

8 CASE STUDY

Countries like India and China are manufacturing hubs for fashion products, supplying large chunk of the worlds apparel. Now Ethiopia has emerged as a key destination for outsourcing for several companies, including H & M, Levi's and Guess, dueto the availability of cheap and abundant labour force. According to Bloomberg reports, the base salary of workers can be about \$25 per month. The Ethiopian government offers an exemption from income tax for the first 5 years to incentivize foreign companies. While this has created a thousands of jobs for Ethiopian market in the last year, the goal is to create 2 million jobs by 2025, which would transition the country from primarily agrarian nation to manufacturing one.

While H & M and Gap currently source production from local facilities only, some companies are taking a step further and are planning to set up factories in the East African country due to the extreme competitiveness of fashion industry. These includes brands like Levi's, under Armour, Calvin Klein, Tommy Hilfiger, Armani and Hugo Boss. At the same-time, outsourcing to Ethiopia has potential risks. Ethiopians political instability may cause problems in the future. In addition, due to underdeveloped infrastructure, the working conditions might not be up to the standards that may companies are used to and the delivery time for products to reach buyers in Europe could be weeks longer than buyers in China.

Questions :

- a. What are the major pros and cons for companies to set up production in Ethiopia? (10 Marks)
- b. How could inferior working conditions influence the efficiency of production for companies? (10 Marks)
