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DULAL BROTHERS LTD. (DBL) GROUP: GOING GLOBAL

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ABOUT DBL GROUP

Dulal Brothers' Ltd. (DBL) Group is a vertically integrated knit garments manufacturing and exporting composite industry in Bangladesh. Starting its operations in 1991, the group is now equipped with a variety of garments manufacturing and merchandising operations including cotton spinning, fabric knitting, dyeing, finishing and garments cutting, sewing, washing, packaging, and exporting activities. It is a supplier of some of the globally renowned brands such as H&M, Puma and G-Star. In Bangladesh, 30,000 employees are working for this group (Akter, 2017). Its export volume was US$ 340 million in 2016. DBL is exporting to Europe, North America, Africa, South America, and Asia. It uses the most advanced apparel manufacturing technology and has taken significant steps towards improving environmental sustainability (The Daily Star, 2017). Now, DBL is extending its production facilities to Ethiopia with hopes for boosting productivity and turnover and expand globally.

DBL GROUP: GOING GLOBAL (IN ETHIOPIA)

DBL Group has already started its operation in the Mekele town close to the capital city of Addis Ababa. The plant will be solely owned by the DBL Group.The government of Ethiopia has provided 68 acres of land free of cost to DBL to set up this plant. The company is investing US$100 million for the facility. The plant will generate employment for about 3,500 people. Amongst them 150 will be working as executives - all of them from Bangladesh (Mridha, 2016). The objective of business expansion to Ethiopia is to enjoy the duty-free access to the United States (US) and European Union (EU) markets along with

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other global markets. For example, the US has renewed the African Growth and Opportunity Act (AGOA) for the African LDCs (Least Developed Countries) including Ethiopia (Felter, 2017). Ethiopia also enjoys preferential market access to EU through the Everything But Arms (EBA) scheme. DBL's strong intention to locate in Ethiopia is supported by its strategic partner H&M, a famous international buyer based in Sweden where DBL is regarded as a platinum-rated apparel supplier. H&M has committed to becoming a long-term buyer for DBL and will be supporting its sustainable textile production. DBL is also getting cheap sources of capital from its strategic partners including the Ethiopian government, which is the key contributor to the project.

ANALYTICAL FRAMEWORK

The proposed case is developed on Dunning's eclectic paradigm. The eclectic paradigm developed by Dunning (1993) provides a holistic framework to explain investment location decisions of Multinational Enterprises (MNEs). The basic assumption behind this theory is that an MNE needs to have three kinds of advantages i.e., ownership, internalization and location in order to conduct Foreign Direct Investment (FDI). Ownership advantages represent a firm's intangible assets and the ability of the firm to conduct cross-border transactions across multiple countries. Examples of intangible assets are a superior technology, advanced management techniques or brand names. For FDI to take place the ownership advantages also needs to be profitable to internalization by the firm. Internalization advantages refer to the firm's direct control over its core competencies or its firm specific advantages and that need to be internalized rather than being replicated by the competitors.

The final set of advantages is the location specific advantages that would initiate the proposed investment in a given location. Examples of location specific advantages are a large market size, cheap availability of labour or natural resources. The ownership advantages are the key elements that integrate both the internalization and locational advantages and lend influence when making investment choices in locations where these advantages could be further exploited or enhanced.

FINANCING OF DBL'S ETHIOPIAN PROJECT

DBL's project in Ethiopia is going to be a debt-financing project rather than a joint venture. 70% of the project financing will be coming from the Ethiopian Development Bank and the Swedish Government Development Fund and the rest will be generated by DBL's own equity (Razi, 2017; Mridha, 2016).

Investment Amount in US$	Sources	Interest Rate
Total Investment US$ 100 million	US$ 55 million by Ethiopian Development Bank	7%
	US$ 15 million by Swedish Government Development Fund	6%
	US$ 30 million by DBL Group	

Source: Razi, 2017; Mridha, 2016

Companies from other competing countries are establishing textile and clothing factories in Ethiopia. Reputed buyers like H&M, Tesco, Primark have started sourcing garments from Ethiopia. Ethiopia is a low cost location for producing garments and has access to the other developed country markets such as the United States (US) and the European Union (EU). By locating into the Ethiopian market DBL would be able to realize several operational advantages. These are (i) the diversification of the production base to reduce operational risks, and (ii) able to charge global standardized prices for its products instead of the common normative price presently set by its buyers in Bangladesh.

CONSTRAINTS IN GOING GLOBAL BY BANGLADESHI COMPANIES

Bangladesh Bank was historically conservative in allowing local companies for outward foreign direct investment (OFDI), as the country needs more funds for its local development and growth. The Foreign Exchange Regulation Act of 1947, which governs outward FDI, was amended recently in 2015, and it is allowing limited OFDI on a case-by-case basis (Islam, 2017; 2017). Recently, the Bangladesh Bank has allowed outward FDI for the DBL Group along with six other companies (Islam, 2017; 2017; CPD, 2017). These companies were allowed OFDI based on the nature of their proposals, which were wide and diversified. The present high foreign exchange reserves in the country has triggered this outward investment decision (Islam, 2017).

ABOUT ETHIOPIA

Ethiopia, officially named the Federal Democratic Republic of Ethiopia, is bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. Ethiopia is the most populous landlocked country in the world, as well as the second-most populated nation in the African continent (The World Bank in Ethiopia, 2018). Addis Ababa is the capital of Ethiopia.

ECONOMY OF ETHIOPIA

Ethiopia's economy is one of the fastest growing economies in the region with an average GDP growth of 10.3% registered from 2005-2006 to 2015-2016 compared to the regional average of 5.4% (Akter, 2017; The World Bank in Ethiopia, 2018). GDP growth rate was 10.9% in 2017 (Ethiopian Investment Commission, 2017; The World Bank in Ethiopia, 2018). But, the country is still poor with a per capita income of US$783, and is aiming to become a lower-middle- income country by 2025 (Akter, 2017; The World Bank in Ethiopia, 2018). The higher economic growth of the country resulted in significant poverty reduction.

THE PRESENT INDUSTRIAL STATE OF ETHIOPIA AT A GLANCE

The Ethiopian government has taken a rigorous plan for the industrial development of the country. History says that textile is one of the gateways for poor countries to industrial development. Keeping this in mind, the Ethiopian government also wants to make the country as a center point of investment for Asian countries. For the strategic advantage in Ethiopia, companies from China, India and other countries already started to invest in Ethiopia. The government is implementing the Growth and Transformation Plan (GTP II) under which the country aims to continue work on physical infrastructure through public investment projects and transform into a manufacturing hub by 2019-2020. Textile and clothing industries will enjoy major development aided by low labor costs and highly motivated workers. Though the country is a landlocked country, a new railway line to a port in the neighboring country Djibouti will speed up the transportation problem.

IMPORTANT HIGHLIGHTS OF ETHIOPIA

- The Ethiopian government is implementing the growth and transformation plan (GTP II), which is followed by the goal of industrial development in the country (Akter, 2017).
- Duty-free access to the US and EU market under the African Growth and Opportunity Act (AGOA) is the key to investment in Ethiopia and has made the country a strategically advantageous location for foreign companies (Mridha, 2016). Establishing companies in Ethiopia will make the companies' value chain systems more strategic to compete against their competitors in the global textile market (Aiyer, 2018).
- Ethiopia enjoys the Generalized System of Preferences (GSP) facilities. So, countries like Bangladesh, which does not have access to GSP facilities, can take this advantage for earning additional foreign exchange (Mridha, 2016).
- GDP is growing at a rate of 10% for the last ten years (Akter, 2017).
- Ethiopia is the second largest populous country in Africa with 102 million people. The population guarantees the supply of cheap labour to the FDI companies (Akter, 2017).
- The country is 11,00,000 square kilometers and has large land area for agricultural cultivation. Ethiopia produces cotton and the weather is very favorable for cotton production (Akter, 2017). The cotton production facility will help to build the backward linkage for the industry.
- The country has cheap hydro-energy (textile factories pay between US$ 0.78 to US$ 0.002 per Kilowatt-hour (KWh) (Akter, 2017).
- The government has set the plan for exports of US$ 30 billion from garments and textile by 2025 to contribute to the development the local textile industry (Akter, 2017).
- The Ethiopian government has made the textile industry a top priority with a package of incentives. It is arranging to fund foreign companies at a ratio of 70:30, which means 70% of the funding will be generated by the Ethiopian Government and 30% from company equity. Tax holiday benefits are also available in the following ways (Ethiopian Investment Commission, 2017):

    i. Production and operation in Addis Ababa (the capital) – tax holidays for 7 years.
    ii. Outside of Addis Ababa – tax holidays for 9 years.
    iii. Industrial park development – tax holidays for 15 years.
- Ethiopia enjoys duty and quota free access to Japan, Canada, China, Turkey, Australia and New Zealand.
- Preferential market access to India.
- Proximity to the Middle East, Europe, USA, and Asia.

- 54 million active labour force is available at a competitive wage. According to the United Nations (UN) projections, sub-Saharan Africa will have the highest working-age population by 2035.

CHALLENGES IN ETHIOPIA

The Ethiopian Government is taking all the necessary initiatives for the industrial development of the country. But it also faces considerable challenges for industrial development (The World Bank in Ethiopia, 2018). Some are worth noting. First, the unskilled labour force is a significant challenge for FDI companies, and they need to invest time and money to train the local workforce. Second, the absence of a seaport is another drawback for the country, as the country is landlocked. Therefore, the country is dependent on other countries' seaports to ship its goods. Third, the technology base of the country is also weak. Therefore the incumbent companies initially need to develop their own technology base for the smooth running of operations that could also potentially lead to higher production costs. Fourth, there is a variability of political risks in the country as anti-government forces and tribal groups sometimes attack foreign companies. Fifth, the production efficiency is poor in Ethiopia. The present production efficiency ranges from 40 to 50 percent leading to long lead times from production to order delivery. Sixth Ethiopia does not have bilateral tax treaties with many countries (i.e., Bangladesh and Ethiopia) that could lead to double taxation problems for Bangladeshi FDI companies. Finally, the repatriation of profits from Ethiopia to the home country (i.e., Bangladesh) is difficult, as the country lacks adequate foreign exchange reserves.

COMPANY MANAGEMENT PLAN FOR ETHIOPIAN OPERATION BY DBL GROUP

DBL is going to employ 150 executives from Bangladesh who will stay in the country for the initial establishment and operation of the project (Mridha, 2016). It may take about six months to train the local workforce and build a management team consisting primarily of local Ethiopian executives for the smooth running of operations. Thereafter, the Bangladeshi workforce will return home. DBL has a concrete plan to train the local workforce pertaining to its company policy, as the local workforce efficiency is very poor.

LEARNING OBJECTIVES

- Understand why companies go for international expansion
- Understand the timing of entry into a foreign market
- Understand the impacts of trade agreements, trade blocks, and various taxation policies on international business

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