

It has been described as a “win-win” situation: could the signing of multi-billion dollar contracts to improve infrastructure catapult the African country into the big league of footwear manufacture?

Ethiopia: The next big thing?

A military-style march around a dusty courtyard looks a little out of place in an Ethiopian factory, but this is one of the techniques Huajian has employed to instill an “industrial mind-set” into workers at its Dukem-based facility. It has been two years since the Chinese footwear group launched its first production line in Ethiopia, and it now employs 3,200 people, churning out 10,000 pairs per day for global brands including Guess and Zara. A “lack of discipline and team work” was one of the worries when first investing, says its vice-president, Helen Hui. “In China, we have developed the remedies to overcome this. It is important to help Africa to develop this industrial mind-set,” she adds.

Ethiopia’s economy is growing at around 8% per year, and has surpassed Kenya as Sub-Saharan Africa’s fastest-growing economy. The government’s five-year Growth and

Transformation Plan (GTP), outlined in 2010, aims to crowbar the country out of poverty and into middle-income territory. It has been actively encouraging outside investment, offering tax breaks and incentives and touting the country’s resources to overseas investors. Although it has fallen short of the targeted 11% to 15% GDP growth per year, it still expects to export goods worth \$1 billion this year.

Key to this growth is China. Chinese investors ploughed \$21 billion into the economy in 2012, of which potentially the most significant investments have been in infrastructure. A Chinese group has advanced loans of more than \$1 billion to build the lines and substations that link power generated from the Grand Ethiopian Renaissance Dam to the national grid. The China Export Import bank has loaned \$250 million to expand the country’s main airport, while a new rail link between the capital of the landlocked country, Addis Ababa,



and the port of Djibouti, 750 kilometres away, is now under construction using \$3 billion of Chinese money. "China has proved itself to be dependable friend of Ethiopia, helping Ethiopia in its fight against poverty," said Ethiopian President Mulatu Teshome at the recent inauguration of a six-lane expressway.

It is this investment in infrastructure that led footwear industry analyst Peter Mangione to describe Ethiopia as "the next big thing" for footwear manufacture and Ernst & Young analyst Zemedeneh Negatu to call it a "win-win" situation: "Matching global supply chain knowledge and capital with Ethiopia's resources—the cattle and young Ethiopians who are affordable, eager to work and easily deployable—is win-win for everybody."

Work ethic

It took only three months from Huajian deciding to set up in Ethiopia to seeing the first shoes roll off the production line. "The willingness of the government to attract foreign investment was very attractive," says Ms Hai, who was approached by former Ethiopian president Meles Zenawi on a trade mission to China in 2010. "They also recognise the current difficulties and are willing to partner with the private sector to make changes."

Before the factory opened, Huajian invited Ethiopian graduates to its training school in China to learn the company's work ethic, and pays for "hardworking" employees to travel to the country to learn the language, to communicate better with management, who are mainly Chinese. However, local people are increasingly being recruited into senior roles. "At the beginning, we were looking for a way to adapt the new environment to us," says factory manager Song Yiping. "Then



Proximity to cattle is an advantage to manufacturers, with the leather industry growing 10% per year

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Addis Ababa

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we divided the company into separate departments so they could manage the process themselves. We found this was the best way for the company to be successful."

It is not just Chinese companies eyeing Ethiopia. British retailer Tesco is reportedly in talks to import footwear from Ethiopian companies Tikur, Abay, Peacock and Anbessa, while Italian footwear group Consorzio Toscana is planning to source £5 million of products in the next year, according to reports from the All African Leather Fair.

Japan-based footwear and leathergoods manufacturer Hiroki started to manufacture leather shoes, garments and bags in Addis Ababa at the start of this year to export back to Japan. "We decided to open a factory in Ethiopia because of the availability of quality leather raw material," says Youngil Song, president of Hiroki Addis. "We are confident that our trekking shoes and sneakers made of Ethiopian leather will boost our market all over the world."

Hides and skins

The proximity to raw material is a big draw, and the country is home to the largest livestock population in Africa – 101 million in 2013 – according to the Ethiopian Leather Industry Development Institute. The leather industry is growing at a rate of around 10% a year, and brought in \$100 million from exports in the first nine months of fiscal 2013/14. However, this falls short of the target in the GTP – \$500 million per year by 2015 – despite it being one of eight priority sectors. Tanners have complained about a lack of material, as raw skins can achieve higher prices in international markets, meaning some tanneries have been forced to import from neighbouring countries to meet production needs.

A number of footwear companies have decided that buying or building their own tanneries is a way to secure supply and makes them less dependent on locally owned businesses. Taiwan's George Shoe is building three factories and a tannery in the country, investing \$50 million in the developments in Mojo, Adama and Addis Ababa. The group will have a capacity of 4,000 pairs of shoes a day, with exported shoes expected to sell for around \$250 per pair. Similarly, Indian footwear group Farida has established a tannery about 70km from the capital, according to local reports.

The recent investments in infrastructure will also boost the sector. Chinese-owned and run tannery China-Africa Overseas Leather Products reports that it takes more than 40 days to bring chemicals from China to the tannery owing to "poor and highly inefficient transport infrastructure". At recent meetings with Kenyan and Korean investors, President Teshome described the leather sector as "ripe for investment" and offered various incentives, including land, to companies willing to take the plunge.

Domestic brands will also benefit from the investments and are achieving global success in their own right. Oliberte based in the capital exports handcrafted leather shoes, made with goat leather lining and locally sourced rubber, and follows an ethos of 'trade not aid'. Similarly, Sole Rebels, which makes shoes from recycled materials including car tyres, now ships to more than 55 countries and is targeting \$15 million in annual revenues by 2015. Its founder, Bethlehem Alemu, told *World Footwear*: "I wanted to show people that if we all

worked hard we could start to feel the pride that comes with financing ourselves and not waiting for hand-outs. My success has also served as a powerful counter to generations of media that has attempted to show Ethiopians as helpless passive recipients of aid."

Shoe city

The most ambitious project in terms of footwear manufacture is the \$2 billion 'shoe city', spearheaded by Huajian, which will be constructed over the next 10 years, 30km south of Addis Ababa. The Chinese group has already ploughed several million dollars into the Ethio-China Light Manufacturing Special Economic Zone. The "fully fledged civic entity" will house 200,000 and come complete with social areas, retail, its own transport systems, schools and offices. Ms Hai estimates the zone will produce \$4 billion in annual export revenue, and create 100,000 jobs. "We want to help the country to accumulate foreign reserves through export," she says.

As traditional footwear manufacturing regions in China become more expensive due to wage rises – growing at 10% per year – coupled with the appreciating renminbi, government clampdowns on environmental practices, and increasing water scarcity, multinational brands will be considering which manufacturing locations offer the highest margins and the most convenient supply chains. The African Growth and Opportunity Act enables tariff and quota-free access for imports from sub-Saharan Africa to the US while overseas Ethiopia-based companies are also able to import into Europe without the duties they would face if they were based in their own countries.

"Our strategy is win-win and about value creation for our stakeholders, who are the governments, employees and shareholders," adds Ms Hai. "We want employees who come from poor backgrounds to fulfil their dreams and help them out of poverty. In my generation in China, we have experienced changes we never thought would happen, and we strongly believe the current young generation in Africa will also experience changes they never thought possible in the next 30 years." 🌐

Ethiopia-based Sole Rebels, whose workers earn three times the national average, is also set to benefit from better transport links, enabling faster lead times

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