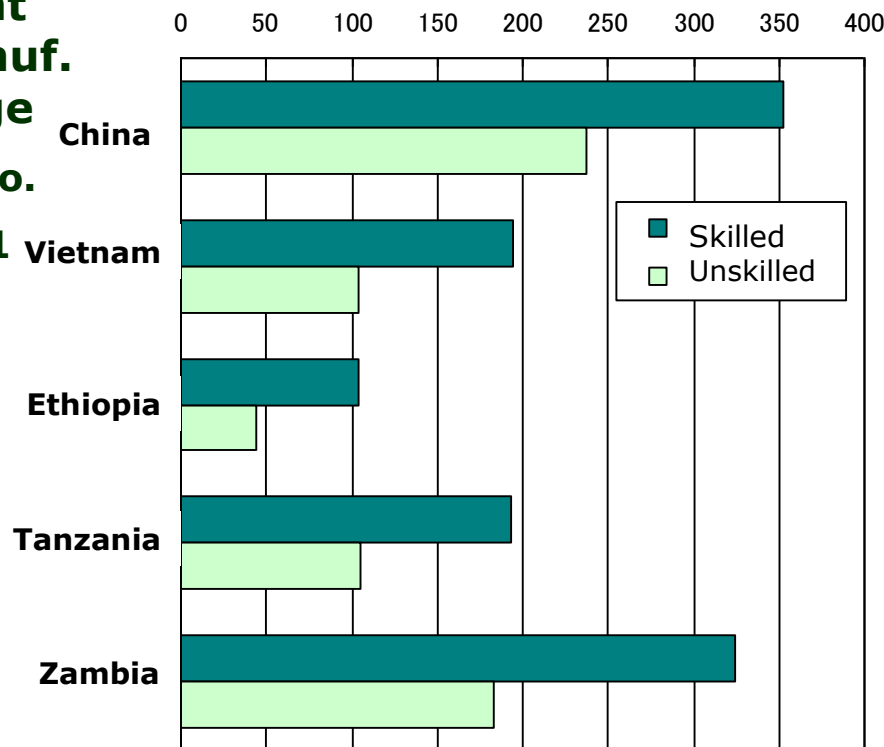
Note: no rapid wage increase is detected in Ethiopia at present.

WB, Light Manufacturing in Africa (2012)

- Comparison of Ethiopia, Tanzania, Zambia, China & Vietnam with greatest attention on Ethiopia.
- Ethiopian garment wage is $\frac{1}{4}$ of China, $\frac{1}{2}$ of Vietnam. Labor productivity is $\frac{1}{2}$ of China, same as Vietnam. Thus, Ethiopia's efficiency-adjusted wage is only half of China & Vietnam.

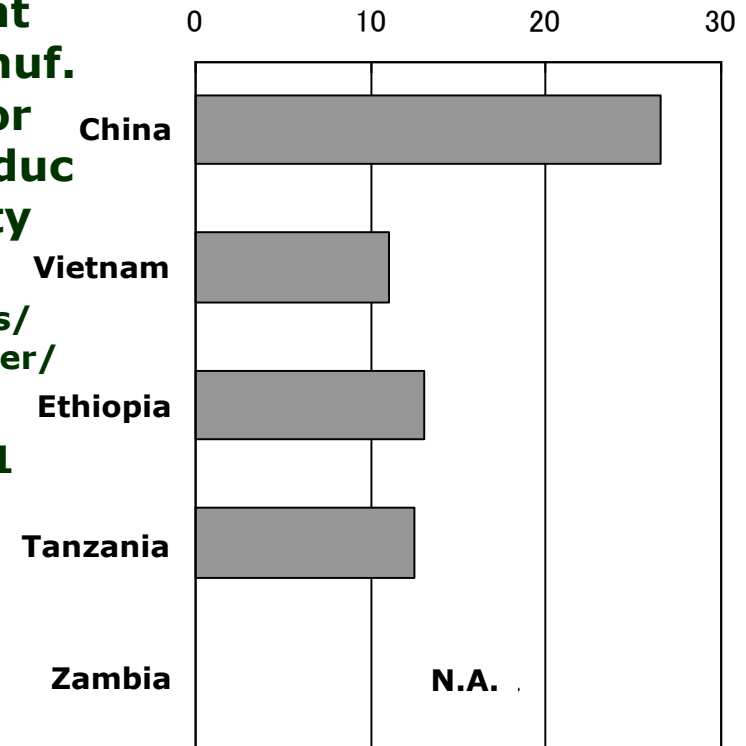
Light manuf. wage \$/mo.

2011



Light manuf. labor productivity Polo shirts/worker/day

2011



Problems in Business Environment

(Summary of Turkish, Indian & Chinese Firm Surveys & Information)

- ❑ Unclear procedure, frequent policy changes, lack of inter-ministerial coordination—especially in tax & customs matters.
- ❑ foreign currency shortage & foreign exchange control.
- ❑ High transport cost due to landlockedness. Logistics is stable & manageable for prioritized large FDI but not for small FDI.
- ❑ Export is supported but domestic market-oriented firms that compete with local ones are often pressured to leave.
- ❑ High worker turnover & lack of skilled workers (Turkey).
- ❑ Joint venture with local firms is unadvisable due to sharp differences in corporate culture (Turkey).
- ❑ Visas are not issued for skilled workers without college degrees (India).
- ❑ In addition, Ethiopian firms also complain about the lack of inputs and power shortage.

World Bank's Doing Business Ranking

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Singapore	2	1	1	1	1	1	1	1	1	1
Hong Kong	7	5	4	4	3	2	2	2	2	3
Korea	27	23	30	23	19	16	8	8	7	5
Malaysia	21	25	24	20	23	21	18	12	6	18
Taiwan	35	47	50	61	46	33	25	16	16	19
Thailand	20	18	15	13	12	19	17	18	18	26
Mauritius	23	32	27	24	17	20	23	19	20	28
Japan	10	11	12	12	15	18	20	24	27	29
Rwanda	139	158	150	139	67	58	45	52	32	46
Tunisia	58	80	88	73	69	55	46	50	51	60
Morocco	102	115	129	128	128	114	94	97	87	71
Vietnam	99	104	91	92	93	78	98	99	99	78
China	91	93	83	83	89	79	91	91	96	90
Philippines	113	126	133	140	144	148	136	138	108	95
Egypt	141	165	126	114	106	94	110	109	128	112
Indonesia	115	135	123	129	122	121	129	128	120	114
Ethiopia	101	97	102	116	107	104	111	127	125	132
Cambodia	133	143	145	135	145	147	138	133	137	135
India	116	134	120	122	133	134	132	132	134	142
Bangladesh	65	88	107	110	119	107	122	129	130	173
Myanmar	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	182	177
Total number of countries & areas	155	175	178	181	183	183	183	185	189	189

Source: World Bank Doing Business Report 2006-2015.

Recent Actions of Ethiopian Government

FDI policy and institution are far from perfect, but Ethiopia is introducing many initiatives to improve the situation.

- ❑ ERCA reform is underway with cooperation from UNCTAD, IFC, JICA, DFID, and Korea.
- ❑ Industrial park development is now prioritized with rapid creation of organizations, laws & regulations, investor services, and actual construction of industrial zones.
- ❑ Addis-Djibouti RR (by China) is almost complete with trial runs on connected tracks.
- ❑ More recently, policy was revised to favor not only export-oriented FDI but also domestic sales-oriented FDI (details to be confirmed).

We are proposing announcement of objectives, roadmaps, and other details of these measures to reassure investors.

Industrial Zone Policy

- ❑ Ethiopia is building IZs to attract FDI. Since 2014, the following laws, policies & organizations have been prepared: EIB, EIC, IPDC, Investment Proclamation (revision), Industrial Zone Proclamation, new incentives for IZs.
- ❑ Ethiopia's first IZs were Eastern Industry Zone (China, 2008) by a private developer and Bole Lemi 1 (2014) by state development. BL1 is fully rented.
- ❑ Demand for factory sheds & IZs remains strong. Large sheds of 0.5-1ha are particularly wanted. George Shoe (Taiwan), Ayka (Turkey) & Huajian (China) are building their own IZs.
- ❑ World Bank assists BL2 and Kilinto in finance & expertise. However, Government complains that WB procedure is too slow.

Existing & Planned Industrial Zones

	Developer	Location	Size	Status	Remark
Bole Lemi I	Government	15km SE of AA center, within 30 min. drive	156ha; 20 factory sheds, 10 each of 5,500m ² & 11,000m ²	Open in 2014, fully occupied; 5 in operation, all sheds completed	Factory sheds only, no land rental; possible to rent multiple sheds; 12 tenants from Taiwan, Korea, India, China & Pakistan; of which 10 are garment, 1 each in footwear & gloves; no labor supply problem; wage \$50-55/mo. Waste water treatment under construction
Bole Lemi II	Government	Adjacent to Bole Lemi I	186ha; 15 sheds and parcels of land planned	F/S done; finalizing detail design	F/S done by Korean company Dohwa; WB assists with finance & TA (sheds, infrastructure, etc.); for garment & footwear investors.
Kilinto	Foreign developer preferred but state development also possible	20km S of AA center	308ha with possibility of expansion		F/S done by Korean company Dohwa; WB assistance; for wide sectors incl. agro processing, electronics, furniture, etc.
Hawassa (previously Awassa)		175km S of AA via Mojo, half day drive (railway & highway planned)	270ha, 30 sheds, 100 apartments, shops, hotels, etc.	Construction started July 2015, to be finished Jan. 2016	Government is looking for foreign developers for these zones; if there is no taker, government is willing to invest according to specs required by tenant firms. A foreign group is moving into Hawassa with infra cost shared by group and government. F/S of Dire Dawa was conducted by China Association of Development Zones. Indian Government will support Kombolcha with a loan of \$50 million.
Dire Dawa		E of AA, 300km from Djibouti; near new RR station	1,500ha	F/S done by Chinese; detail design stage	
Kombolcha		N of AA near Dessie	1,000ha	F/S by Indian government fund	

Industrial Zones (cont.)

Pharmaceutical Industrial Zone		Near AA		Initiative in 2015, details unknown	Supported by Bill Gates Foundation, study by McKinsey. To invite large pharmaceutical firms from EU, US and Asia for both domestic sales & export.
High Tech Park		AA, near Bole Airport		Details unknown	Study done by McKinsey. Adjacent to new Addis Ababa Science & Technology University.
Eastern Industry Zone	Jiang Su Qi Yuan Group (China)	S of AA; about 1 hour drive	500ha in total; 11 sheds of 10,000ha each	10 Chinese firms; sheds are fully occupied; Phase 2 construction started	The first IZ in Ethiopia; developed by a Chinese private group with Chinese government support; Huajian has been operating here in 2 factory sheds.
George Shoe City	George Shoe (Taiwan)	Mojo; S of AA, about 2 hour drive	50ha	Design stage	Building tannery and leather-related facilities for use by George Shoe and other Taiwanese companies; expanding from Bole Lemi I.
Huajian Shoe City	Huajian	Jemo area inside AA	138ha	Land procured; designing stage	Expanding from Eastern Industry Zone to its own zone; detail design to be finalized; delay seen.
Gaizo	Ayka	Jemo & Gulaleareas inside AA	3 factory apartments, 4-5 stories high; 5ha in 2 locations	Detail design finished	Initially to invite Turkish export-oriented textile firms but now any firm can come; Delay seen. Gaizo means Garment Industrial Zone.
Kingdom Linen	Kingdom Group (Hong Kong)	South end of AA	30ha	Negotiating land & designing	Largest Chinese linen producer.

Note: This table summarizes our knowledge as of Nov. 2015 based on the information provided by the Ethiopian Government and our visits to IZs. Government plans to develop IZs in Adama (Nazret) and Mekelle. Bahar Dar and Jimma are next in line. There is also a plan to create Japanese Investment Area within Kilinto.

Bole Lemi 1 IZ

- 30 min. drive SE from center of AA.
- 156ha, 20 sheds (5,500m² & 11,000m²); multiple occupancy allowed. No land rental.
- Developed by state; managed by IPDC.
- Fully rented. Some started operation. 12 firms from Taiwan, Korea, India, China, Pakistan; 10 garment, 1 footwear, 1 gloves.
- 10-year renewable contract. Rent: \$1/m²/mo. (first 5 years), \$1.25 (next 5 years). Future IZs will not offer such bargain rates. At present, ample labor supply at \$50-55/mo. in BL1.





As of Sep. 2015

Hawassa IZ

- 4-5 hour drive from AA via Expressway & Mojo to South.
- Densely populated, suitable for labor-intensive apparel.
- Phase 1 (100ha) will have 35 large sheds, 100 residential units, worker dormitories & commercial area. Works started in July 2015 by CCECC; ready to receive tenant firms by Jan. 2016.
- A large number of US group suppliers will come; also FDI from Indonesia, Sri Lanka, India, China, US firms; almost full.
- Rent: \$2/m²/mo. (first 2 years), \$2.5 (up to 7th year), \$2.75 (up to 9th year), \$3 (up to 15th year).



Ayka (Turkish, integrated knit production, 7,000 workers & expanding)

China's Eastern Industry Zone (South of AA)





Floriculture
(roses) for
export



Leather
product
workshop



Very Eager to Invite Japanese Firms

- While emerging country firms arrive in hundreds and thousands, Ethiopia eagerly awaits Japanese firms. Japanese firms are expected to be long-term partners and train & improve Ethiopian firms.
- “Studying kaizen will not produce real results unless Japanese firms come and teach us.” (PM Hailemariam)
- Passionate call to Japan
 - “Please establish a JETRO office”
 - ➔ PM Abe promised this will be done by Mar. 2016.
 - “We will build sheds or a zone reserved for Japanese. We welcome Japanese IZ developers, but if they don’t come, we will build them anyway and wait for Japanese firms.”
 - ➔ We are seriously working on it now.



Prime Minister Hailemariam

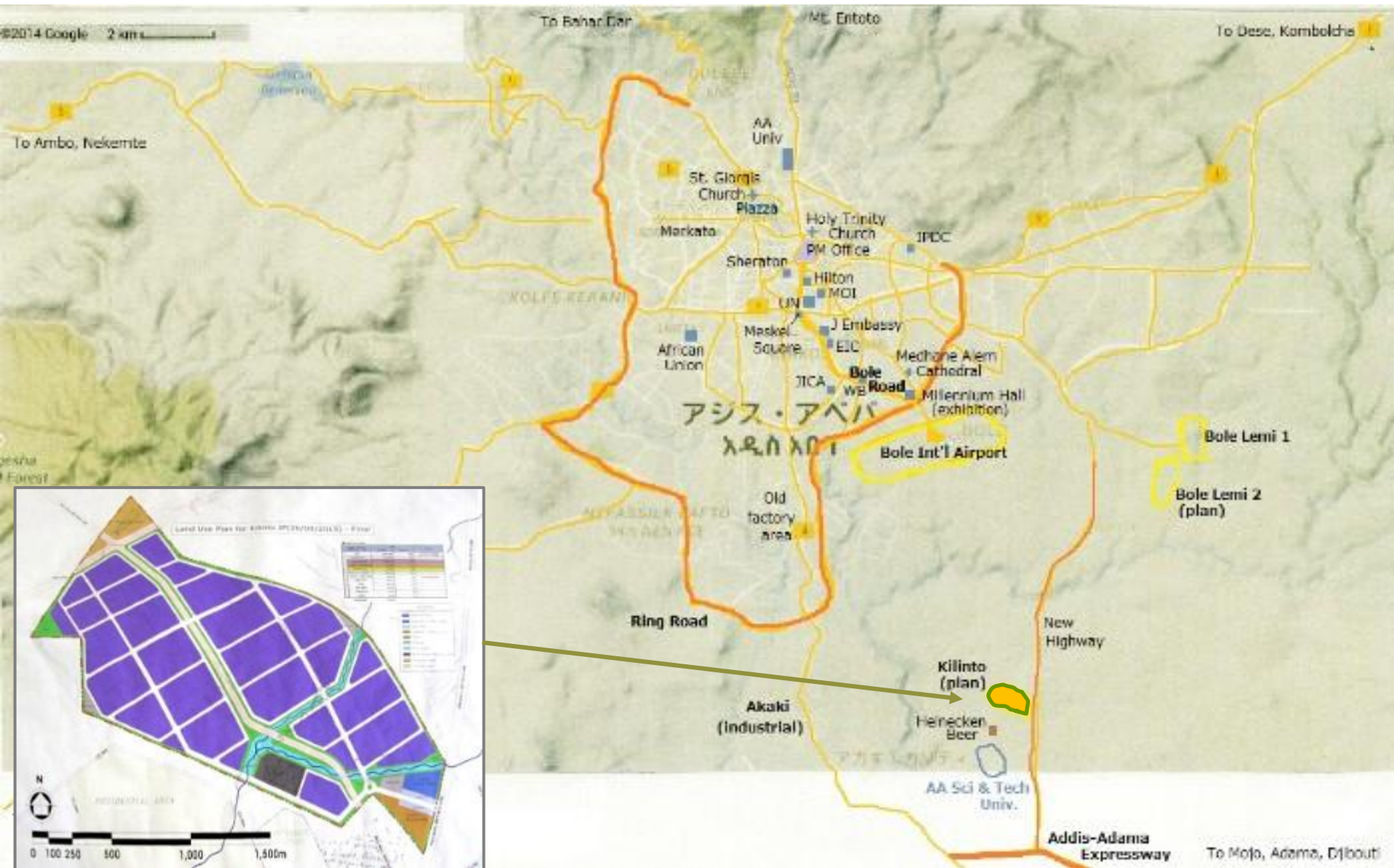
“From my days of Foreign Minister, I saw and heard the wonderful functions and activities of JETRO, and wanted to invite it to Ethiopia. My hope is to have Japanese investors and trading companies in Ethiopia; the current number is too small. PM Abe’s visit here may have improved our image in Japan. I want JETRO because I believe it will persuade Japanese firms on the ground to come here. The presence of Japanese firms will become a role model and teach us many things. This will not happen with companies from other countries.” (at PM Office, Feb. 25, 2014)

Japanese Investment Area

- ❑ MOI suggested this in Aug.2014 followed by PM's request. However, Japanese IZ developers were hard to find at first.
- ❑ JICA and GRIPS dispatched experts to explore possibility, location, specs & necessary conditions.
- ❑ In Sep.-Oct. 2015, Japan proposed that the Japanese area be created in part (about 50ha) of Kilinto IZ. Government and WB welcomed it.
- ❑ Government will prepare infrastructure, and a Japanese developer will build sheds and attract & support investors (this reduces investment for developer).
- ❑ A private developer is studying feasibility.
- ❑ Once on track, Japanese government, agencies & GRIPS will support this initiative through enhanced FDI attraction, expert dispatch, infrastructure, SME finance, and policy negotiation & improvement.

Kilinto IZ (Phase 1, 153 ha)

State-managed, WB-supported, Korean consultant firm for DD, construction in 2016



Current Status of Kilinto (Oct.2015)



Current view of proposed Japanese investment area. It is a slightly undulating grassland (all lands surrounding AA are undulating). Nearby are the new Heineken beer factory and the Addis Ababa Science & Technology University.



Adjacent is a divided expressway under construction. It is already passable in both directions on the completed side.



Apartments are being built opposite to the site across the expressway.

Uniqueness of Japanese Companies

- ❑ **Manufacturing-oriented**—we prefer manufacturing rather than quick trade, real estate or mining.
- ❑ **Monozukuri spirit**—we are proud of *gemba* and pursue quality & customer satisfaction.
- ❑ **Long-term orientation**—we are slow to come to frontier countries but, once invested, we will stay even with difficulties.
- ❑ **Enhancing local capability**—many Japanese firms are willing to train HR & improve partner companies.
- ❑ **Legal compliance**—we observe local laws on labor, tax, environment, etc. better than others.

We may be a maverick in the world of quick profits & flexible partnership. But developing countries will notice and value Japanese business conduct in the long run.

My Proposal to Japanese Companies

- ❑ Ethiopia is far from Japan and may not be an investors' paradise yet, but it has diligent and low-cost labor, and serious attitude toward industrial learning. These are not available in other African countries.
- ❑ Please practice what you do everywhere else.
 - Go for long-term mutual benefit, not for short-term gain.
 - Combine what Ethiopia has with Japanese technology and mindset, and produce high quality.
 - Teach Ethiopian managers, engineers, and workers.
- ❑ Please use EKI, TIDI, LIDI, etc. for improving your factory and/or local partner companies.
- ❑ If you face any policy problem (tax, foreign exchange, customs...), please contact the Japanese Embassy (or JICA, JETRO, GRIPS). We will use all available means, including policy dialogue, to solve your problem.