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Import Liberalization, Industrialization and Technological Capability: A Case Study of the Garment Industry in Tanzania

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Import Liberalization, Industrialization and Technological Capability: A Case Study of the Garment Industry in Tanzania

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ABBREVIATIONS

ESRF	Economic and Social Research Foundation
HPTC	High Precision Technology Centre
IPI	Institute of Production Innovation
MFA	Multi-Fibre Agreement
NATEX	National Textiles Corporation
NICs	Newly Industrialized Countries
R&D	Research and Development
TAZARA	Tanzania Zambia Railway Authority
TBL	Tanzania Breweries Limited
TBS	Tanzania Bureau of Standards
TCC	Tanzania Cigarette Company Limited
TEXMAT	Textile Manufactures' Association of Tanzania
TIRDO	Tanzania Industrial Research Development Organization
USAID	United States Agency for International Development
WTO	World Trade Organization
CTI	Confederation of Tanzania Industries
BIS	Basic Industries Strategy

PREFACE

This report is a summary of proceedings of a Workshop organised by the Economic and Social Research Foundation (ESRF). The **USAID** funded Workshop deliberated on a study on "Import Liberalization, Industrialization and Technology Capability: A Case Study of the Garment Industry in Tanzania". The study was undertaken by Dr. Haji H. Semboja and Mr. Josephat Kweka both of the **ESRF**.

The report was a culmination of a two year research project (funded by UNU-INTECH and ACBF) which had also embraced a much broader Sub-Saharan Africa study with a specific focus on the Tanzania garment industry.

The discussants of the paper were Mr. Amu Shah of the Confederation of Tanzania Industries, Dr. Amon Mbelle of the Department of Economics, University of Dar es Salaam, Mr. Mvaa of **JV** Textiles and Garments Company and Mr. J.G. Mrema of the Ministry of Industries and Trade. The Workshop was attended by professionals, academicians, members of the business community and government policy makers. The Chairman of the Workshop was Professor Samuel Wangwe, the Executive Director of the **ESRF**.

1.0 Introduction

Since the early 1980s, Tanzania has adopted various policy measures aimed at redressing economic decline and promoting socio-economic growth and development. One of the major policy reforms, the Economic Recovery Programme (**ERP**) was adopted in 1986. The Programme's reform package included the liberalization of internal and external trade, liberalization of the foreign exchange market and generally putting in place policies geared at promoting a market oriented economy.

Whilst the reforms reversed the decline of real **GDP**, they failed to trigger a more positive contribution of the manufacturing sector to the real **GDP**. Thus, whereas in the period 1986-1989 and 1990-94 the real **GDP** grew at 3.9 percent and 4.2 percent respectively, the manufacturing sector's growth, on the other hand, did not register a higher trend during the two periods. Indeed, the share of this sector to real **GDP** has stagnated at 8 percent during most of the **ERP** period.

As a component of the manufacturing sector, the performance of the garment industry has equally not been impressive due to, among other factors, domestic structural constraints, unfavourable macroeconomic policies and the low level of technological capability. In the wake of trade liberalization measures which have led to increased imports of garments, the domestic garments industry faced severe competitive pressures at the levels of price quality and diversity of consumer products.

With respect to industrial technological capability, the structure of Tanzania's industries remains largely characterized by large scale production technology consistent with the Basic Industries Strategy (**BIS**) adopted in 1975. The policy bias towards foreign and capital intensive technology and techniques has played a significant part in undermining the development of indigenous technological and entrepreneurial capabilities.

2.0 Impact of Trade Liberalisation on the Garment Sector

There have been both positive and negative impacts of the trade liberalisation policy on the garment sector. The study indicates that import liberalisation policies have generally had a negative impact on the garment industry. The study shows, however, that many of the impacts are related more to weak management of the imports regime rather than to conventional competition factors. It is noted, for example, that dishonest businesspersons exploited the weak customs tax administration to get their garments into the country either duty and tax free or with insignificant taxes paid. More fundamentally, however, the trade liberalisation policy did not address the question of how to treat factors such as dumping, underinvoicing and export rebates as they related to garments entering Tanzania.

The absence of an industrial policy with a clear fiscal policy thrust and a framework on protection of domestic industry also contributed to the erosion of a level playing field. The study identifies some of the fiscal policy weaknesses to include multiplicity and cascading indirect taxes on locally manufactured garments and tax exemptions on some imported goods. Above all, corruption by customs officials played a significant part in upstaging the competitiveness of imported garments vis a vis domestic produced garments. The entry of second-hand clothing or "mitumba " into the market ushered in a new competition dynamic difficult to respond to.

The study also points out that the garments industry learnt to develop survival strategies embracing lobbying policy makers through bodies such as the Association of Textile Manufacturers

(TEXMAT) with a view to secure greater protection.

The study notes, however, that the government has largely been nonchalant in curbing the problems which afflict this sub sector. At the same time, in spite of these major economic setbacks, the domestic garment industry overall benefitted from the trade liberalisation policy. The sub-sector witnessed a heightened improvement in production efficiency as well as aggressive marketing and distribution. Equally, a new awareness focused on quality and consumer choice took root among the garment manufactures.

3.0 Response of Firms to Liberalisation

Two main strategies have characterised the response of the garments industry to the liberalisation process. These are the *defensive response strategy* and the *offensive response strategy.*

- **Defensive response strategy**

The firms which pursued this strategy (generally those which were not able to upgrade or improve their technologies) have had to downsize, largely through laying off workers and freezing of salaries. Some of the firms "deindustrialised" and strategically opted to move into imports trade. Examples of firms which adopted this defensive strategy include **CIC** of Tanga and **JV** Garments of Dar es Salaam.

- **Offensive response strategy:**

Some firms have responded to the liberalisation process by upgrading their technology, improving their production levels, the quality and diversity of goods and meeting the competition head on through the price mechanism and improved marketing and distribution strategies. This phenomenon is better reflected in the non-garment industry and brewery and edible oils industries can be cited as good examples. However, in the garment industry specifically, the offensive response strategy was characterised by the entry of new players in the industry who were more cognisant of competitive dynamics (e.g Al-Hamza Garments) by privatisation (e.g Friendship Textiles), and production of better quality garments (e.g Sunflag Textiles). The study shows that whilst the fiscal regime has an important part to play in promoting the competitiveness of the domestic garment industry, there are other factors that are equally important and these centre on how the garment industry will evolve a national competitive dynamic based on inter-firm competition. This is yet to be realised at a critical mass level given the present small size of the industy and the range of products produced.

4.0 Technological Capability And the Garment Industry

The general thinking that economic liberalisation constitutes the driving force to improvement in technological capability and, thus, greater competitive advantage, has been a subject of interesting debate. On the one hand, there are those who promote the idea that economic liberalisation is a catalyst to improved sector performance because it invariably embraces technology upgradation, competition and good management practices. On the other hand, however, it is argued that the benefits of economic liberalisation crucially hinges on the existence of underlying factors of competitive advantage. As pointed out by Michael Porter in his book: **The Competitive Advantage of Nations**, the determinants of competitive advantage go far beyond the conventional attributes of liberalisation theory and policy. In other words, one has to look beyond factors such as interest rates, exchange rates and wages and dwell more on factor conditions such as skills, infrastructure, **R&D**, domestic competition, ample and cheap capital, the market structure etc.

However, in the Tanzanian case, in accordance with the study, technology capability has been singled out as a key factor in the competitiveness of the garment industry. The industry has suffered because it failed to attract foreign direct investment and thus could not upgrade its technology and improve management practices. This failure to attract foreign investments is attributed to a number of factors:

- lack of information and foreign contacts
- small size of domestic market
- lack of a conducive investment climate
- low level of technology skills.

At the same time, the Study shows that upgradation of technology has suffered due to several factors, including low purchasing power of domestic firms, unstable and unpredictable fiscal regime, particularly with respect to capital investments, and absence of a clear policy on protection of domestic industries. The Study delves on three dimensions of technological capability of the garment industry:

4.1 Process Engineering Capability

Organisational competence in the industry remained low because, with liberalisation, came the need for putting in place better quality control systems. Yet many firms in this sub sector were either not aware of this development or simply failed to effectively implement quality control systems due to lack of appropriate training. Financial constraints also undermined the ability to procure appropriate technology and to assess what technology was appropriate.

4.2 Product Engineering Capability

Prior to the on-set of trade liberalisation in 1984, a high degree of cooperation naturally existed between domestic garments manufacturers and foreign technology suppliers. The reason being that this was the period when the import substitution strategy, an important component of the **BIS**, was at its highest ebb. It is observable that import substitution industrialisation did not create an incentive structure for promoting domestic state of the art engineering capability. Domestic manufacturers were adequately shielded from competing imports by the rigid exchange control regime in place and thus lacked the motivation to upgrade their technologies for purposes of producing better quality goods.

This situation changed with the on-set of trade liberalisation. Indeed, given the broad-based economic reform programme, which commenced in mid 1986, domestic products have had to face stiff competition from imports thereby raising the fundamental question about the state of domestic product engineering capability among other factors of competitiveness. At the same time, **R&D** institutions, which had been established under the **BIS** framework and, whose role had not been keenly felt during the pre-liberalisation period, have appeared to resurrect. However, these institutions, such as the Tanzania Research Development Organisation (**TIRDO**), the Institute of Production Innovation (**IPI**), the High Precision Technology Centre (**HPTC**) etc have yet to develop strong **R&D** linkages with industry, particularly in the field of product engineering capability. Part of the problem, in this context, is that inter-firm linkages in the Tanzanian industrial structure are still weak due to the state-dominated industrial structure that existed during the pre-liberalisation and even post-liberalisation periods.

4.3 Industrial Engineering Capability

Inadequate industrial engineering training of personnel has resulted in a low level of technological expertise in local manufacturing industry thus undermining competitive capacity. This weakness is at the centre of the defensive mindset that exists among industrialists against trade liberalisation and whose core thrust is the pursuit of overprotection of domestic industry and a dread against regional economic cooperation and integration arrangements.

On the other hand, the absence of an industrial policy meant that the government lacked a coherent and clear policy framework for promoting not only transitional selective protection measures but also industrial engineering capability as a key factor in building a competitive domestic industry.

5.0 Policy Implications

Several policy issues rather than implications emanate from the results of the study. They include the following:

- the need to develop clear premises of government policy toward domestic industry.

- the importance of developing a proper model of the critical underpinnings of competitiveness for Tanzanian industries.

- the determination of factors which industries can create on their own to promote competitiveness.

- the role of **R&D** institutions in promoting competitive advantage and in linking with industry.

- What educational and training policies are necessary for Tanzania's particular industrial circumstances and for enabling industry to upgrade.

- The need for an innovation policy going beyond science and technology policy particularly in areas such as commercial innovation as it relates to competition, regulation etc.

- The determination of an appropriate policy mix which matches science and technology with Tanzania's structure of competitive industries in the context of the current stage of Tanzania's competitive development.

- Policies underlying protection of domestic industries.

- The State of Domestic Industry Strategy, Structure and Domestic Competition.

- The impact of macro economic and microeconomic policies on controlling factor costs (costs of doing business).

6.0 Areas for Further Research

Three main areas were identified for further research work. These are the following:

- Whether or not all the problems of the garment industry should be associated with the liberalization policies.

- There are indications that the informal sector part of the garment industry has been able to sustain.

- In the context of the **WTO** and in terms of the Multi-Fibre Agreement, studies need to be undertaken to identify the kind of strategies that could be adopted in order to benefit from such international agreements.