



Due diligence and responsible investment in emerging markets – perspectives from Ethiopia and China

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Partner

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Objective of the session

Drawing from the examples of Ethiopia and China, this session will explore the challenges and opportunities for emerging garment producing countries in developing a vibrant and growing textile and garment sector which can provide decent work and responsible environmental stewardship, while being able to meet the expectations of global buyers and investors on quality, price, transparency and responsible business conduct.

Background

Responsible Business Conduct (RBC) has emerged as an important aspect of sustainable production, trade and investment. A number of Sustainable Development Goals (SDGs) refer to responsible production patterns, inclusive and sustainable economic growth, employment and decent work for all. RBC expectations are also increasingly found in international trade and investment agreements and national development strategies, laws, and regulations. In the United Kingdom, for example, the Modern Slavery Act now requires certain companies to prepare a yearly slavery and human trafficking statement, indicating the steps taken to ensure that modern slavery is not occurring in the companies' supply chain or business operations. In June 2015, G7 leaders pledged to lead by example in the promotion of international labour, social and environmental standards in global supply chains, notably through due diligence. Specific encouragement was given to international efforts and promulgating industry-wide due diligence standards in the textile and ready-made garment sector. One of the largest consumer goods sectors in the world, the garment and footwear sector is often an important driver of growth and an essential source of livelihoods for poor and vulnerable people. It is also one of the most globally integrated, and exposed to a number of RBC risks. In line with global trends, governments in emerging markets are making efforts to meet international and local expectations to promote RBC, and notably the implementation of due diligence standards, in their growing textile industries.

China

The textile and garment manufacturing sector played an important role in China's transition from a predominantly agricultural economy to an industrial economy in the 1980s and 1990s, with the sector a driving force for exports and major source of foreign exchange for the country. This led to a significant rise in living standards, which in turn increased local demand for high quality garments and textiles to supplement the demand for exports. Today China dominates world trade in textiles and garments¹, with the sector contributing an important share of Chinese GDP. The

¹ WTO, World Trade Statistical Review, 2016

experience of China can provide insights for other countries interested in developing their textile industry. In addition, many Chinese manufacturing companies today have grown to have their own global supply chains, investing in established garment manufacturing countries such as Viet Nam and Cambodia, as well as new emerging markets for garments, for example in Africa. As investors, these companies are also expected to implement RBC principles and standards, including ensuring they are not causing, contributing to or linked to potential adverse impacts in countries where they source or invest. In January 2018, the China National Textile and Apparel Council (CNTAC) and the OECD signed a Memorandum of Understanding setting out their commitment to intensify co-operation to promote RBC in global textile and apparel supply chains.

Ethiopia

At present, 85 per cent of Ethiopia's population depends on farming for their livelihoods. The Ethiopian government has selected the textile and clothing industry to promote light manufacturing, job creation and diversify the national economy while promoting exports. Their plan is to create 300,000 new jobs in the textiles and apparel sector by 2025. In recent years, the industry has grown at an average rate of 51 per cent with more than 65 international textile investment projects registered in the country. Special incentives like zero-duty imports, establishing industrial parks across the country and investments in providing power have led to a 46 per cent increase in foreign direct investments in the past few years. Ethiopia has signed 16 out of 21 relevant international conventions on labour law and environmental protection. The Ethiopian government has an opportunity to support businesses in enhancing their practices in that regard in order to establish a sustainable garment and textile industry.

The link to due diligence

One of the key times when effective due diligence is necessary for companies is when entering into new markets, both as buyers and as investors. This applies to the upfront risk assessment and to ongoing engagement with suppliers. Governments can facilitate a smooth process in this regard, with the opportunity to embed due diligence practices from the early stages of the sector's industrial development.

Discussion questions

- It is the responsibility of every company to conduct due diligence on their own operations and supply chains. What are the particular challenges and opportunities for emerging industrial sectors to embed responsible business practices from the beginning?
- What are the challenges and opportunities from a global buyer or investor perspective? If emerging market production poses a higher risk to more established production countries, how do you as a brand prioritise and mitigate that risk through due diligence activity (for example additional training, capacity building, auditing?)
- What are the priority due diligence considerations with respect to working conditions in Ethiopia?
- What role can governments play to promote responsible business practices and protect workers' rights in a new industrial sector? To support this, how can a government help attract responsible overseas investment?
- What role should consumer market governments play in supporting responsible investment in emerging market economies?

For more information

- GIZ Sustainable Textile Programme: <https://www.giz.de/en/worldwide/71852.html>
- OECD-CNTAC MoU: <http://www.oecd.org/daf/inv/mne/CNTAC-OECD-Memorandum-of-Understanding-EN.pdf>