

Post-liberalisation Paradox in Textile Industry: A Comparative Study of Vietnam and Tanzania

Damian Mulokozi Gabagambi

Senior Lecturer

Department of Agricultural Economics and Agribusiness

Sokoine University of Agriculture

P. O. Box 3007, Morogoro, Tanzania.

Abstract

The performance of textile industry in Vietnam has expanded rapidly while Tanzania's contracted sharply after economic liberalisation. Some of the factors that explain this divergence include the approach to economic liberalisation and institutional and technological aspects. The main observation is that while Tanzania pulled out abruptly and haphazardly and allowed its factories to collapse, Vietnam continued state ownership of factories by establishing a state parastatal to nurture and promote the sector. It is recommended that the government should consider intervening in the sector by building and operating large scale textile factories alongside those operated by the private sector.

Key Words: Tanzania, Vietnam, Textile industry, liberalization, Industrialization, Economic reforms

1. Introduction

1.1. Background

Tanzania and Vietnam have a lot to share in their development history. Both countries followed socialistic policies during their initial stage of development and they started economic reforms at about the same time in the mid 1980s. But after economic liberalised their economies have followed different development trajectories with Vietnam performing better than Tanzania in many economic indicators. For example, in Vietnam the poverty rate (as measured by per capita consumption) has come down from 58.1% in 1993 to only 19.5% in 2004, a drop of almost 39 percentage points over the eleven years (VASS, 2007). Contrastingly, the 2007 Household Budget Survey (HBS) for Tanzania shows that the proportion of people living in poverty has decreased by only 2.4 percentage points, from 35.7 percent of the population in 2001 to 33.3 percent in 2007. In addition, although the gap between the real GDP per capita for the two countries has been narrowing since the 1970s with Tanzania's GDP per capita being higher than that of Vietnam, after economic reform in the mid 1980s the GDP per capita for Vietnam surpassed that of Tanzania and the gap widened tremendously.

On this background, it is imperative to carryout analysis that would seek an answer to the question of why Vietnam and Tanzania have diverged so sharply in economic performance in the last 3 decades. As much as comparing all aspects of the economy for the two countries would be more informative, the data involved may be too voluminous to manage within available resources for this study. Thus this study is confined to the industrialisation efforts of the two countries using textile sector as a case.

Focussing on textile, industrialisation can be justified by two reasons. First, there is an influential strain of thought that sees industrialisation as the hallmark of development. This is found strongly in the Marxist tradition where the creation of an industrial proletariat is considered vital for economic takeoff. This is also inspired by liberal thinking such as the work of Arthur Lewis. Second, the textile industry has been vital in the industrialisation process of the developed countries and has likewise acted as sunrise industry in the development efforts of the newly industrialised countries (Jafta, 2005). For that matter, and as observed by Kim, et al. (2006), the textile industry has been the gate of choice for most developing countries in their quest to step into industrialization. The ease of entry into this field and the abnormally high wages in developed countries has always created favourable conditions for the manufacturing and the exportation of textile derived products from developing countries. Both Tanzania and Vietnam had a strategy to prioritise state owned industry embedded in a socialist ideology. The performance has since economic liberalisation diverged considerably.

Vietnam's textile industry has expanded rapidly after liberalisation while the Tanzania's contracted sharply. Policy questions arise: has Vietnam pursued a strategy in this respect that could be emulated by Tanzania or is the situation in these countries so different that their experience is not relevant to each other? Does a comparison of these cases suggest a reconsideration of the role of industry in development thinking?

1.2. Objectives of the Study

The main objective of this study is to examine what Vietnam did that Tanzania didn't in promoting the textile industry at the time of economic liberalisation that saw Vietnam's textile sector booming while Tanzania's shrinking. Specifically, the study aims at:

- (i) Comparing the structure and status of the textile industries in Tanzania and Vietnam, their operating environment (including the constraints facing them), the role of various stakeholders, and trade opportunities.
- (ii) Determining how the structure, operating environment, stakeholders' involvement and trade opportunities explain the differences in textile industry performance in Tanzania and Vietnam.
- (iii) Pondering on how the industry in Tanzania could be revived and its development made sustainable, drawing lessons from the Vietnam's experience.

1.3. Structure of the Paper

This paper is organised into five main sections. The first section, which is proceeding, has presented background and objectives of the study. The second section covers conceptual framework and methodological issues employed by the author in addressing the study objectives. Section Three discusses findings of the study. The last section, Section Four presents conclusion and recommendations that would revitalise the textile industry in Tanzania using Vietnam's experience.

2. Methodology

2.1. Conceptual Framework

In this study, business systems and value chain frameworks are combined to facilitate a rigorous analysis of the textile industries. While the value chain analysis facilitates the study of the industries (or their various actor categories') proximate environment, the business systems approach permits the analysis of the larger environment, including the important economic, social and political institutions. The framework attempts to link textile industry structure, operating environment, stakeholders' involvement and trade opportunities to the differences in textile industry performance in Tanzania and Vietnam. The performance differences are analyzed in terms of the following key variables: (i) success at general economic and industry levels; (ii) enhancement of forward and backward linkage; (iii) facilitation of foreign direct investments; (iv) improvements in institutional reforms; (v) improvement and responsiveness to the local market; and (vi) promotion of production for export markets.

In explaining what happened regarding industry structural changes, operating environment, stakeholders' involvement and trade opportunities this study was guided by a number of propositions:

- (i) Whether industrialization policies have been formulated that see industrialization as desirable independent of issues of supply and demand.
- (ii) Whether industrialization policies have to be at the expense of the rural sector or not. Existence of policies to encourage forward and backward integration, which is critically important for internalization of quality concerns;
- (iii) Whether foreign investment is essential in the emergence of a textile industry in Vietnam and Tanzania. Macroeconomic management or economic policy stability, in particular interest rates, inflation rate, foreign exchange policies, and fiscal policies all of which are important determinants of the attractiveness of the operating environment and therefore competitiveness;
- (iv) Whether the continued state involvement explain the difference between Vietnam and Tanzania.
- (v) Whether local market is the most important factor for development of a textile industry.
- (vi) Whether an export dependent sector has local benefits.

In explaining what happened regarding operating environment, stakeholders' involvement and trade opportunities this study was guided by a number of proposition:

- (i) Extent to which the government supports private sector efforts in staff training, modernization of facilities, productivity improvement, research and development (R&D) for upgrading and developing differentiated products (and for developing appropriate technology), information collection through market research and industry surveys, access to technological and other information, sales promotion, and environmental protection and incentives packages;
- (ii) Existence of institutional framework to coordinate policies and facilitate timely policy adjustments to remove inconsistencies and incentive distortions, and remove obstacles to higher efficiency and competitiveness;
- (iii) Availability of various skills (marketing, technical, management, and financial) and training programs for all cadres, including incentives to encourage plant training, and capacity building for experts;
- (iv) Existence of infrastructure such as electricity supply, roads, port facilities, transportation services, and banking services;
- (v) Distance to the major international markets (Europe and US). This is also an important determinant of the operating environment and therefore competitiveness;
- (vi) Extent of market regulation which determines competitiveness of the market, and the ability to access quality inputs and services at internationally competitive prices.

2.2. Approach and Methods

Data collection process involved two conceptual steps. First, in-depth review of secondary information in the form of academic articles and government statistics was undertaken. Second, diagnostic interviews were conducted with some actors in the textile commodity chain. These include ginners, spinners, weavers, garment makers, government agencies and other non-government service providers along the chain. The entities contacted include Tanzania China Friendship textile; African Pride; Morogoro Canvas, and 21st Century Textile in Morogoro; Afrisian Ginning Co. Ltd; SK Apparel Manufacturing Co; Karibu Textile Mills Ltd; Ministry of Industry, Trade and marketing; Tanzania Revenue Authority (TRA); Manica Freight Services Tanzania Ltd; Board of External Trade; Confederation of Tanzania Industries; Tanzania Investment Centre; and Tanzania Cotton Board (TCB). Data were also collected from the libraries of Sokoine National Agricultural Library (SNAL), the University of Dar es Salaam (UDSM), Research on Poverty Alleviation (REPOA), and Economic and Social research Foundation (ESRF). The author also exchanged visits to Tanzania and Vietnam to familiarise with the textile sector in the two countries.

3. Results and Discussion

As stated in the objectives, this study compares Tanzania and Vietnam in terms of policy decisions and other aspects that could have been pivotal in the differential emergence of a textile industry in Vietnam and Tanzania. To this effect, there are several factors that have been identified, and the comparison is made along them. They include: historical background, approach to economic liberalisation, the role of the state in a liberalised market, institutional framework of the industry, structure of the industry set up, size and nature of local market, export orientation, vertical and horizontal linkages, and availability of utilities.

3.1. Historical Background

The history of the textile industry in Tanzania and Vietnam is a bit different. In Tanzania the sector takes its roots in the cotton ginning industry in the early 1950s when ginneries were introduced in the rural areas where cotton was grown especially in Mwanza and Shinyanga (Ladha, 2000). On the contrary, the textile industry in Vietnam has existed for at least a century, while traditional handicraft activities such as embroidery and silk weaving have existed for much longer (Manh, 1998). The development of the textile industry in Vietnam started when Nam Dinh Textile Complex was established in 1897. In the pre-reform era, the textile industry in Tanzania and Vietnam was characterised by heavy subsidies from post-independent socialistic governments. Following this, the industry in both countries grew more quickly and steadily. For example in Tanzania, in the 1960s and early 1970s, the sector was able to meet the demand of the domestic market in terms of clothes in the country. The sector employed about 25% of the working force and contributed 25% to GDP in the manufacturing sector (TIB, 1996).

However in the mid 1980s, the macroeconomic fundamentals of most developing countries including Tanzania and Vietnam were so imbalanced. For instance, annual GDP growth for Tanzania declined from 2.8% between 1976 and 1980 to an average 0.7% between 1981 and 1985; real per capita GDP growth decline from 1.6% to 1% in the same period while the inflation rate increased sharply from 13.7% to 30.2%. Public deficit and inflation rate continued to rise unabated (above 30%) in the early 1980s. The manufacturing sector GDP thus fell sharply from an average of 0.6% between 1976 and 1979 to -4.3% between 1980 and 1985 (Mans, 1994). In Vietnam the state sector incurred chronic losses, and most of the planned targets were missed. As a result inflation sharply increased up to 775% in 1986. Domestic earning sources for State budget only accounted for 60 - 70% of the total budget, the rest was provided from foreign sources (Manh, 1998). The only way to get out of this economic menace was economic liberalisation.

3.2. Approach to Economic Liberalisation

The approach to economic liberalisation took different shapes in the two countries; and this may partly explain the differential performance of the sector in the two countries. Tanzania approached economic reforms as if these reforms were a miracle pill that cured any kind of economic ailments. The government pulled out abruptly and haphazardly; subsidies on different sectors including textile industry were removed and import controls that gave some companies monopolies to import goods of mass consumption were abolished. Consequently, there was a flood of imports of textiles and garments from South-East Asia and second hand clothes from Europe and America which were of better quality and more competitive prices than locally produced textiles products.

By 2002 the importation of second-hand clothes had reached 35.2% of all textile imports in Tanzania (MITM, 2004). According to Kabelwa and Kweka (2006), lack of technical expertise, as well as lack of working capital resulted in most mills operating, in some cases, below 10% of capacity utilization. This trend continued until the late 1990's when most mills were shut down awaiting privatisation. The major mills like Ubungu Spinning Mill, Kiltex, Mwanza Textiles, Musoma Textiles, and Mbeya Textiles completely collapsed and remained out of operation for many years even after privatisation.

On the contrary, Vietnam adopted a cautious approach to economic reforms. The reforms were characterised by continued socialistic fundamentals alongside participation of the private sector. Following liberalisation, the rate of growth in the industry became relatively high. The industry experienced increasing trend in the number of enterprises. The number of state owned enterprises went up from 196 in 1985 to 215 units in 1995, whereas the number of private enterprises grew by more than 10 times from 43 to 482. The number of cooperatives went down by 84.1% to 242. By taking 1990 as basic year, in 1997 the garment and textile industry increased by 128.5%, while total industry increased by 132.1 (Manh, 1998).

3.3. Industrialisation Policy Orientation

Textile industrialisation in Tanzania cannot be discussed outside the framework of overall manufacturing sector development strategies. The nature of the sector witnessed today is a result of combined effects of initial conditions, external influences and policy responses on the performance in different periods. As observed by Engelen et al. (2001), from 1961 to 1967 the Tanzania policy climate was characterised by import substitution through foreign direct investment, along with a low level of direct regulatory control. In 1967 a jump to a moderate degree of control was made, along with an abrupt shift from reliance on the foreign private sector to reliance on the public sector as the motor for industrial development. From 1973 onwards a high degree of direct regulatory control was discerned. The final policy period started in 1990 in which the government further decontrolled the sector, shifts towards a higher participation in investment of private investors, whether foreign or local, and opted for an export-oriented trade strategy.

In Vietnam, the period 1945 to 1955 saw the early institution building of the Democratic Republic, based on an essentially private economy, combining elements of subsistence agriculture and market, in which state ownership as yet played a very small role. Although the kernel of the regime comprised of the Viet Minh and Communist Party, the composition of society as a whole played an important role in determining the structure and policies of the state. The period can be divided into three distinct sub-periods: the early phase of establishing an independent government prior to the breakdown of relations with France in December 1946, the first stage of the resistance war and the later stages (from 1950 onwards) in which substantial international assistance became available following diplomatic recognition by the Soviet Union and China.

In the mid 1950 direct state involvement in the economy began to increase slowly, principally via the defence enterprises set up to manufacture army supplies including garments (Engelen et al., 2001).

3.4. The Role of Foreign Direct Investment

The development of the textile industry in Tanzania was attributed to deliberate government policies to promote the industry and meet local demand. Although the industry was able to fill the market with clothes, it was unable to meet the demand of some types of clothes such as suiting and other specific dress materials due to lack of technology. By the early 1980's Tanzania had a total investment of US \$500 million in the textile sector, most of which was made by the Government. The main motivation for the government to invest in this sector, besides employment creation was to add value to Tanzanian cotton as well as developing products that could substitute imports (Kinabo, 2004). In Tanzania a strong argument can be made to have a textile industry adjacent to the cotton sector and add value in the early stages of textile processing. The textile factories that have survived in Tanzania are mainly in the lower side of the value chain: spinning and weaving. This led to the current domination of grey clothes in the export market for Tanzania.

On the contrary, there is little cotton cultivation in Vietnam (85% imported) and the textile industry finds its origins in import substitution. During the time of Marxist rule Vietnam built up a textile industry that produced cheap materials for local and neighbouring (China) countries. After liberalisation, a large garment sector developed. This was fuelled for a large part by foreign investment from the East Asian region. The garment industry developed fast for delivery to the US and to a lesser extent European markets. They faced a shortage of quotas (nationally based) they were allowed to deliver and therefore new countries of production meant access to other quotas. Vietnam became therefore a destination for especially Japanese investment. The collapse of the textile industry in Tanzania and the big expansion of the textile industry in Vietnam can partly be attributed to the presence of an active policy in Vietnam and the absence of such a policy in Tanzania. While policies in Vietnam promoted investments in the textile industry, policies in Tanzania promoted imports of textile products and export of cotton lint.

3.5. The Role of State and Institutional Framework of the Textile Industry

Tanzania embarked on the free market economy since economic liberalisation in the 1980s. Since then the philosophy of the government has been "eyes on hands off" in the sense that the government opted to have minimum intervention in the business sector in order not to disturb the demand and supply forces. The government supports became limited to research and development (R&D) and creation of conducive business environment. As a result, the parastatal organisation, the Tanzania Textile Corporation (TEXCO) was left to collapse. As a holding corporation, TEXCO promoted and regulated manufacturing and marketing operations of its affiliate companies in domestic distribution and export of textile products (Msirikale, 1984). At the time of economic liberalisation in the mid 1980s TEXCO had 14 affiliates in the sectors of textile, blankets, garments, yarn and thread, and agricultural bags. According to Swai (1995), the collapse of TEXCO was partly associated with the following problems:

- Inadequate supply of power and intermittent shortage of water and fuel
- Price-lags in which price increases were lagging behind the increase in the prices of other industrial inputs
- Frequent breakdowns of machinery and failure to rectify them promptly due to foreign currency constraints, and
- Falling workers' morale due to frequent discontinuities of normal operations.

These problems coupled with government policy of minimum state intervention in the business sector led to the collapse of TEXCO.

Unlike Tanzania, in Vietnam the state did not pull out from the textile industry. While Tanzania allowed TEXCO to collapse with its constituent companies, Vietnam established a very large state company, the Vietnam National Textile and Garment Group (VINATEX) with five major tasks:

- Investing, producing, supplying, distributing, importing and exporting of goods and services in the field of textile & garment;
- Setting up joint venture and business co-operation with both domestic and foreign companies;

- Developing and expanding both local and overseas markets as well as assign member companies to penetrate into the potential markets;
- Upgrading technological applications, conducting research and application of latest developed technology, renovating equipment according to the development strategy; and
- Providing training and refresh courses for managers and technician levels as well as skilful workers.

VINATEX at the moment operates several import-export companies, and produces a wide variety of textiles and garments, with the capacity to produce over 250 million square feet of fabric per year. VINATEX has expanded its trading relationship to more than 400 companies in 65 different countries and regional areas (www.vinatex.com).

3.6. The Nature of Political Settlement

The political settlement factors are potentially important for explaining how policies and implementation arrangements in productive sectors are shaped and evolve over time and how this may affect the results of such initiatives. Both Vietnam and Tanzania fall in the clientelist political settlement. The significant feature of a clientelist political settlement according to Khan (2010) is that informal holding power modifies the operation of formal institutions and influences the allocation of resources through informal institutions and political discretion. Although Vietnam and Tanzania share a lot in terms of political settlement, they possess differing conditions for ruling coalition. Unlike Vietnam, Tanzania adopted multiparty system, but conditions for competitive clientilism ruling coalition are still inadequate. The lack of powerful excluded factions in the country creates condition for existence of a dominant party ruling coalition. In Tanzania the ruling coalition the ruling party, the presidency, the army and the bureaucracy are central for political settlement. Under dominant party circumstances, Basedau & Stroh (2011) argue that dominant party ruling coalitions are likely to have longer time horizons but weaker implementation capabilities compared to authoritarian systems, but both are likely to decline over time.

Coupled with inadequate political power of emerging productive entrepreneurs in Tanzanian industry and the links between these entrepreneurs and the ruling coalition, the ruling coalition has no adequate push for devising policies with far reaching objectives. More formal state-business relations are mediated through business organizations. There are many in the productive sectors but the major ones are not particularly strong and it is difficult to find clear cases of their influence on government policy Basedau & Stroh (2011). The focus of their advocacy and lobbying seems concentrate on factors that can reduce member costs – not on more general policy issues for particular industries. In Vietnam did not adopt multiparty political system. Thus the ruling experiences low opposition from excluded factions giving it stability and long time horizon. Limited power of lower level factional supporters ensures high enforcement capability. The emergence of the latter of course requires other conditions, including the emergence of an appropriate developmental leadership, as well as minimal technological capabilities within the country (Khan, 2010).

The differences in the nature of political settlement in Tanzania and Vietnam are partly responsible for what is seen regarding long term investments in R&D and promotion of productive sectors. In terms of research and development both countries support R&D activities. But the support seems to have different strategic roles. R&D activities in Tanzania are limited to the cotton production side whereas in Vietnam the support is on the textile and garment side. Tanzania has two state owned research institutes located in the two cotton growing zones. Ukiriguru Research Station which serves the western cotton growing zone and Ilonga Agricultural Research Institute serving the Eastern zone. Researchers are in the areas of plant breeding, entomology, plant pathology, soils and agronomy, farm management and fibre technology. The research stations are considered to be moderately performing in the sense that they have successfully released new varieties and introduced sound pest control and agronomic practices. The achievement could have been greater if funding was not a problem (Tanzania Gatsby Trust, 2007). However, there is no specialised institute for training stuff in the textile industry. There also exists a cotton board, the Tanzania Cotton Board (TCB) which is responsible for overseeing the cotton sector and advising the government on appropriate measures to improve the sector. There is no special state organ for handling textile matters and ensures that there is synergy between cotton production and the textile manufacturing sector. Marketing of cotton is left in the hands of private buyers and the cooperatives which were already weakened by economic reforms.

On the contrary, Vietnam has an Institute of Textile Technology (VNITT) which is a centre for research, consulting services, and continuing education with a focus on helping the textile industry improve performance and global economic competitiveness. The portal of VNITT is a place where all enterprises in the textile industry can get useful information to apply newest technology and develop market. In an endeavour to attract more investors in the textile and garment sector, Tanzania and Vietnam have established Export Processing Zones (EPZ) with the aim of integrating the countries into the global capitalist economy. The objectives of the EPZ is to attract and promote investment for export-led industrialization; increase foreign exchange earnings; create and increase employment opportunities; attract and encourage transfer of new technology; promote processing of local raw materials for export through value addition (Jayanthakumaran, 2003). In the EPZ, both fiscal and non-fiscal incentives are offered. However Vietnam established EPZ much earlier than Tanzania. While EPZ in Vietnam was established in 1997, in Tanzania it was established six years later in 2003. The approach and incentive package in the EPZ differ for the two countries.

Another example of similar vision but different approaches is the introduction of EPZ. In Tanzania special zones are of two types; the economic processing zones and the special economic zones. Only the economic processing zones are presently operational. In Tanzania EPZ and SEZ are facing problems associated with institutional framework, compliance management and incentives management. However, stakeholders in the textile sector complain of unfavourable investment condition in the EPZ. They argue that, the EPZ policy of Tanzania has failed to deliver the expected results. NIDA has withdrawn from the EPZ and Star Apparel has closed shop. There are currently only two garment factories operating in the EPZ. In Vietnam the EPZ is divided in two categories; export processing zones (EPZs), industrial zones (IZ) and High-Tech Zones (HTZs). For each, there is guidance for the kind of industries which are encouraged or limited or prohibited from investing in the zones. The application procedures for a new enterprise in the EPZ are similar and applicable to the rest of the country, but quite easier in consideration and licensing. Relatively EPZ programmes in Vietnam are well functioning and have contributed to economic development and poverty reduction in the country.

3.7. Organisation Structure and Technological Aspects

In Tanzania, over 70% of cotton production is exported as lint, with minimum added value. To maximise the value of the cotton lint and to increase employment in Tanzania, expansion of the textile sector was and is still essential. In the case of Vietnam, the country imports about 86% of cotton lint requirement (Huong and Dao, 2003) some of which from Tanzania. In the textile manufacturing part in Tanzania the machinery has not changed much since liberalisation. As a result the machines are out of date and spare parts and servicing are major problems throughout the textile value chain. Most of the equipment is 30 or more years old and are of Chinese and Indian type. The running speed, for example in spinning, is 50% of what can be achieved with modern ring spinning technology and current operating capacity is about 50% (Tanzania Gatsby Trust, 2007).

Most production machinery in weaving is based on old shuttle-loom technology producing 100% plain weave cotton fabric. If well maintained such a system is capable of producing high quality materials, but unfortunately most plants are not well maintained, automatic weft-replacement systems are not functioning and in most cases weft packages have to be changed manually. Processing equipments are unsuitable to compete in the global market. In many cases the operating width of the equipment is below the minimum requirement for garment production. No continuous dyeing facilities are found in most factories, and no processing capability for an export bed sheet market. However, all the large scale garment-making plants offer good working conditions and are populated with a wide range of modern machinery. Old technology seriously restricts the production level and quality of the textile products. For example due to lack of proper blow-room equipment and fibre management in the spinning stage, the quality of the yarns is not consistent (Tanzania GATSBY Trust, 2007).

In addition, the fully integrated structure characterising most textile mills is very rigid, especially as most of the integrated companies are catering for the domestic market which provides little incentive to increase quality. The efficiency of the industry is generally low by the international standards. The condition of many of the factories is sub-standard with inadequate cleaning, air conditioning, dilapidated buildings, and low efficiency. However most of the mills have recently been privatised and modernized to some extent.

Most of the export-orientated mills have made the right investments in new winding, twisting, weaving and knitting equipment while the locally orientated mills continue to use their original technology.

The new investment in the textile sector aside from the privatisations has come in the form of process plants that import bleached fabric and print them for the local and regional markets. These plants are mostly set up with Indian technology and are almost all owned by local investors, mostly used to trade in these same products and have now invested in production facilities.

In Vietnam, the situation with equipment and technology of textile and garments industry varies across different operations in the industry such as spinning, shuttle weaving, knitted weaving, dyeing and printing and garment assembling. Although the effort to upgrade the equipment has mostly concentrated in textile enterprises, the technology of garment industry has been generally upgraded much better than the technology of textile industry with nearly 100 per cent of garment firms been upgraded (Vietnam Investment Review, March 1997). The leading operation in modernisation is knitted weaving. Most of out-of-date machines that were imported before 1986 from China, Czechoslovakia and East Germany have been liquidated and all machines in use now are the ones that were imported after 1996. The equipment was imported mostly from Japan, Korea, Taiwan, and Germany. About 30% of those are machines of new generation with some being controlled by computer (VINATEX). All dyeing, printing and finishing equipment was imported from abroad and belong to state operated enterprises. Some enterprises have invested in synchronous production lines by using many specialized machines to produce one category such as shirts, jeans etc. Almost all of garment enterprises use steam-ironing system.

Since 1991, technology in garment sector has been renovated. Production lines have been set up with medium and small scale, consisting of 25–26 sewing machines with 34–38 labourers. Thus garment enterprises now are capable of handling production being stable within two days when product style changes. Some enterprises have used new technology and computer in some production functions such as cutting. These changes help to enhance competitiveness of garment producers, most notably their ability to respond quickly to changing demand. However, finishing stage such as ironing, pressing, packaging is considered to be of great importance, as it helps to increase the value added of the final product. There have been relatively few technology innovations at this production stage to ensure a high quality (Huy, 2001).

3.8. Level of Public Capital and Infrastructure Development

The United Nations Industrial Development Organisation (UNIDO), the dominant components in a country's public sector capital stock tend to be related to infrastructure such as roads, telecommunications and energy (Isaksson, 2010). Coupled with the network function, which enables interactions between geographically dispersed economic agents, this suggests that public investment and its attendant stock could have a sizeable impact on economic growth, productivity and an economy's ability to structurally transform. Nearly all sectors' production one way or another depends on infrastructure as an input. In short, a country's prosperity may be positively related to public capital. This is supported by the Growth Commission Report of the World Bank (2008) which states that countries that devote more of GDP to public investment – notably countries in Asia – also grow faster than those that invest a little. Investment in public capital is believed to be crowded in private investment (Isaksson, 2010). Because of that it is not realistic to examine economic disparity between Tanzania and Vietnam without examining the nature and level of infrastructure development.

In Tanzania power is generally available in most major cities and towns, but the supply is not reliable and it fluctuates enormously. Power fluctuation is not appropriate for high-tech plants and increases costs of repair. The current generation capacity for Tanzania is about 600 MW. Electrification ratio is estimated at 14% (Kihwele et al.). In terms of telecommunication, the state-owned institution, Tanzania Telecommunications Company (TTCL) used to have monopolistic powers to provide telecommunication services, but now the institution has been privatised and sold to a consortium led by Deutsche Telecom, and the services have dramatically improved. Currently, Tanzania has adequate service for telecommunication and internet throughout the country with most major cities and towns served by digital exchanges. Generally Tanzania's water supply system is not adequate and is estimated to supply only 50-60% of the total demand. However, most industrial sites in the urban centres have made provisions by installing bore holes and are prepared for periodic shortages. This is more due to problems in catchment and distribution rather than in actual lack of adequate rainfall (Unicef, 2010). With regard to transport infrastructure, Over 70% of Tanzania's internal traffic is conducted through the road network. The network as of 2009 consisted of approximately 3,800 km of paved trunk roads, 6,500 km of unpaved trunk roads, 17,730 km of regional roads and about 30,000 km of district and feeder roads and another 30,000 km of unclassified roads (WDI and GDF, 2013).

On the contrary, Vietnam has sustained an impressive growth in access to infrastructure services since the early 1990s. All urban areas in Vietnam are now electrified. In rural areas, electrification expanded from 51% of all households in 1996 to 88 percent in 2004. The length of the road network increased from 96,100 km in 1990 to 224,500 km in 2004. In the case of national-level roads, the increase was from 15,100 to 17,300 km. By 2002, 45% were deemed to be in good condition, compared to 37% in 1997. Access to improved water grew from around 35% of the population in 1993 to 80% in 2004, and access to hygienic latrines from 10 to 32%. The number of fixed and mobile lines per 100 people increased from 1.1 in 1995 to 9.2 in 2002. It is on target to reach a total of 10 million lines in 2006-2007, achieving one of the fastest growth rates of tele-density on record.

3.9. The Current Situation of Textile Industry in Tanzania and Vietnam

The current state of the textile industries in Tanzania and Vietnam is symptomatic of policy decisions that were taken at the time of liberalisation. Tanzania's textile sector is still struggling to take off, and is concentrated in the hands of the private sector. At the moment the spinning sector in Tanzania has installed spinning capacity of 22,500 tonnes of lint cotton when fully utilised. The majority of the textile processing is based on locally consumed imitation wax products, Khanga and Kitenge styles, which are cotton-based products. The general standard of these products is poor by European standards, but are perfectly acceptable for the local market. The estimated internal requirement is around 300 million metres per year (Tanzania GATSBY Trust (2007)). On the contrary, in Vietnam the industry has prospering and is concentrated in the state owned enterprises. The production capacity of fibre spinning is 72,000 ton per year. The capacity of fabric weaving achieves 380 million meters annually. Besides weaving of towel, mosquito net weaving spreads along the country and in all the sectors of the economy. The capacity of rounded knitted wear is 19,500 ton annually.

In addition Vietnam can produce other types of knitted wear, such as curtain, knitted mosquito net, socks and woollen weaving with capacity of 4,000 ton per year. The capacity of dyeing is equivalent to the capacity of weaving. The capacity of garment is 275 million units per year. The popular commodities such as shirt, pants, jacket and work clothes compare to those of the region and the world. In 2007, the US International Trade Committee (ITC) placed Vietnam among the 30 biggest exporters to the US market. According to the Vietnam National Textile and Garment Corporation (VINATEX), Vietnam, was ranked 16th out of 153 garment exporters worldwide in 2006, and was likely to become the 10th largest garment exporter in the world by 2010. The country had envisaged an ambitious plan to achieve the export target of US \$ 7.0-7.5 billion a year by 2010. The strategy for the sector includes increasing the supply of domestically produced inputs through major investments in the sectors. Similarly, the Vietnam Apparel Industry has been experiencing tremendous growth reaching 34% in 2007 and is projected to maintain the growth potential of 20%, reaching the export target of US\$ 12 billion by 2010 and US\$25 billion by 2020 (American Chamber of Commerce in Vietnam, 2008).

Trade statistics of United Nations Conference on Trade and development (UNCTAD) and the World Trade Organisation (WTO) (<http://www.intracen.org>), indicate that Tanzania imports more textile articles than Vietnam; and worn clothing and other worn textile articles for the greatest proportion of textile imports than Vietnam. For example, between 2000/01 and 2003/04 Tanzania exported textile articles worth US \$50.0 million. At the same time the country imported textiles worth US \$287,523 million, making a deficit of US \$287,473 million. Out of this import, 34.2% was worn clothing and other worn textile articles. By the way of contrast, Vietnam's textile exports in the same period of time were US \$9,322,574 million surpassing imports of US \$7,751,304 million by US \$1,571,270 million, with worn clothing and other worn textile articles accounting for only 0.1%.

Lastly, Tanzania is a full beneficiary under the Lome Convention to the European market with zero quotas and duty free access to the EU. Currently the majority of Tanzanian textile and yarn exporters are selling to the European market with Italy, Spain, Portugal, Belgium, Germany and the UK being the largest buyers. With regard to the USA, the Africa Growth and Opportunities Act (AGOA) Tanzania receives receive all of the trade benefits, with no restrictions on the source of fabric. However, the textile mills that are still operating are faced with an influx of imported fabrics, on which tax evasion is rampant. The bulk of these fabrics are imported at a declared price that is lower than the cost of fibre. False declaration is also prevalent to avoid the higher EAC tariff of 50% charged on Khanga, Kitenge and Kikoi. These imports are declared as printed fabrics, which attract a tariff rate of 25%. Under declaration of quantity is also rampant by unscrupulous traders. Exporters of yarn, fabrics and garments also face a difficult external environment due to the recession in the EU and U.S.A. markets.

They have to contend with lack of economies of scale, high power tariffs and high transaction costs compared to globally competitive producers in Vietnam. Mills such as Sunflag, A to Z, Morogoro Canvas and Tabora Textiles are unable to compete in the cut throat export markets. The total exports out of Tanzania have declined over recent years.

4. Conclusion and Recommendations

This paper has demonstrated that the speed of industrialisation in the textile sector for Vietnam is higher than that for Tanzania. Much of Vietnam's success in industrialisation is explained by the country's ability to successfully capture export market, especially for the textile and garment products. On the contrary, most Tanzania's operators in the textile and garment industry seems be contented with the domestic market, which is composed of people most of which have low purchasing power. Moreover, demand in the domestic market follows agricultural cycles in the country. Sales increase immediately after crop harvesting season and drop during lean seasons. It can be concluded that apart from the difference in historical background and other factors, the difference in prosperity of the industry in the two countries hinges upon the role of the state at and after economic liberalisation. After considering all key factors the following recommendations are given for Tanzania to revitalise its textile sector.

- The government should consider intervening in the sector by building and operating large scale textile factories alongside those operated by the private sector. The starting point would be to take over the factories that were privatised but owners have failed to run them.
- Strongly public capital matters in the industrialization process. It is thus recommended that constraints related to electricity, transport network, and water be resolved strategically.
- The government should design a mechanism to sit together at a round with stakeholders in the textile sector to resolve unnecessary obstacles along the value chain, especially in the taxation policy and general incentive package for investors.

References

- Bank of Tanzania (BOT), 2008. Economic Bulletin for the Quarter Ending September, 2008. Vol. XI No. 3. The United Republic of Tanzania.
- Basedau, M., & Stroh, A. 2008. Measuring Party Institutionalization in Developing Countries: A New Research Instrument Applied to 28 African Political Parties (Working paper No. 69). Hamburg: GIGA Gerlach, S. and W. Peng. 2002. Bank lending and property prices in Hong Kong. Paper presented at the Bank of Finland/CEPR Annual Workshop on Asset Markets and Monetary Policy in Helsinki, 25-26 April 2002.
- Hirschler, K. 2004. Tanzania in Transition: Violent Conflicts As A Result of Political and Economic Reform. Paper presented at the Symposium "Special Research Field 520 (SRF 520): Coping with Transition in African Societies" University of Hamburg.
- Huong, B.T. and T. M. Dao. 2003. *Vietnam Cotton and Products Annual Report*. United States Department of Agriculture (USDA). Foreign Agricultural Service, GAIN Report No.VM3011
- Huy, V. Q., V. T. Thanh, N. Thang, C. C. Loi, N. Thi, T. Ha and N. Van Tien. 2001. Trade Liberalisation and Competitiveness of Selected Industries in Vietnam Project: Textile and Garment Industry in Vietnam, Institute of Economics (Hanoi)/International Development Research Centre (Canada), Hanoi, May.
- Isaksson, A. 2010. Public Capital, Infrastructure and Industrial Development, Research and Statistics Branch Working Paper 15/2009. Research and Statistics Branch Programme Coordination and Field Operations Division UNIDO. Vienna.
- Kabelwa, G. and J. Kweka. 2006. The Linkage Between Trade, Development and Poverty Reduction: A Case Study of Cotton and Textile Sector In Tanzania. A paper prepared for presentation at "The Second National Dialogue on Trade, Development and Poverty (TDP) in Tanzania; Giraffe Oceanic View Hotel, Dar es Salaam - 24th November 2006.
- Jayanthakumaran, K. 2003. Benefit-Cost Appraisals of Export Processing Zones: A Survey of the Literature. *Development Policy Review*, 2003, 21 (1): 51-65. University of Wollongong, New South Wales, Australia. Overseas Development Institute. Blackwell Publishing, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.

- Kaufmann D., A. Kraay, and M. Mastruzzi. 2008. Governance Matters VII: World Governance Indicators for 1996-2007. World Bank Institute and World Bank Development Research group.
- Kinabo, O. D. 2004. The Textile Industry and the Mitumba Market in Tanzania. A Paper Presented to the Tanzania-Network.de Conference on textile market and Textile Industry in Rural and Urban areas in Tanzania on 23rd October 2004 in Potsdam-Germany. Caritas Tanzania Dar es Salaam
- Kihwele, S., Hur, K. and Kyaruzi, A. 2012. Visions, Scenarios and Action Plans Towards Next Generation Tanzania Power System. *Energies* 2012, 5, 3908-3927.
- Ladha, H. 2000. Profile of Tanzanian Textile Sector. Prepared for UNIDO Lorenz & Partners. (2006). Personal Income Tax Optimization of Tax Burdens in Vietnam. Newsletter No. 65 (EN).
- Manh, N. D. 1998. Textile And Garment Industry In Vietnam. National Assembly Report by the Chairman.
- Meru, A. 2006. Export Processing Zones Authority. A Paper Presented at Tanzania Investment Forum, Moscow, 30 October 2006.
- Ministry of Industries, Trade and Marketing. 2008. Agricultural marketing Policy. The United Republic of Tanzania.
- Ministry of Industry Trade and Marketing (MITM). (2004). Analysis of the value of importation and export of used Clothes in comparison to the other textile in Tanzania. Information Communication and Technology Section of the Ministry of Trade and Marketing. Dar es Salaam. Industries.
- Mpofu, S. V. 2007. Economic Researcher, Credit Guarantee Insurance. United Republic of Tanzania, November 2007.
- Msirikale, C. S. 1984. A Study on Problems and Prospects of Export of Textiles: The Case of National Textile Corporation (TEXCO). MBA Thesis, University of Dar es Salaam, Tanzania
- National Bureau of Statistics 2007. Household Budget Survey 200.
- Research on Poverty Alleviation (REPOA). 2007. Poverty and Human Development Report for the United Republic of Tanzania.
- Swai, L. N. A. 1995. The Public Enterprises Board of Directors and Performance: The Case of Zana za Kilimo (ZZK) LTD, Mbeya, National Development Corporation (NDC) and Textile Corporation (TEXCO). MA Dissertation, University of Dar es Salaam
- The Department for Foreign Affairs and Trade (DFAT). 2009. Vietnam profile: Current Business, A Guide to Business Travellers
- Unicef. 2010. Water Supply and Sanitation in Tanzania Turning Finance into Services for 2015 and Beyond. An AMCOW Country Status Overview. The second round of Country Status Overviews (CSO2).
- Van Arkadie, B. and D. D. Dinh. 2004. Economic Reform in Tanzania and Vietnam: A Comparative Commentary. The William Davidson Institute, University of Michigan Business School. William Davidson Institute Working Paper Number 706.
- Vietnamese Academy of Social Sciences. 2007. Vietnam Poverty Update Report 2006: Poverty and Poverty Reduction in Vietnam 1993-2004. The National Political Publisher, Hanoi.
- World Bank. 2008. Business Environment for Tanzania and Vietnam. <http://rru.worldbank.org>
- World Bank. 2008. The Growth Report: Strategies for Sustained Growth and Inclusive Development, Washington, D.C., World Bank.
- World Development Indicators (WDI) & Global Development Finance (GDF). 2013. United Republic of Tanzania - Roads, total network.
- World Economic Forum. 2008. Global Competitiveness Report for 2006/07. www.weforum.org