

# Has the Other Shoe Dropped?: Ethiopia's Rise and Fall as U.S. Supplier of Sub-Saharan African Footwear

March 2022

**Katherine Stubblefield and Mary Roop**

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## Abstract

Historically, Sub-Saharan African (SSA) countries, including Ethiopia, have accounted for only a small share of global footwear production. In 2011, U.S. imports of footwear from SSA totaled only \$2.4 million, and Ethiopia accounted for only 28 percent. By 2018, however, Ethiopia had grown to become the leading SSA supplier, accounting for 96 percent of the region's \$36.3 million in footwear exports to the United States. Despite Ethiopia's meteoric rise as a U.S. supplier of SSA footwear, challenges with the local business environment, bottlenecks in global supply chains associated with the COVID-19 pandemic, and political strife have resulted in two years of significant export declines. This paper provides an overview of Ethiopia's footwear trade with the United States during the 2011 to 2020 period and analyzes the key competitive advantages likely impacting Ethiopia's rapid rise as SSA's leading exporter of footwear to the United States. Lastly, it reviews challenges and recent events that contributed to the country's fall as a supplier of U.S. footwear.

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## Introduction

While agriculture has long dominated Ethiopia's export economy, the services and manufacturing sectors—including the labor-intensive footwear industry—grew in importance from 2011 to 2020.<sup>1</sup> The country's transition to manufacturing accelerated growth in the Ethiopian economy overall. The International Monetary Fund reported that since 2005, Ethiopia's average annual GDP growth has exceeded 9 percent, reaching double-digit year over year growth as recently as 2015.<sup>2</sup> Ethiopia's competitive advantages in manufacturing, including abundant labor, low energy costs, and low wages relative to other manufacturing countries, influenced the country's transition.

The advantages Ethiopia enjoys as an export-oriented manufacturer aided the footwear sector, and in 2018, it appeared that Ethiopia was on its way to becoming a global footwear hub. Production and exports began to rise in 2012 after foreign investors moved into Ethiopian industrial parks to take advantage of the country's low manufacturing costs and trade benefits.<sup>3</sup> U.S. brands and retailers began sourcing from the new facilities in Ethiopia, increasing volumes each year. In 2019, however, footwear production and exports plummeted.<sup>4</sup> The initial decline was due in part to labor strikes within and surrounding the industrial parks of Ethiopia where much of the footwear production occurs.<sup>5</sup> After the labor issues surfaced in 2019, the COVID-19 pandemic devastated the industry, resulting in multiple years of low levels of U.S. footwear imports.

There was hope that as the labor issues were resolved in the industrial parks and supply chains improved, orders and U.S. imports would resume.<sup>6</sup> However, in 2021 the United States announced that it would remove Ethiopia from the AGOA-eligible country list and impose sanctions due to human rights violations associated with an ongoing civil conflict between the Ethiopian government and the Tigray People's Liberation Front (TPLF).<sup>7</sup> Despite the Ethiopian conflict, one British footwear company with a manufacturing plant in Ethiopia reported that while it is monitoring developments, the conflict has not disrupted its operations in Ethiopia.<sup>8</sup> Other textile manufacturers announced they would

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<sup>1</sup> Ethiopia's footwear industry can be traced back to the 1930s with foreign investment from Armenia and Italy, but the industry's capacity did not reach levels that allowed for export until recent years. Behrane, "Made in Ethiopia Shoes a Hit in Addis," January 18, 2017; Irene Yuan Sun, *The Next Factory of the World: How Chinese Investment Is Reshaping Africa*, 2017, 11; *African Leadership Magazine*, "Italy to Increase Investments in Ethiopia's Industry, Infrastructure Development," December 17, 2015; USTR, "Ethiopia," accessed October 21, 2021.

<sup>2</sup> Crabtree, "Ethiopia Has Just Seen 'historic' Political Change," April 6, 2018; IMF, "The Federal Democratic Republic of Ethiopia and the IMF," accessed January 12, 2022.

<sup>3</sup> Ethiopia's primary trade advantage was duty-free access to the U.S. market under the African Growth and Opportunity Act (AGOA), which is described in more detail below. Baliddawa, "Lessons from Ethiopia," January 3, 2021.

<sup>4</sup> USITC DataWeb/Census, HTS chapter 64, accessed October 28, 2021.

<sup>5</sup> Industry representatives, interview with USITC staff, June 18, 2020; Corbineau, "Workers Strike at Ethiopia's Hawassa Industrial Park," March 15, 2019.

<sup>6</sup> Industry representative, email message to USITC staff, October 6, 2021.

<sup>7</sup> White House, "A Message to the Congress on the Termination," November 2, 2021.

<sup>8</sup> Recent reports confirm that some apparel brands and retailers began looking for alternative sourcing options to avoid doing business in a country where there are concerns over human rights. One large clothing company announced plans to close its factory in Ethiopia. Waite, "IN BRIEF," November 12, 2021; Abdulla, "Exclusive: AGOA Loss Will Return Ethiopia to Famine-State," November 11, 2021; Just Style, "Hilfiger-Owner PVH Corp to Close Ethiopia Factory," November 19, 2021.

search for destinations other than the United States for their products or possibly move production to other AGOA-eligible countries.<sup>9</sup> As such, U.S. imports of footwear from Ethiopia are unlikely to increase without the return of AGOA benefits.

## Ethiopian Footwear Trade with the United States and the World

Ethiopian production and exports of footwear were limited for many years. The Ethiopian export economy historically centered around agricultural goods, namely coffee, tea, mate, and spices.<sup>10</sup> Over the past 10 years, however, the share of total exports accounted for by agricultural goods has diminished, while the share accounted for by footwear has grown. Between 2011 and 2018, global exports of footwear from Ethiopia grew 547 percent from \$7.7 million to \$50.0 million (see figure 1), making it the ninth largest exported product for the country.<sup>11</sup> The shift away from traditional commodities is also reflected in U.S. import trends. In 2011, the value of all U.S. imports from Ethiopia totaled just \$145 million, over two-thirds of which was coffee, tea, mate, and spices; footwear made up less than 0.5 percent (or about \$669,000).<sup>12</sup> By 2020, total U.S. imports from Ethiopia grew to over \$525 million, and the share of imports accounted for by coffee, tea, mate, and spices fell to just 25 percent. Footwear, on the other hand, rose to account for a high of 8 percent of total imports from Ethiopia in 2018, eventually falling to 2 percent in 2020.<sup>13</sup>

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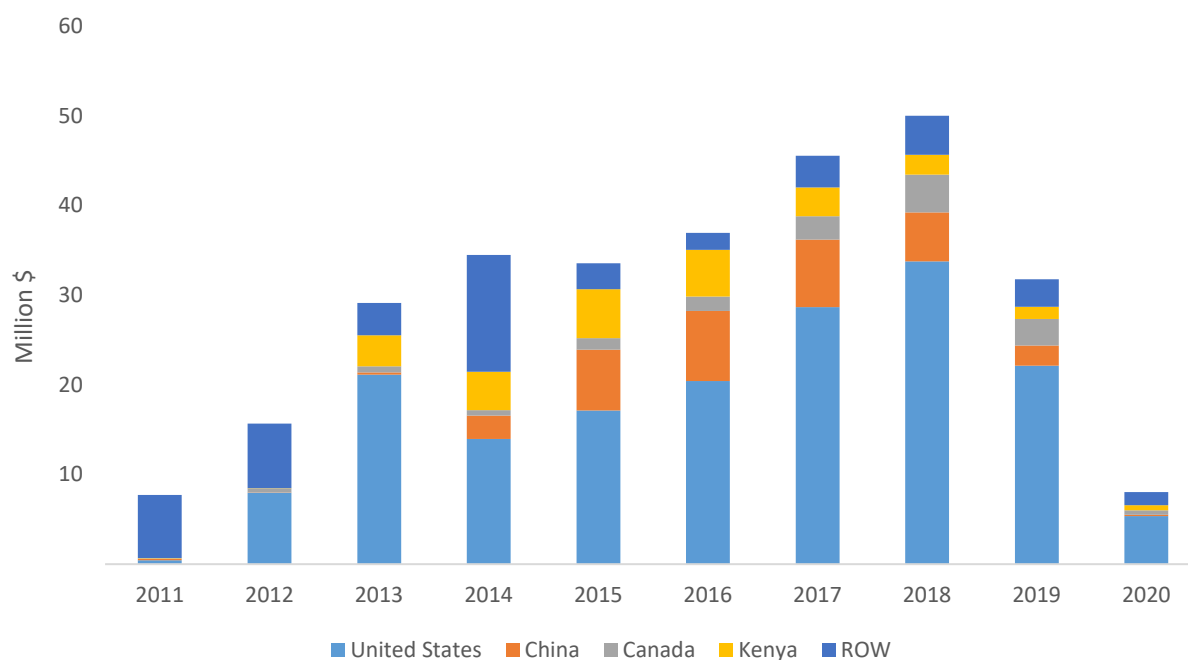
<sup>9</sup> Abdulla, “Exclusive: AGOA Loss Will Return Ethiopia to Famine-State,” November 11, 2021.

<sup>10</sup> In 2020, the largest export groups were: 1) coffee, tea, mate, and spices, 2) edible vegetables and certain roots and tubers, and 3) live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage. IHS, Global Trade Atlas, HS by chapter, accessed October 19, 2021.

<sup>11</sup> Footwear was the 14<sup>th</sup> largest exported product group in 2020. IHS, Global Trade Atlas, HS by chapter, accessed October 19, 2021.

<sup>12</sup> Historically the United States and Ethiopia were not large trading partners due in part to the high costs of shipping perishable agricultural products. USITC, *AGOA: Trade and Investment Performance Overview*, April 2014; IHS, Global Trade Atlas, HS by chapter, accessed August 11, 2021.

<sup>13</sup> IHS, Global Trade Atlas, HS by chapter, accessed October 28, 2021.

**Figure 1** Ethiopian Exports of Footwear, by destination market, 2011–20, in million US\$

Source: IHS Markit, Global Trade Atlas, HS chapter 64, compiled using GTA's Main Module for monthly data, accessed August 10, 2021.

The United States has steadily grown as a footwear export destination for Ethiopia. In 2011, Germany and Italy were Ethiopia's top export markets with shares of 38 and 25 percent, respectively, followed by neighboring Sudan, which accounted for 12 percent of exports. The United States accounted for only 6 percent of Ethiopia's total footwear exports. However, U.S. imports from Ethiopia increased dramatically after 2011, and the United States began to account for a larger share of total Ethiopian footwear exports. The country grew from supplying less than \$1 million in 2011 (about 66,000 pairs) to \$34.8 million (2.6 million pairs) in 2018, an increase of nearly 4,000 percent by quantity and over 5,000 percent by value (see figure 2). Ethiopia rose from the 55<sup>th</sup> ranked supplier of U.S. footwear imports in 2011 to the 19<sup>th</sup> largest supplier in 2018.<sup>14</sup>

Since 2019, U.S. footwear imports from Ethiopia have declined, dropping 29 percent in 2019 to \$24.7 million (1.8 million pairs) and another 48 percent to \$12.8 million (1.0 million pairs) in 2020.<sup>15</sup> That year, Ethiopia's rank as a U.S. footwear supplier fell to 22, as global exports and exports to the United States continued to decrease. The start of the decline in footwear trade between the United States and Ethiopia corresponds with labor issues in Ethiopia. Labor strikes around the Addis Ababa area in 2019 caused foreign manufacturers in Ethiopia to stop production and/or reduce employees.<sup>16</sup> These labor

<sup>14</sup> In terms of value. USITC/Census DataWeb, HTS chapter 64, accessed August 10, 2021. Ethiopia still trails far behind the United States' leading sources of footwear imports—China, Vietnam, Indonesia, Italy, and Mexico.

<sup>15</sup> U.S. imports of footwear from all sources increased by 2 percent in 2019 and fell by 23 percent in 2020, compared to declines of imports from Ethiopia by rates of 29 percent and 48 percent, respectively. USITC/Census DataWeb, HTS chapter 64, accessed February 8, 2022.

<sup>16</sup> Industry representative, email to USITC staff, October 6, 2021; Subban, "The Impact of COVID-19 on African Trade," March 17, 2020; Corbineau, "Workers Strike at Ethiopia's Hawassa Industrial Park," March 15, 2019.

strikes were part of a city-wide strike over political issues such as minimum wages and unsafe working conditions.<sup>17</sup> Then, in 2020 the COVID-19 pandemic drove a continued decline as global supply chains faced numerous obstacles and bottlenecks.<sup>18</sup> The pandemic also weakened consumer demand, with U.S. general imports of footwear from the world falling by 24 percent in 2020 due to declines in U.S. consumer spending.<sup>19</sup> Despite the overall declines in recent years, the United States is the largest destination for Ethiopian footwear, accounting for nearly 67 percent of exports in 2020.<sup>20</sup>

In 2020 the 3 largest SSA footwear exporters were South Africa, Cote d'Ivoire, and Kenya, exporting \$124.9 million, \$51.7 million, and \$39.4 million of footwear, respectively.<sup>21</sup> These countries have different destination markets for their footwear than Ethiopia. For example, while the United States was the largest destination for Ethiopian footwear exports in 2020, the largest destination markets for South Africa, Cote d'Ivoire, and Kenya were Namibia, Uganda, and Nigeria, respectively.<sup>22</sup> Total exports from these SSA exporters did decline in 2019 and 2020 due to unfavorable macroeconomic conditions, including those caused by the COVID-19 pandemic, similar to Ethiopia and many large global footwear exporters, but not at as great a rate.<sup>23</sup>

Leather footwear dominates U.S. footwear imports from Ethiopia (figure 2)—accounting for over three-quarters of total U.S. imports of Ethiopian footwear in 2020.<sup>24</sup> The growth in U.S imports of leather footwear from Ethiopia reflects Ethiopia's competitive advantage of a local leather industry to supply its footwear manufacturing sector and the sizeable U.S. leather footwear market. The total U.S. footwear market was \$7.6 billion in 2020 and leather footwear accounted for over a quarter of the market.<sup>25</sup> Although the leather footwear market is expected to decline in future years, losing market share to faster-growing segments such as athletic and textile footwear, it still accounts for a sizeable share of total U.S. footwear demand.<sup>26</sup>

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<sup>17</sup> Corbineau, "Workers Strike at Ethiopia's Hawassa Industrial Park," March 15, 2019.

<sup>18</sup> Subban, "The Impact of COVID-19 on African Trade," March 17, 2020.

<sup>19</sup> USITC, *Shifts in U.S. Merchandise Trade, 2020*, November 2021.

<sup>20</sup> IHS Markit, Global Trade Atlas, accessed various dates.

<sup>21</sup> Some countries are producing footwear but do not export significant amounts. For example, Nigeria has a high-volume shoe factory owned by the Lee Group that manufactures up to 1.2 million flip flops a day. However, the country exported less than \$500,000 of footwear in 2020 as most of this production is for domestic consumption and regional markets only. Yuan Sun, *The Next Factory of the World: How Chinese Investment Is Reshaping Africa*, 2017; IHS Markit, Global Trade Atlas, HS chapter 64, accessed October 28, 2021.

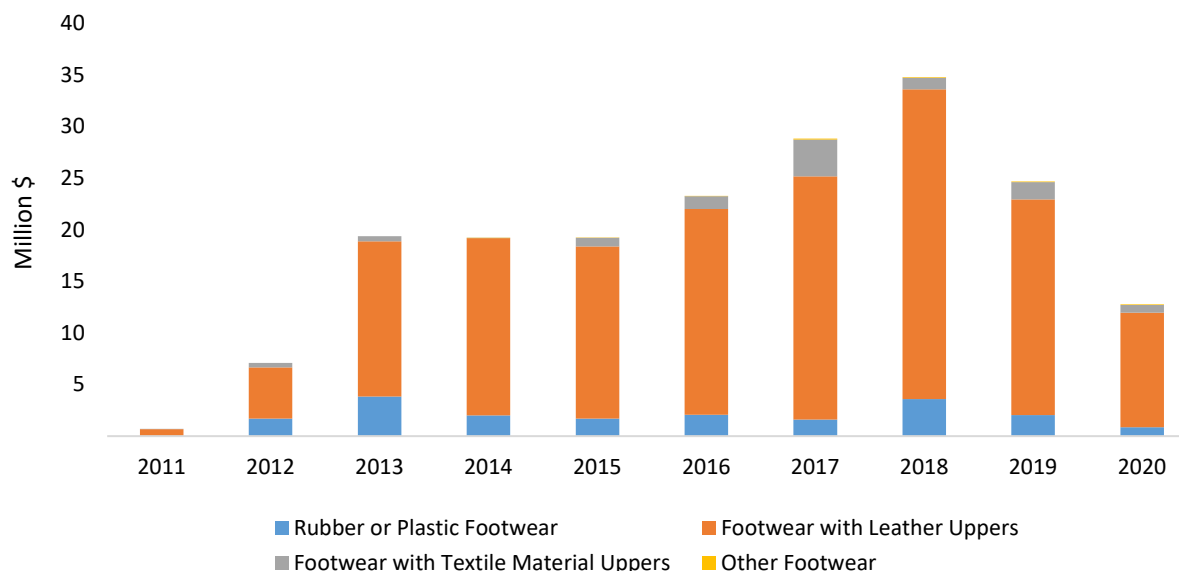
<sup>22</sup> IHS Markit, Global Trade Atlas, HS chapter 64, accessed December 13, 2021.

<sup>23</sup> Kenyan footwear exports fell by 6 percent in 2019 and 22 percent in 2020. China, the largest U.S. footwear supplier, exported 0.2 percent less in 2019 and exports fell by 15 in 2020. IHS Markit, Global Trade Atlas, HS chapter 64, accessed December 13, 2021.

<sup>24</sup> FDRA, "Ethiopia Shoe Production Snapshot," 2020.

<sup>25</sup> FDRA, "Footwear Retail," accessed January 25, 2022; USAID, *U.S. End Market Analysis for Footwear from East Africa*, November 2020.

<sup>26</sup> USAID, *U.S. End Market Analysis for Footwear from East Africa*, November 2020.

**Figure 2** U.S. Imports of Footwear from Ethiopia by 4-digit HS Subheading, in million US\$

Source: USITC/Census DataWeb, HS chapter 64 by 4-digit headings, accessed August 10, 2021.

The leather footwear imported into the United States from Ethiopia is mainly comprised of certain types of casual leather footwear, including slip-ons, sandal-type shoes, and styles that cover the ankle, but excluding sports footwear.<sup>27</sup> Ethiopian footwear tends to be lower priced than footwear from other U.S. suppliers due to the country's competitive advantages in footwear manufacturing; the average unit value in 2020 was just \$12.62/pair for Ethiopia versus an average landed cost from the world of \$22.04/pair.<sup>28</sup> While leather footwear accounts for most U.S. footwear imports from Ethiopia by value (shown in figure 2), the share of non-leather footwear does increase slightly when analyzed by quantity, indicating leather footwear's higher value relative to other types of footwear, such as those with plastic or textile uppers.

## Advantages of the Ethiopian Footwear Industry

Ethiopia's advantages for labor-intensive manufacturing include long-term access to a large labor pool and a low cost of energy. The Ethiopian population totaled an estimated 115 million in 2021, the second largest in Africa after Nigeria.<sup>29</sup> Moreover, the country's abundant labor supply is expected to last over the next few decades because more than 40 percent of its population is under 15 years of

<sup>27</sup> The largest leather footwear imports entered under 6403.99.90 and 6403.91.90, which cover casual leather footwear for women, children, and infants. Imports under these two subheadings accounted for 87 percent of all U.S. footwear imports from Ethiopia in 2020. The next largest group, footwear with both the outer sole and upper of rubber and/or plastic under 6402.99.31, accounted for about 7 percent of imports in 2020. CBP, "Informed Compliance Publications: Footwear," accessed November 16, 2021; USITC/Census DataWeb, HTS chapter 64, accessed August 10, 2021. USITC, *HTS 2021*, October 2021, Chapter 64.

<sup>28</sup> FDRA, "Ethiopia Shoe Production Snapshot," 2020.

<sup>29</sup> World Bank, "Population, Total - Ethiopia," accessed December 20, 2021.



age.<sup>30</sup> In addition, Ethiopia's footwear sector benefits from low labor costs. The typical salary for an Ethiopian manufacturing worker is about \$75 per month compared to an average monthly wage of \$600 for a Chinese production worker.<sup>31</sup> The potential for growth due to the labor surplus in the Ethiopian economy has prompted many foreign investors to increase on-the-job training, including shoemaking skills and capacity building.<sup>32</sup>

Ethiopia's cost competitiveness is further bolstered by the country's relatively low energy costs. Electricity costs in June 2021 were 0.007 U.S. cents per kWh.<sup>33</sup> By comparison, electricity costs in China were 0.09 U.S. cents per kWh in the same month.<sup>34</sup> Additionally, Ethiopia recently completed construction of the Grand Ethiopian Renaissance Dam, which is expected to provide an additional 5 gigawatts of electricity to the country, an 80 percent increase in electricity production.<sup>35</sup> Many businesses expect the dam to significantly reduce energy fluctuations and blackouts, particularly in the country's industrial parks where footwear is manufactured.<sup>36</sup> Aside from labor and energy, the four key factors driving the Ethiopian footwear sector are summarized in figure 3 and discussed below.

## Ethiopian Government's Initiatives

The Ethiopian government designated the footwear industry a priority sector for its ability as a labor-intensive industry to increase employment opportunities and attract foreign direct investment (FDI).<sup>37</sup> To support the country's priority sectors, the Ethiopian government initiated and promoted numerous business incentives designed to help the priority sectors attract foreign investment and expand manufacturing. Such incentives include tax-free holidays, seven-year excise tax breaks for imported raw materials and equipment, long-term (99-year) leases for investors, and access to free land in industrial zones.<sup>38</sup> In 2014, the Ethiopian Industrial Parks Development Corporation was created for strategic

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<sup>30</sup> Footwear became a major source of employment for young people, especially young women. CIA, "Ethiopia," October 19, 2021.

<sup>31</sup> Just Style, "US-China Trade War Could Accelerate Africa Sourcing," November 26, 2018.

<sup>32</sup> Xiaoyang, "Export, Employment, or Productivity?," September 2019; Industry representatives, interview with USITC staff, November 29, 2018; Behrane, "Made in Ethiopia Shoes a Hit in Addis," January 18, 2017; Footwearbiz, "Huajian Wants to Increase Ethiopian Workforce to 100,000," October 2, 2017; Abdulla, "Exclusive: AGOA Loss Will Return Ethiopia to Famine-State," November 11, 2021.

<sup>33</sup> GlobalPetrolPrices.com, "Electricity Prices around the World," accessed January 19, 2022.

<sup>34</sup> GlobalPetrolPrices.com, "Electricity Prices around the World," accessed January 19, 2022.

<sup>35</sup> Industry representatives, interview with USITC staff, November 27, 2018; Bearak, Raghavan, "Africa's Largest Dam Powers Dreams of Prosperity," accessed October 27, 2021; Pilling, "Ethiopia's Nile Mega-Dam," July 8, 2020. CIA, "Ethiopia," October 19, 2021.

<sup>36</sup> Tarrosy, Vörös, and Gebreslassie, "China and Ethiopia, Part 4: Mekelle Industrial Park," April 16, 2020.

<sup>37</sup> ECCSA, *Short Investment Profile of Leather Sector in Ethiopia*, December 2019.

<sup>38</sup> Industrial parks are geographically demarcated sites that are administered by a single body and offer all-inclusive services, infrastructure, and incentives for businesses located and operating within the site. Generally, they are customs-free zones offering duty-free imports of capital goods, construction materials, and raw inputs to manufacture goods for export. Mihretu and Llobet, *Looking Beyond the Horizon*, June 2017; Just Style, "US-China Trade War Could Accelerate Africa Sourcing," November 26, 2018; Just Style, "Ethiopia Textile and Clothing Sector Must Get Smarter," April 13, 2020.

development of the new industrial parks, reflecting the Ethiopian government's recognition of the valuable role the parks play in attracting industrial investment.<sup>39</sup>

The Ethiopian government invested in infrastructure and technology within and around its industrial parks—set up as production and exporting one-stop shops—to make it easier and more efficient for foreign businesses to move to Ethiopia and increase output.<sup>40</sup> These efficiencies include reduced set-up times and the use of scarce resources such as land, proximity to manufacturing inputs, reliable power supply, streamlined visa and banking services, capacity for technology transfer, and organized and vertically integrated production with economies of scale.<sup>41</sup> All these factors help reduce manufacturing costs and facilitate footwear production of the quality and quantities required for export markets.

As of 2020, 10 of the 13 Ethiopian industrial parks that had been commissioned during the 2011–20 period were operational.<sup>42</sup> Hawassa Industrial Park, located 140 kilometers south of Addis Ababa, was commissioned in 2016 for \$300 million and is now Ethiopia's largest industrial park.<sup>43</sup> In 2018, the World Bank committed to loan the Ethiopian government \$175 million to further support the industrial parks.<sup>44</sup> Then, in 2019, with partial funding provided by the European Union, Ethiopia's Minister of Trade revived a plan to develop a \$70 to \$90 million leather park near the city of Mojo, about 80 km south of Addis Ababa. The plan for the new facility includes a water treatment plan, housing, leather institutions, chemical and shoe factories, road facilities, and tanneries—including semi-finished and finished leather and leather products capabilities—to support the domestic footwear industry.<sup>45</sup>

Ethiopian footwear manufacturing takes place in several other Ethiopian industrial parks. These include the Eastern Industrial Zone (commissioned in 2011), which houses the Huajian International Shoe City;<sup>46</sup> the Bole Lemi Industrial Zone (commissioned in 2016), which houses production by Taiwanese-owned George Shoe Corporation;<sup>47</sup> and most recently, the Jimma Industrial Park (commissioned in 2019), in which the Chinese group Huajian agreed to manage and invest \$100 million in footwear and coffee plants.<sup>48</sup>

## The Ethiopian Leather Industry

The Ethiopian cattle population provides the leather and tanning industries with sufficient supply to meet demand from the domestic footwear industry; however, the inconsistent quality of Ethiopian

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<sup>39</sup> Tarrosy, Vörös, and Gebreslassie, "China and Ethiopia, Part 4: Mekelle Industrial Park," April 16, 2020; Corbineau, "Construction Starts on New Garment Park in Hawassa," September 25, 2020.

<sup>40</sup> Tarrosy, Vörös, and Gebreslassie, "China and Ethiopia, Part 4: Mekelle Industrial Park," April 16, 2020.

<sup>41</sup> Mihretu and Llobet, *Looking Beyond the Horizon*, June 2017, p. 28, 44–5; International Business Project, "Ethiopia by International Business," 2020; Baliddawa, "Lessons from Ethiopia," January 3, 2021.

<sup>42</sup> Ethiopia's industrial parks include: Bahir Dar, Mekelle, Kombolcha, Bole Lemi, Kilintol, Jimma, Hawassa, Dire Dawa, and Adama. Ethiopian Monitor, "UPDATE," October 8, 2020.

<sup>43</sup> Daily Monitor, "Lessons from Ethiopia: Manufacturing for Export," January 3, 2021; Corbineau, "Construction Starts on New Garment Park in Hawassa," September 25, 2020.

<sup>44</sup> World Bank, "Ethiopia: World Bank Approves \$175 Million to Create More Jobs and Improve Competitiveness," accessed October 25, 2021.

<sup>45</sup> Footwearbiz, "Minister Revives New Leather Cluster Plan in Ethiopia," accessed August 30, 2021; Sahlu, "Mojo Leather City under Implementation," July 31, 2021.

<sup>46</sup> Daily Monitor, "Lessons from Ethiopia: Manufacturing for Export," January 3, 2021.

<sup>47</sup> Lemma, "Ethiopia: George Shoe Corporation to Set Up New Plant," accessed October 25, 2021.

<sup>48</sup> World Footwear, "Huajian Group to Invest in Ethiopia," June 13, 2019.

leather has posed challenges for footwear manufacturers (see Access to Quality Inputs section below).<sup>49</sup> Despite the inconsistent quality, it is the top cattle breeding nation in Africa and has the 6<sup>th</sup> largest cattle population in the world with nearly 61 million cattle. The tanning industry has the capacity to produce up to 500 million square feet of finished leather per year.<sup>50</sup> Ethiopian tanneries export finished leather to neighboring African markets and to markets outside the African continent, including Italy, Germany, and China.<sup>51</sup> In addition to its supply of hides, Ethiopia raises goat and sheep for skins as well.<sup>52</sup>

The Ethiopian leather industry has been cited as a driving factor behind foreign investment and growth in the downstream footwear industry.<sup>53</sup> As such, the Ethiopian government has taken various steps to support the local leather and leather goods supply chain. For example, in 2013, it created the Leather Industry Development Institute (LIDI) with the principal objective of boosting the competitiveness of these Ethiopian products in the global arena.<sup>54</sup> The government's commitment to invest in the Mojo Industrial Park (mentioned in the Ethiopian Government's Initiatives section) will work to take full advantage of Ethiopia's leather industry for footwear production. The new tannery is expected to attract more foreign firms, bringing advanced tanning equipment and expertise to improve the supply chain for leather production and leather supply for footwear in Ethiopia.<sup>55</sup> Ethiopia has a competitive advantage over other SSA footwear-producing countries due to its domestic supply of leather. However, the country's demand for finished leather still far outstrips its supply, forcing Ethiopian footwear producers to import significant quantities.<sup>56</sup> Ethiopian imports of leather spiked in 2017, largely driven by a surge of imports from Saudi Arabia to supply peak demand from the footwear industry in 2018, and subsequently dropped rapidly over the next three years to pre-surge levels, mirroring Ethiopian export trends for footwear. China, Saudi Arabia, Italy, Hong Kong, and Vietnam each supplied large quantities of leather between 2011 and 2020, but China and Saudi Arabia were the most consistent large suppliers.<sup>57</sup>

## Foreign Direct Investment

The development of industrial parks dedicated largely to labor-intensive manufacturing sectors attracted foreign investors to Ethiopia,<sup>58</sup> and much of the growth in Ethiopian footwear exports to the United States is a direct result of this investment. In 2011, Chinese entrepreneur Zhang Huarong became one of the first investors to open a shoe factory in Ethiopia—Huajian International Shoe City, located in

<sup>49</sup> Industry representative, interview with USITC staff, February 8, 2019; LIDI, "Leather and Leather Product Industry in Ethiopia," accessed October 26, 2021.

<sup>50</sup> LIDI, "Leather and Leather Product Industry in Ethiopia," accessed October 26, 2021.

<sup>51</sup> Velasquez and Donaldson, "Sourcing Snapshot: Global Footwear Manufacturing and Trade," August 15, 2018.

<sup>52</sup> Xiaoyang, "Export, Employment, or Productivity?," September 2019; Velasquez and Donaldson, "Sourcing Snapshot: Global Footwear Manufacturing and Trade," August 15, 2018.

<sup>53</sup> See Foreign Direct Investment section.

<sup>54</sup> Behrane, "Made in Ethiopia Shoes a Hit in Addis," January 18, 2017; LIDI, "Leather and Leather Product Industry in Ethiopia," accessed October 26, 2021.

<sup>55</sup> The new project is estimated to cost \$200 million and will create 30,000 jobs. Footwearbiz, "Ethiopian Leather Complex Back on the Agenda," August 8, 2021.

<sup>56</sup> See the Access to Quality Input section below for more information on the limitation of the domestic leather tanning industry. The East African, "Ethiopian Leather Shoes Finding Markets across the World, but There Is Little to Show for It," September 16, 2014; industry representatives, interview with USITC staff, November 27, 2018.

<sup>57</sup> IHS Markit, Global Trade Atlas, HTS chapter 41, accessed October 29, 2021.

<sup>58</sup> Mihretu and Llobet, *Looking Beyond the Horizon*, June 2017.

Addis Ababa.<sup>59</sup> The company began producing footwear for major footwear brands such as Nine West and Guess, quickly exceeding the production levels of any Ethiopian footwear firms.<sup>60</sup> In 2012, the Chinese firm New Wing and Taiwanese firm George Shoe Corporation also began manufacturing footwear in Ethiopia.<sup>61</sup> These footwear companies already had connections with U.S. purchasers from their other global facilities, which helped the transition for companies placing orders with firms transitioning to Ethiopia. U.S.-based company Caleres, for example, which owns brands such as Famous Footwear, Allen Edmonds, and Dr. Scholl's, purchases footwear from Ethiopia.<sup>62</sup> Largely due to the investments made by these three firms, U.S. imports of footwear from Ethiopia surged from \$668,586 to \$19.4 million between 2011 and 2013.<sup>63</sup>

Various other countries have contributed to the growth of Ethiopia's footwear manufacturing for export during the 2011–20 period. In 2014, attracted by the availability of quality leather in Ethiopia, Japanese manufacturer Hiroki Co. Ltd. set up a \$400,000 shoe and luxury leather products manufacturing operation in Ethiopia.<sup>64</sup> In 2015, drawn by Ethiopia's low-cost electricity and labor as well as the country's tax incentives for exports, Turkish-owned My Shoes Shoe & Leather Manufacturing PLC invested \$35 million in a 70,000-square meter plot of land in Debre Birhan (a city northeast of Addis Ababa) to construct a shoe and leather manufacturing plant with capacity for producing 30,000 shoes a year.<sup>65</sup> British tanning group, Pittards, opened a shoemaking facility with 70 workers in Addis Ababa to produce shoes for the Ethiopian footwear brand Soul of Africa.<sup>66</sup> Up until 2019, many of these companies had announced expansions and plans to continue investment in the footwear manufacturing industry.<sup>67</sup>

A variety of factors in addition to Ethiopian industrial parks attracted foreign investors. Not only did Ethiopia offer lower labor costs and a domestic supply of leather,<sup>68</sup> but the Ethiopian government's market-based economic reforms and the country's stable political environment appealed to foreign businesses.<sup>69</sup> The timing of these reforms helped Ethiopia attract foreign investment. As the Ethiopian government was developing economic and business initiatives to attract foreign investors in the early

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<sup>59</sup> Baliddawa, "Lessons from Ethiopia," January 3, 2021.

<sup>60</sup> Baliddawa, "Lessons from Ethiopia," January 3, 2021.

<sup>61</sup> George Shoes built its own tanneries to supply 80 to 100 percent of the leather used in its shoe production. Xiaoyang, "Export, Employment, or Productivity?," September 2019, p. 7–8.

<sup>62</sup> FDRA, "Shoe-In," Made by Ethiopia, accessed December 14, 2021; Caleres, *2020 Environmental Social Governance Report*, 2020.

<sup>63</sup> USITC DataWeb/Census, HTS chapter 64, accessed January 18, 2022.

<sup>64</sup> Hiroki Co. also brought experts from Japan to train Ethiopian employees for their operations. EIC, "Leather and Leather Products," accessed October 25, 2021.

<sup>65</sup> Kassa, "New Shoe and Leather Factory Invests \$35m in Debre Birhan," *Addis Fortune*, April 27, 2015.

<sup>66</sup> Footwearbiz, "'More Opportunity than Risk' for Pittards," February 18, 2021.

<sup>67</sup> For example, in 2017, Huajian announced plans to boost the number of its footwear workers in its Ethiopian operations from 4,200 to 6,000 by 2018 and then again to 100,000 workers within the following five years. In 2016, Ethiopian footwear firm Anbessa Shoes started production at a new facility in the Akaki Kaliti district designed to expand its daily production of shoes from 3,500 pairs to 10,000 pairs for J.Crew and other U.S. brands.

ChinaDaily.com, "Huajian Group Puts Its Best Foot Forward," June 27, 2019; Footwearbiz, "Huajian Wants to Increase Ethiopian Workforce to 100,000," October 2, 2017; USAID, *U.S. End Market Analysis for Footwear from East Africa*, November 2020; Berhane, "Anbessa Shoes Undertaking Half Billion Br Expansion," October 4, 2016.

<sup>68</sup> Ethiopia does not have a national minimum wage. FDRA, "Ethiopia Shoe Production Snapshot."

<sup>69</sup> See the Political Environment and AGOA section below for more information. Xiaoyang, "Export, Employment, or Productivity?," September 2019, p. 18.

2000s, many Chinese footwear firms began seeking alternative production sites in the face of rising production costs.<sup>70</sup>

### Box 1 Profile of Ethiopian Footwear Companies

While most of the growth in U.S. footwear imports from Ethiopia is due to the influx of FDI, some local footwear firms have capitalized on Ethiopia's competitive advantages to make and export shoes as well. The local footwear industry in Ethiopia is made up of a few medium-sized firms and some smaller, niche, and artisan designers and producers. The few medium-sized footwear manufacturers produced and exported footwear before foreign investors identified Ethiopia as a potential global player. For example, the Tikur Abbay Shoe Factory and the Anbessa Shoe Factory have been in production for over 80 years.<sup>a</sup> These producers have sold more footwear to local and regional markets over the period as the middle class has grown in Ethiopia and neighboring countries. Some local firms have struggled acquiring footwear accessories since there is no production of these products locally and therefore must be imported. Other local footwear firms that are more recent entrants to the industry have had difficulties finding and keeping buyers that are willing to work with them given their limited capacities as new manufacturers.<sup>b</sup>

More recently, some smaller, niche, and artisan footwear designers began producing in Ethiopia as well, many of which are taking advantage of Ethiopia's footwear manufacturing knowledge and supply of leather. The footwear firm Enzi, for example, was started in 2011 by Kenyan and Ethiopian entrepreneurs. This company produces high-end men's footwear made from high-quality Ethiopian leather and sells in boutique retailers across the world.<sup>c</sup> In 2012, the firm Passport Articles de Voyage, founded by an Ethiopian-American designer, moved manufacturing production from Asia to Ethiopia due to the local supply of leather and suede.<sup>d</sup> In 2004, Ethiopian entrepreneur Bethlehem Tilahun began SoleRebel, which produces high-end, handcrafted shoes with African designs and soles made of recycled tires.<sup>e</sup> SoleRebels steadily grew into leather footwear production and now exports worldwide, including to the United States, Spain, Germany, Greece, Austria, and Canada.<sup>f</sup> Finally, another recent development in Ethiopian footwear has been the launching of Soul of Africa footwear in Addis Ababa as part of a collaboration between minimalist running shoe company, Vivobarefoot and the Desert Flower Foundation.<sup>g</sup> Soul of Africa originally made handstitched footwear in South Africa through an investment by British footwear firm Clark in 2003 before moving production to Ethiopia due to the country's supply of labor and raw inputs.<sup>h</sup>

<sup>a</sup> LIDI, "Leather and Leather Product Industry in Ethiopia," accessed October 26, 2021.

<sup>b</sup> Xiaoyang, "Export, Employment, or Productivity?," September 2019, p. 25.

<sup>c</sup> Iwuoha, "10 Made-in-Africa Footwear Brands," Smallstarter Africa (blog), May 31, 2015.

<sup>d</sup> "Made in Ethiopia," Afrothreads (blog), accessed November 19, 2021.

<sup>e</sup> Renuka, "Bringing Ethiopian Entrepreneurship To The World," October 15, 2015.

<sup>f</sup> Bilahun also founded a networking firm after SoleRebel's success. This company, Made By Ethiopia, connects global brands and retailers with Ethiopian tanneries and footwear manufacturers. Gebrehiwot, "Ethiopian Shoemakers Lure Major Global Sourcing Brands," Ethiosports (blog), January 29, 2017.

<sup>g</sup> Footwearbiz, "Documentary Highlights Success of Soul of Africa Initiative," May 15, 2020; 6pm, "Soul of Africa," accessed November 17, 2021; Nedelcheva, "Vivobarefoot x Desert Flower Foundation," June 24, 2019.

<sup>h</sup> Selamta, "Soul of Africa," January 12, 2019.

<sup>70</sup> Lazarus, "China's New Silk Road," 2019; Bradsher, "Chinese Maker of Ivanka Trump's Shoes Looks for Cheaper Labor," June 1, 2017.

## African Growth and Opportunity Act

A principal factor behind the growth of the Ethiopian footwear industry was the African Growth and Opportunity Act (AGOA).<sup>71</sup> AGOA was enacted in 2000 as a unilateral preference program to provide duty-free treatment to goods imported from eligible sub-Saharan African (SSA) countries pursuing political and economic reform.<sup>72</sup> AGOA provides significant benefits to footwear exporters in eligible countries. The Normal Trade Relations (NTR) *ad valorem* rate of duty in 2020 for U.S. imports of footwear ranged from 0 to 48 percent, with some specific rates of duty up to 90 U.S. cents per pair.<sup>73</sup> The average duty rate applicable to the top five footwear products imported from Ethiopia in 2020 was 15 percent.<sup>74</sup> In addition, the rules of origin for footwear under AGOA are considered favorable for trade and more flexible than those of other U.S. agreements because a lower percentage of regional content is required.<sup>75</sup>

The majority of U.S. footwear imports from Ethiopia over the period entered duty free under the preference program,<sup>76</sup> and the program's benefits have played a large role in Ethiopia's growth as a footwear manufacturer and exporter.<sup>77</sup> In 2011, U.S. imports of footwear from Ethiopia totaled \$669,000 and 94 percent (\$630,000) of these imports entered under AGOA. In the years that followed through 2020, the share of total U.S. imports of footwear entering under AGOA from Ethiopia consistently accounted for almost all U.S. footwear imports from the country. The Trade Preferences Extension Act of 2015 extended the expiration of AGOA from September 30, 2015 to September 30, 2025.<sup>78</sup> After AGOA was extended, U.S. imports of footwear from Ethiopia rose from \$23.3 million to \$34.8 million between 2016 and 2018.<sup>79</sup> The extension of AGOA was viewed as essential to expanding vertical integration in Ethiopia's manufacturing sector and establishing more free trade zones.<sup>80</sup> Also, the ten-year extension, which provided duty-free certainty for a decade, encouraged the continued growth of U.S. imports of footwear from Ethiopia in the years that followed.<sup>81</sup>

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<sup>71</sup> Industry representatives, interviews with USITC staff, March 8, 2018, and November 27, 2018; Ethiopian Monitor, "U.S. Hails Ethiopia's Growing AGOA Use," August 7, 2019.

<sup>72</sup> AGOA provides duty-free access to the U.S. market for all GSP-eligible products (more than 5,000) and for more than 1,800 additional (AGOA-only) qualifying HTS 8-digit tariff-line items, including footwear. OTEXA, USDOC, "AGOA," accessed October 25, 2021.

<sup>73</sup> USAID, *U.S. End Market Analysis for Footwear from East Africa*, November 2020.

<sup>74</sup> USITC DataWeb/Census, HTS Chapter 64, accessed November 16, 2021.

<sup>75</sup> OTEXA, USDOC, "The Textile and Apparel Provisions of AGOA," accessed October 26, 2021; industry representative, interview with USITC staff, February 6, 2018.

<sup>76</sup> USTR, *2020 Biennial Report on the Implementation of the African Growth and Opportunity Act*, June 2020; Ethiopian Monitor, "U.S. Hails Ethiopia's Growing AGOA Use," August 7, 2019.

<sup>77</sup> Industry representative, interview with USITC staff, February 6, 2018.

<sup>78</sup> USITC, *The Year in Trade 2017: Operation of the Trade Agreements Program 69th Report*, August 2018.

<sup>79</sup> USITC DataWeb/Census, HTS Chapter 64, accessed November 16, 2021.

<sup>80</sup> However, vertical integration was viewed as less important for footwear production than for apparel manufacturing. Industry representative, interview with USITC staff, February 6, 2018.

<sup>81</sup> USITC, *U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments*, April 2018.

Ethiopia had been eligible for AGOA benefits continuously from the program's inception.<sup>82</sup> However, on November 2, 2021, President Biden announced the termination of Ethiopia's AGOA eligibility, effective January 1, 2022, as a result of human rights violations.<sup>83</sup> As covered in the next section, many textile companies are now moving production out of Ethiopia due to the loss of duty benefits and to avoid association with a country embroiled in human rights violations.<sup>84</sup> As AGOA has been vital to the success of the Ethiopian footwear sector, industry sources predict that this development could be disastrous for the industry.<sup>85</sup>

## Challenges for the Ethiopian Footwear Industry

While the Ethiopian footwear industry grew between 2011 and 2018, the industry still faced challenges, some of which played a large role in the fall of U.S. footwear imports between 2018 and 2020. Although the Ethiopian government prioritized the development of the manufacturing sector, shipments experienced delays due to underdeveloped infrastructure. Additionally, despite a domestic supply of leather for leather footwear, the Ethiopian industry struggled with producing high-quality leather consistently and with access to other inputs and accessories for shoemaking. Aside from infrastructure and access to inputs, recent events concerning the political environment and loss of AGOA eligibility also pose significant challenges for the industry. These key factors challenging the Ethiopian footwear sector are highlighted in figure 3 and discussed below.

### Infrastructure

One of the greatest challenges for U.S. firms sourcing footwear from Ethiopia is the country's underdeveloped infrastructure.<sup>86</sup> Although Chinese investors have funded upgrades to Ethiopia's infrastructure, including the construction of a railway between Addis Ababa and Djibouti, the port from which most Ethiopian goods are shipped,<sup>87</sup> Ethiopia's infrastructure and transportation networks remain

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<sup>82</sup> AGOA eligibility criteria are set forth in Section 104 of AGOA (19 U.S.C. § 3703) and section 502 of the Trade Act of 1974 (19 U.S.C. § 2463). Countries must be GSP eligible as well as AGOA eligible to receive AGOA's trade benefits. See United States International Trade Commission, *U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments*, April 2018. Annually, the President of the United States considers whether individual SSA countries are, or remain, eligible for AGOA benefits based on specific eligibility criteria. USTR initiates the annual review by publishing a notice in the *Federal Register* requesting comments and announcing a hearing. OTEXA, "The Textile and Apparel Provisions of AGOA," accessed October 26, 2021; USTR, *2020 Biennial Report on the Implementation of the African Growth and Opportunity Act*, June 2020; 19 U.S.C. § 2463 and 19 U.S.C. § 3722.

<sup>83</sup> White House, "A Message to the Congress on the Termination," November 2, 2021.

<sup>84</sup> An estimated 100,000 workers are directly and indirectly employed in AGOA-dependent jobs across Ethiopia, including those in the footwear industry. Ways and Means Committee, "Trade Subcommittee Hearing on Strengthening the U.S.-Africa Trade and Investment Relationship," November 17, 2021; United States International Trade Commission, *U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments*, April 2018; Abdulla, "Exclusive: AGOA Loss Will Return Ethiopia to Famine-State," November 11, 2021.

<sup>85</sup> Abdulla, "Exclusive: AGOA Loss Will Return Ethiopia to Famine-State," November 11, 2021.

<sup>86</sup> Industry representative, email message to USITC staff, September 23, 2019.

<sup>87</sup> Just Style, "Africa Continues to Face Challenges to Reach Full Potential," October 15, 2018.



underdeveloped, which translates to higher transportation costs. Ethiopia's freight costs average 4.5–5 percent of total output value compared with China's freight costs of 1.5 percent of output value.<sup>88</sup>

Ethiopia also struggles with long delays in shipping times and is working to diversify shipping options to reduce delivery times.<sup>89</sup> The overburdened port of Djibouti, which reportedly operates at near full capacity, has been plagued by the slow unloading of goods and burdensome customs clearance procedures, and as such, is considered inefficient and expensive.<sup>90</sup> In 2018, Ethiopian exporters were able to start using the Port of Assab in neighboring Eritrea to ship goods after a 20-year conflict between the two countries ended.<sup>91</sup> To increase accessibility to the port, the government is investing in multiple highway projects between Ethiopia into Eritrea.<sup>92</sup> Meanwhile, many other African nations are expanding port capacity as the region recovers from COVID-19 slow-downs and the African Continental Free Trade Agreement fosters trade between African states and the rest of the world.<sup>93</sup> While regional infrastructure is improving, many projects are ongoing, and it is unclear if Ethiopian exporters have been able to take advantage of these improvements. The often slow and inefficient transportation of goods puts Ethiopia's footwear at a competitive disadvantage when speed to market is increasingly important in the global footwear industry.<sup>94</sup>

## Access to Quality Inputs

U.S. importers face certain sourcing challenges with respect to accessing quality inputs for leather footwear production in Ethiopia. For example, one Ethiopian footwear firm indicated that they must import about 60 percent of the raw materials and trims (shoelaces, zippers, buckles) needed to manufacture shoes, adding additional time and cost to the final product.<sup>95</sup> Ethiopia's heavy reliance on imports for other critical materials such as fabrics, glues, polymers, and other chemicals needed for production by tanneries and footwear producers was also cited as a production disadvantage.<sup>96</sup> The

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<sup>88</sup> Africa-China Reporting Project, "Inside the Chinese Factory in Ethiopia Where Ivanka Trump Places Her Shoe Orders," January 30, 2017.

<sup>89</sup> Just Style, "Africa Continues to Face Challenges to Reach Full Potential," October 15, 2018.

<sup>90</sup> Just Style, "Africa Continues to Face Challenges to Reach Full Potential," October 15, 2018.

<sup>91</sup> Ethiopian Prime Minister Abiy Ahmed negotiated a peace agreement with Eritrean President Isaias Afwerki in 2018. Some notable changes agreed to in the accord were an accepted boundary decision between the two countries, the removal of military threat, and free movement of goods and people across the shared border. BBC, "Ethiopia's Abiy Ahmed: The Nobel Prize Winner Who Went to War," October 11, 2021; Stigant, Phelan, "A Year After the Ethiopia-Eritrea Peace Deal, What Is the Impact?," accessed December 13, 2021; Maasho, "Ship Docks, Road Upgrade Planned as Eritrea, Ethiopia Ties Strengthen," September 5, 2018; industry representatives, interview with USITC staff, November 27, 2018.

<sup>92</sup> Abiye, "Ethiopia Launches New Road Project to Assab," January 23, 2021.

<sup>93</sup> Ford, "Africa's Ports Shrug off Covid-19 and Suez Crisis," May 6, 2021.

<sup>94</sup> Sourcing Journal, "Tech Event Aims to Solve Footwear's Speed-to-Market Concerns," September 11, 2018.

<sup>95</sup> According to one source, the cost of footwear production in Ethiopia can range from 5 to 12 percent less than production in Asia if everything is produced locally. Velasquez and Donaldson, "Sourcing Snapshot: Global Footwear Manufacturing and Trade," August 15, 2018; Africa-China Reporting Project, "Inside the Chinese Factory in Ethiopia Where Ivanka Trump Places Her Shoe Orders," January 30, 2017.

<sup>96</sup> Industry representative, email message to USITC staff, February 2, 2019; Xiaoyang, "Export, Employment, or Productivity?," September 2019.



reliance on imports exacerbated Ethiopia’s challenges in sourcing footwear materials and components during the COVID-19 pandemic.<sup>97</sup>

Other footwear manufacturers report that the quality of Ethiopian leather is inconsistent and that tanneries lack the skillsets to supply the wide variety of techniques desired by shoe manufacturers. The reported inconsistent quality of hides requires Ethiopian footwear producers to use more imported leather for domestic-made shoes.<sup>98</sup> One U.S. luxury fashion brand made several attempts to source footwear from Ethiopia but pulled out of the entire operation citing major quality control problems, lack of leather cutting expertise, poor management oversight, and work culture difficulties.<sup>99</sup> Additional complications associated with the quality standards of leather were due to poor handling of skins and hides, the collection and transportation of these products, and some parasitic diseases impacting the animals. Even the foreign firms that invested in the technology and training needed for consistent leather tanning still struggle with the supply chain challenges previously mentioned.<sup>100</sup> These issues mitigate the competitive advantage Ethiopia enjoys by having such a large cattle population.

## Labor Environment

Labor issues also pose a competitive challenge to Ethiopian footwear production. The productivity of Ethiopian footwear workers reportedly lags behind that of Asian suppliers—as much as 50 percent lower—and high worker turnover rate in Ethiopian manufacturing increases training costs.<sup>101</sup> Moreover, Ethiopia’s manufacturing sector has experienced production shutdowns due to labor strikes across multiple industries. In years leading up to 2019, workers in the Hawassa Industrial Park claimed that unions were denied access to organize in the park. These unions report that wages for industrial park workers were below the living wage and that welfare and working conditions needed significant improvement. In particular, many female workers reported grievances of sexual harassment through the unions.<sup>102</sup> According to one U.S. footwear firm, the labor unrest impacting Ethiopian manufacturing has somewhat abated, but orders from the country were negatively impacted in 2019. Efforts to establish labor unions for workers employed by factories operating in the Hawassa Industrial Park have been slow, partly due to COVID-19 disruptions, but a small number of company workforces have begun forming unions.<sup>103</sup>

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<sup>97</sup> Industry representative, email message to USITC staff, September 17, 2019.

<sup>98</sup> Xiaoyang, “Export, Employment, or Productivity?,” September 2019.

<sup>99</sup> Industry representative, email message to USITC staff, September 17, 2019; industry representative, interview with USITC staff, September 17, 2019; Xiaoyang, “Export, Employment, or Productivity?,” September 2019.

<sup>100</sup> China footwear firms were incentivized to find foreign alternatives to leather tanning because China experienced a leather supply shortage and the country’s environmental policies were becoming stricter, making it harder for heavy-pollutant industries, such as tanning, to succeed. Despite Chinese investment in Ethiopian tanning, Huajian, the largest Chinese footwear manufacturer in Ethiopia, sources primarily from local or other foreign-owned tanneries. Xiaoyang, “Export, Employment, or Productivity?,” September 2019.

<sup>101</sup> Xiaoyang, “Export, Employment, or Productivity?,” September 2019, p. 23.

<sup>102</sup> According to Just-Style, strikes at the Hawassa Industrial plant began on March 7, 2019. Ongoing strikes led employers at the factories in the plant to grant three days of leave due to safety concerns. Corbinau, “Workers Strike at Ethiopia’s Hawassa Industrial Park,” March 15, 2019; IndustriALL, “Ethiopia: Workers Strike for a Union in Hawassa Industrial Park,” March 26, 2019.

<sup>103</sup> Fortune, “Industrial Parks Finally See Labour Unions Emerge,” September 18, 2021.

## Political Environment and AGOA

Finally, Ethiopia continues to face challenges associated with safety and worsening economic conditions (such as exchange rates) due to the ongoing conflict in northern Ethiopia between the Ethiopian government and the TPLF.<sup>104</sup> On September 17, 2021, President Biden announced sanctions on certain entities and individuals involved in human rights violations in Ethiopia.<sup>105</sup> As previously mentioned, these human rights violations also led to the revocation of Ethiopia's AGOA benefits.<sup>106</sup> The loss of AGOA eligibility reverts duty rates to NTR levels, increasing the cost of Ethiopian footwear for U.S. purchasers significantly. In addition to the new sanctions and the loss of AGOA eligibility, the conflict has impeded the movement of goods both within Ethiopia and between neighbors.<sup>107</sup> It is uncertain whether U.S. investment, production, and sourcing in Ethiopia will continue without significant changes made on the side of the Ethiopian government. The American Apparel and Footwear Association (AAFA) stated that the sourcing relationship between the United States and Ethiopia is threatened by the country's block of humanitarian aid and reports of terrorized civilian populations.<sup>108</sup> One global clothing manufacturer reported that its customers discontinued orders once it was announced Ethiopia would lose its AGOA eligibility on January 1, 2022.<sup>109</sup> Other firms may be wary to participate in Ethiopia's economy when human rights abuses and state policies, such as the suspension of internet service and closure of media networks, impede firms' ability to do business.<sup>110</sup>

## Conclusion

While the footwear industry in Ethiopia showed great potential between 2011 and 2018 with increasing foreign investment and growing U.S. imports, the worsening business environment, other production hurdles, and the crippling of global supply chains due to COVID-19 have resulted in a deterioration of the Ethiopian footwear industry. Despite several improvements in recent years, Ethiopia's transportation networks and infrastructure create supply issues for U.S. purchasers, Ethiopian footwear producers rely heavily on imported leather and footwear components, and recent labor unrest has prompted foreign buyers to reduce their orders of footwear from Ethiopia. Finally, things worsened for the Ethiopian footwear industry when political unrest led to the country's loss of AGOA benefits and possibly its goal of becoming a competitive global footwear producer. To work towards this goal, Ethiopia will need to build on its competitive advantages (such as low labor costs and cattle industry), continue to improve its logistics infrastructure, remain flexible amid the changing dynamics of the post-COVID-19 global

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<sup>104</sup> Industry representative, email to USITC staff, October 6, 2021; Smith, "Escalating Conflict Could Threaten Ethiopia's Economic Success Story," November 17, 2020.

<sup>105</sup> White House, "Executive Order on Imposing Sanctions," September 17, 2021.

<sup>106</sup> USTR, "Statement From Ambassador Katherine Tai on the African Growth and Opportunity Act Eligibility Review," November 2, 2021.

<sup>107</sup> Demissie, "Djibouti Looks to Ethiopia to Gauge Its Economic Future," May 3, 2021.

<sup>108</sup> Lamar, "AAFA Letter to Ethiopia's Prime Minister," October 25, 2021.

<sup>109</sup> One example of the effect this can have in the case of Eswatini (formerly Swaziland), which lost AGOA benefits on January 1, 2015. U.S. imports of footwear from Eswatini decreased 76 percent from 2014 to 2015, for a total loss of \$61.6 million. Eswatini regained AGOA eligibility on December 22, 2017. OTEXA, USDOC, "AGOA Eligibility," accessed January 25, 2022; Abdulla, "Exclusive: AGOA Loss Will Return Ethiopia to Famine-State," November 11, 2021; USITC DataWeb/Census, HTS Chapter 64, accessed January 25, 2022.

<sup>110</sup> Smith, "Escalating Conflict Could Threaten Ethiopia's Economic Success Story," November 17, 2020.

footwear marketplace, and pursue a politically stable environment that honors democratic processes and human rights. The survival of the Ethiopian footwear industry hinges on its ability to do so.

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