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Is there potential for Tanzania's Textile and Clothing industry to grow into a major global sourcing destination?

Executive Summary

As the BRICs approach the next phase of their economic transition it will free up an estimated 85 million manufacturing jobs for emerging economies with much lower income levels, in comparison to Japan's 9.7 million in the 1960's and Korea's 2.3 million in the 1980s. Tanzania's Textile and Clothing (T&C) industry was the region's leading manufacturing industry in the late 1970s, employing around 25% of the industrial workforce and contributing 25% of local GDP (Baffes, 2002). However, by the mid-1990s, insufficient supply of cotton, inefficiencies in the industry, competition from imports of second-hand garments and unfavourable tariff and exchange rate policies meant the industry was unable to compete in international exports. By 2017, the top export destinations included China, Kenya, United States and Burundi and now, the industry represents 10% of the country's manufacturing sector. The establishment of Tanzania's Export Processing Zones (EPZ) in conjunction with key regional developments, such as the introduction of the African Growth and Opportunity Act (AGOA), EU preferential trade agreements and the establishment of a customs union, led to growth from USD\$17m in 2013 to US\$4,827.8m in 2017. However, several factors threaten its potential, including but not limited to, a lack of policy implementation, low levels of FDI and corruption. Currently, the leading global textile exporters are China (valued at \$110bn), the EU (\$69bn), India (\$17bn), USA (\$14bn) and Turkey (\$11bn), compared to Tanzania's \$4.8bn industry. Nevertheless, because of changing trends in the international T&C sector, there is a real opportunity for Tanzania to play a bigger role as an international sourcing hub.

Introduction

The growing manufacturing sector in the East African Community is dominated by Ethiopia, Kenya and Tanzania. Tanzania's T&C production and export are growing substantially, stimulated by government backing and preferential access to South African and US markets. Competitive labour costs, large quantities of raw materials, access to the second largest port in East Africa and skilled and unskilled labour generate the potential to compete globally (Sorasalmi & Tuovinen, 2016). The key issue is that the sector is not yet well integrated into

the global economy largely due to the disjointed integration of the region's value chain. The definition of global sourcing used in the report is:

“The use of suppliers anywhere in the world, chosen on the basis of their efficiency”

(Collinson et al, 2017, p.388)

Thus, the report seeks to answer the question: “Is there potential for Tanzania's Textile and Clothing industry to grow into a major global sourcing destination?”

Global Trends and Opportunities for Market Expansion of Tanzania's T&C Sector

Although the Asia-Pacific region accounts for 59.6%, Europe, 19.1% and the United States, 10.8% of the global textile market the following trends create a clear opportunity for Tanzania:

- The global T&C sector has grown 28.5% since 2016 and is estimated to reach \$961 bn. in value by 2021.
- Up to 68% of leading U.S. T&C merchants plan to hire more data scientists to enable them to help tackle market uncertainties and increase speed to market, operating efficiencies and sustainable sourcing.
- T&C sourcing is in an endless state of flux thus on average, the top 50 American companies source from over 20 countries or regions to strike a balance between cost, flexibility, speed and risk.
- Some companies have been strategically decreasing the number of sourcing hubs to ensure tighter collaborations with suppliers and greater compliance within social and environmental matters.
- Nearshoring or on shoring is a growing trend which has the advantage of proximity to the market, making speedy replenishment of in-season items possible. Tanzania is considerably closer to Europe and the USA than Asia is.
- However, US-China trade wars have resulted in a devaluing of the USD in an attempt to alleviate pressures on exports by offsetting the adverse effects of higher tariffs on products and services

(FXCM, 2018; Just Style, 2019)

Like the vast majority of African countries, the export market for Tanzania's T&C sector signifies the only option for rapid growth and high value-add services. The challenge is

employing aggressive growth strategies in leading markets to take advantage of the above sourcing trends.

Applying the Uppsala model to Tanzania's T&C Industry

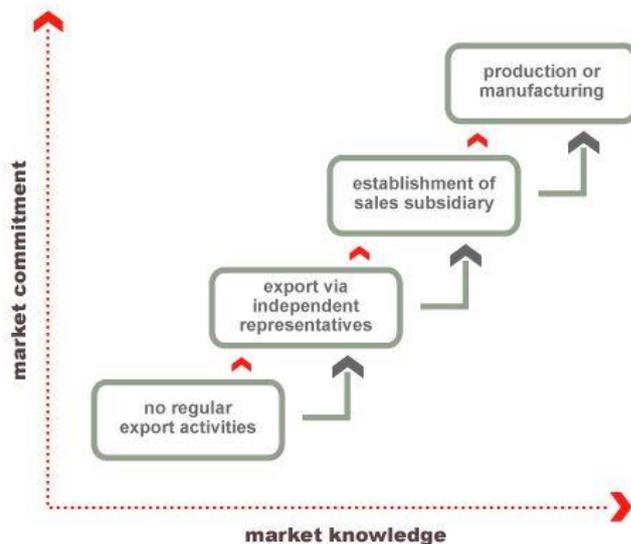


Diagram 1: Uppsala Model of Internationalisation Process (Johanson & Vahlne, 1977)

According to Johanson & Vahlne, (1977) international expansion should begin by committing the minimum required resources then expanding according to the four steps in the establishment chain, starting with export activities. Each step represents increased resource commitment which is supported by increasing market knowledge, which in turn improves the industry's competitive position. Also, applying Johanson and Vahlne's concept of 'psychic distance' to Tanzania's T&C industry helps the country to choose target export markets and understand just how foreign they are, using the following variables:

- Language: Since English is Tanzania's official language, the U.K and U.S markets should be psychically close to Tanzania. The native language is also spoken in Kenya.
- Culture: Being a British colony makes Tanzania's cultural values and ways of conducting business similar to those of the West. There is also an influence of Islam and Arabic culture generating psychic proximity to Arab nations as well.

- Political system: Tanzania's political system is in many ways similar to that of the UK, Uganda, Kenya, and the USA, and to a limited extent, Ethiopia's, making these countries psychically close.
- Legal system: Based on the British common law system which is prevalent across numerous countries including India and most U.S. states.
- Educational systems: Originally set-up by the Germans, it was taken over by English missionaries, The English curriculums of Uganda, Kenya, and the US are similar, creating psychic closeness to Tanzania.

(Collinson et al, 2017; Johanson and Vahlne, 1977;)

One limitation of the Uppsala model is that it does not stipulate what increased commitment would look like for the industry. Secondly, the variables described underpin a well-established, formal business landscape, yet Tanzanian workers are largely operating in an informal economy (Danish Trade Union, 2018).

Tanzania's T&C industry competitiveness potential

Current models of competitiveness typically assume that innovation naturally plays a key role in industry level competitiveness, whether this is in developed or developing countries. However, Tanzanian firms along the T&C value chain have a different innovative capacity and operate in a very different business environment to their counterparts in developed countries. Tanzania, like many emerging economies is prone to fragile organisations, a weak business environment and complex economic and social challenges, for example, poverty, high unemployment, low income and unstable industry growth and development. Despite this, SMEs in Tanzania's T&C sector contribute to economic development by creating employment for 500,000 rural households (Sorassalmi & Tuovinen, 2016).

Economic transformation can be achieved by focusing on how the sector can maximise its comparative advantage in natural resources and labour supply (World Bank, 2011). This is supported by the factor endowment theory which states that a country should continue to produce and export goods that utilise a lot of the production factors that they have in large quantities and only import those items that need a large quantity of production factors that are in short supply. As already established, Tanzania is rich in cotton and has access to a large

workforce from the farming regions of the country. The sector is dedicated to the production of kanga (pure cotton cloth with a border printed in bold designs & bright colours) and kitenge (similar to sarong) for the local market. However, because of the industry's current inability to meet the volume demands of clothing producers, they still import large quantities of woven cotton fabrics and synthetic yarn. Doreen Mashika, a distinguished Tanzanian fashion designer, uses cotton to create 'Zanzibar-perfect' clothing that is ideal for hot and humid weather. Her born global firm was an international brand from inception and is a feature at Paris Fashion Week (CNN, 2019). Although the cotton for her clothing lines is locally sourced, in an interview, Doreen Mashika mentioned that she has to import key resources that form part of the manufacturing process (e.g. zips, buttons and know-how) from the West.

Next, to create the conditions for Foreign Direct Investment (FDI) a host country must possess location-based advantages, in combination with the advantages of keeping international expansion within the foreign organisation (Dunning, 1980). To attract more FDI, Tanzania is experimenting with the development of industrial parks as EPZs for overseas production (The East African, 2016). FDI has been a long-term driver of growth in the T&C industry since investors seek to maximize on the comparative advantages available from low-cost destinations. Africa is getting a larger share of this investment as higher salaries in China, compliance problems in Bangladesh and a rise in labour conflicts in Cambodia, have accelerated the change to new destinations. As the manufacture of low-middle end clothing moves away from China and South Asia, several AGOA-eligible African countries will possibly take over.

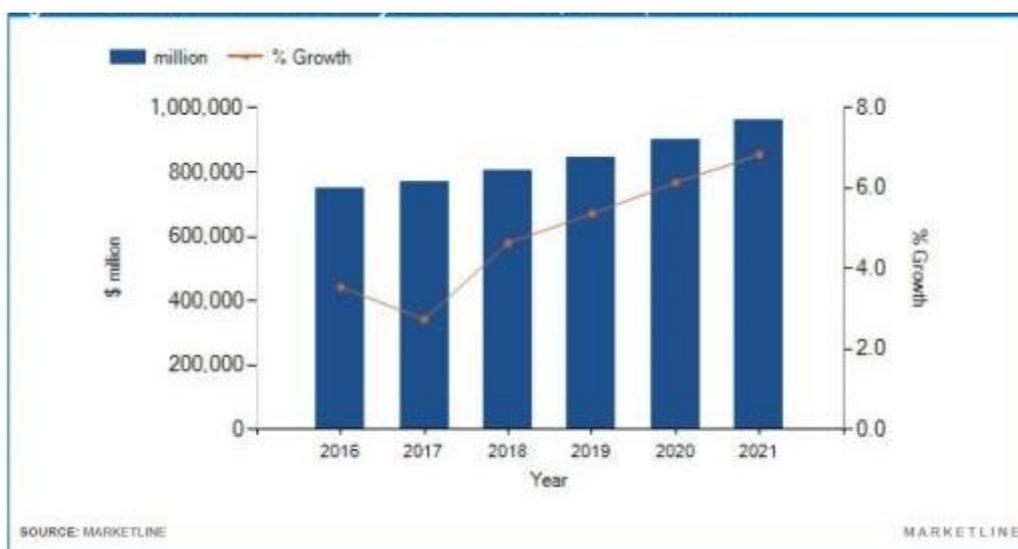
FDI can lead to economic transformation as international investors transfer technologies, expertise, organisational management, economies of scale and access to their worldwide distribution channels, thereby improving the industry's competitive position. There is evidence that FDI in clothing production has been the primary driver of productivity and export growth in established T&C exporters such as Kenya and Madagascar, and fast developing ones such as Ethiopia (Dinh & Monga, 2013). Tanzania too can take advantage of this regional growth opportunity in T&C, but it will hinge on its success in drawing in sufficient levels of FDI.

In my opinion, the answer to the question: "Is there potential for Tanzania's Textile and Clothing industry to grow into a major global sourcing destination?" is absolutely yes!

Appendix:

<i>Real GDP growth</i>	<i>7.1%</i>
<i>GDP per capita</i>	<i>\$1,021.00</i>
<i>Total Exports</i>	<i>US\$4,827.8 million</i>
<i>Total Imports</i>	<i>US\$7,551.7 million</i>
<i>Average lending rate on short term loan:</i>	<i>18.28%</i>
<i>Total population</i>	<i>51 million</i>
<i>Perceived level of public sector corruption</i>	<i>36/100</i>
<i>Country's rank</i>	<i>99/180</i>
<i>Average Credit Risk</i>	<i>60/100</i>
<i>OECD country risk category</i>	<i>6 (Moody's-B1)</i>

Table 1: Tanzania's T&C industry statistics, 2017- Sources: National Bureau of Statistics, Tanzania, (2019); Bank of Tanzania and International Currency Exchange, (2019), Transparency International, (2018)



Graph 1: Global T&C industry value forecast (\$mil), 2016-2021

Importers	2008	2009	2010	2011	2012	2013	Share (%)	5-year CAGR (%)
World	115 759	110 974	85 592	63 950	162 905	102 833	100	-2
China	2 282	6 762	6 102	24 849	45 149	24 863	24	61
Indonesia	19 670	19 659	11 971	6 584	33 607	24 255	24	4
Viet Nam	20 821	24 730	25 619	5 671	14 975	12 072	12	-10
Thailand	10 805	11 752	15 448	3 910	5 692	11 058	11	0
India	39 112	28 137	1 979	189	32 526	8 913	9	-26
Bangladesh	1 301	1 310	4 495	731	7 141	8 534	8	46
Switzerland	3 554	440	2 154	603	153	2 114	2	-10
Mauritius	364	954	1 034	2 227	4 508	1 576	2	34
Swaziland	32	59	121	1 564	0	1 414	1	113
United Kingdom	577	1 011	373	1 086	337	1 323	1	18

Source: Data calculated from United Nations Comtrade statistics.

Table 2: Top 10 importers of Tanzanian cotton (US \$000)

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