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Overseas Development Institute

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The phase-out of second-hand clothing imports: what impact for Tanzania?

Linda Calabrese*[†] Neil Balchin[†] Maximiliano Mendez-Parra[†]

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Abstract

The East African Community plans to phase out imports of second-hand clothing to promote the development of the domestic garment sector. Using trade data and information obtained from the exporters, this study produces the first estimate of disaggregated imports of second-hand clothing in Tanzania. The net import of used clothing is estimated at over 540 million pieces per year, compared to a domestic production of new clothing of 20 million pieces and import of 177 million pieces of new clothing. This study assesses the short-term impact of the phase-out on the domestic garment sector. Depending on the substitutability between new and used clothing, the phase-out could prompt increased import of new clothing. It could also prompt employment losses and generate costs for the poorest consumers. In the longer term, the phase-out is unlikely to promote the development of the garment sector unless the existing constraints are properly addressed.

Keywords: trade policy, import phase-out, second-hand clothing, garment, Tanzania

1 Introduction

In recent years, East African countries have attempted to accelerate industrialisation. Kenya currently is the largest producer and exporter of garments in the East African Community (EAC),¹ with Tanzania, Uganda and Rwanda lagging behind. In an attempt to revamp the domestic garment industry, in March 2016 the EAC Heads of State announced a phase-out of used clothing imports and footwear,² popularly known as *mitumba* in East Africa. Implemented through a gradual increase in tariffs applied to used clothing and

*Corresponding Author (e-mail: l.calabrese@odi.org.uk)

[†]Overseas Development Institute, 203 Blackfriars Road, London SE1 8NJ, United Kingdom

¹The EAC is a regional organisation formed by Burundi, Kenya, Rwanda, Uganda, United Republic of Tanzania and most recently South Sudan.

²A joint communique released during the 17th Ordinary Summit of the EAC Heads of State notes that ‘the Summit, being desirous of promoting vertically integrated industries in their textile and leather sector, directed the Partner states to procure their textile and footwear requirements from within the region where quality and supply capacities are available competitively, with a view to phasing out importation of used textile and footwear within three years’ (East African Community 2016b).

footwear imports, the phase-out could ultimately result in a closure of the East African market to imported second-hand clothing (SHC).

In line with the other East African countries, the Government of Tanzania is committed to the implementation of the phase-out. However, its effects on the local economy could be mixed. It may stimulate local production of new clothing and footwear for the domestic market, but it could also negatively affect consumers through higher prices and lower clothing availability. The phase-out could also have mixed effects on government revenues and employment, and could stimulate additional imports of new clothing to meet the demand.

The textile and garment industry is typically one of the first sectors that countries seeking to pursue industrialisation get into (Brenton & Hoppe 2007, Gereffi & Frederick 2010, Traub-Merz 2006). The potential for value addition is high within the industry. Along the cotton to clothing value chain, the industry can add up to 600% to the raw materials (Dinh & Monga 2013). Moreover, the textile and garment sector also presents opportunities that are well suited to developing countries due to its intensive use of unskilled labour, ability to create opportunities for value addition and possibilities to upgrade and to create linkages with the local economy (Keane & te Velde 2008). The sector facilitates diversification of the economy, and if geared towards exports it can be a source of foreign exchange (Brenton & Hoppe 2007). Finally, the textile and garment industry can be a stepping stone for countries to developing capabilities to move into higher value-added manufacturing activities that are close to the sector on the product space. Given this, it is not surprising that many developing countries have tried to promote textile and garment production.

The garment sector has grown in some African countries, specifically in North Africa, Madagascar, Mauritius, Lesotho and South Africa, but it has struggled elsewhere. Between 1981 and 2000, African textile and garment production and employment declined, as part of a more general trend of de-industrialisation (Frazer 2008, Traub-Merz 2006). Many associated this decline with increased imports of SHC, which was perceived to create unfair competition with domestically produced clothes due to its low prices.

This study unpacks the potential implications of the phase-out of used clothing for Tanzania. We consider the domestic production of garments, and compare it with imports of new and used clothing. We produce the first estimate available in the literature of Tanzania's imports of SHC, by type and number of pieces. Using this, we provide a close comparison between the structure of domestic production and that of imports – the first estimate of this type produced for any country. This study also assesses the potential impact of the phase-out based on an *ex ante* analysis. The longer-term impact and its capacity to support the creation of a thriving garment sector in Tanzania depend on a number of other factors, as will be shown; we therefore focus primarily on the short-term effects of the phase-out.

2 Second-hand clothing value chains and the garment sector

2.1 The second-hand clothing value chain

To understand the dynamics of, and the challenges posed by, the SHC sector in Tanzania, it is important to understand the value chain – that is, how these clothes are collected and channelled towards Tanzanian markets. Many studies have looked at this issue, not only in Tanzania but also in other African markets (Rivoli 2014, Hansen 2004, Brooks 2013). In the US and Europe, charitable organisations and commercial companies collect used clothes from household waste sites and kerbside collections, textile banks, supermarkets, schools, social and community organisations, and take-back schemes. The clothes are then sorted³ and distributed by specialised companies. Some of the clothes are sold or donated in the country of origin; the rest are packed into 45-55 kg bales, each containing items of one type (e.g. jeans, suits or T-shirts). Bales also contain footwear, toys and household items such as bedding and towels. A combination of bales is then loaded onto a container, which is shipped to Asia, Eastern Europe or Africa (Hansen 2004, Brooks 2013).⁴ When loading containers, exporters are conscious of the differences between these markets, and the containers are prepared according to customer demand in the destination countries (Rivoli 2014).

Importers collect the bales at destination and sell them to intermediaries, who in turn re-sell the bales to retailers.⁵ During this process the bales containing the used clothes – which have remained unopened up to this point – are now opened, and the content either auctioned off to various retailers or sold to customers (Haggblade 1990, Rivoli 2014, Brooks 2013). As the bales are unopened until the point of retail, many argue that their value is often under declared, thereby paying fewer duties and competing ‘unfairly’ with new clothes (Baden & Barber 2005). In Africa, it is not uncommon for SHC to be re-exported to neighbouring countries, usually by cross-border traders.⁶

2.2 Are used clothing responsible for the garment industry’s decline?

Towards the end of the 20th century the African garment production has declined. Frazer (2008) records a decline of the garment share of manufacturing at an average 5.3% per year over the period 1981-2000. In recent years, the industry has shown signs of recovery in some countries: Lesotho, Madagascar, Mauritius and South Africa have increased their garment production and export. For Tanzania, however, the recovery has been slower. In 1980, the textile and garment sector were responsible for more than 30% of the total value added of manufacturing. In 2010, this had decreased to less than 6% (United Nations Industrial Development Organisation various years). Production, however, has slowly increased: while in 2003 Tanzania was producing US\$91 million worth of textiles, but virtually no garments,

³A complex sorting process operates in stages: first clothes are divided into clothing, rags and fibre, and then these are further sorted according to the type of product (Rivoli 2014, Brooks 2013).

⁴Brooks (2013) describes the bales arriving in Mozambique in 20 foot containers, each with 250-300 bales.

⁵There may be several layers of intermediaries (wholesalers, distributors, etc.).

⁶In the late 1980s, Rwanda was a major importer of used clothing, but half of the imports were re-exported to neighbouring Zaire, Kenya and Uganda (Haggblade 1990, Hansen 2004).

in 2013 the production of textile has increased to US\$253 million, and that of wearing apparel, to US\$15 million (United Nations Industrial Development Organisation 2017).

Certainly, SHC constitute competition in the garment market: with virtually no production cost beyond the collection and sorting process, their price mostly depends on transport costs and profits, and can therefore be kept low. But are SHC imports to blame for the decline of the African garment industry?⁷ Many argue that the availability of low-cost used garments depresses demand for clothes produced domestically,⁸ a view that has prompted the introduction of phase-outs and outright bans to importing SHC in several countries, including Indonesia, Poland and Lesotho (Hansen 2004).

Analysing the link between the influx of used clothing and apparel production in several African countries, Frazer (2008) finds that the import of used clothing can explain almost 40% of the decline in apparel production (and 50% of the decline in employment) in African countries.⁹

Nevertheless, Brooks & Simon (2012) argue that, while the decline of the African textile sector and the increase in SHC imports happened at the same time, no causal relationship can be established. Looking at the experiences of specific countries offers further insight. In Kenya, an increase in garment production in the 2000s coincided with an increase in imports of SHC (Mangieri 2006). Similarly, the decline in production in the early 2000s in Kenya and Lesotho is independent from the changes in used clothing imports (Brooks & Simon 2012).

2.3 Other explanations of the decline

Alternative or complementary explanations for the decline in the African garment sector have focused on two main areas: the impact of the structural adjustment programmes in the 1980s and 1990s, and the competition from low-cost Asian competitors in the African domestic and export markets.

2.3.1 Structural adjustment programmes

Structural adjustment programmes imposed cuts in government subsidies, removed restrictions on imports and allowed the depreciation of currencies, leaving domestic producers exposed to domestic competition (Traub-Merz 2006). Some scholars attribute both the decline of the textile and garment industry in Africa – and the increased imports of SHC – to the structural adjustment programmes and liberalisation policies that hit African countries from the 1980s onwards (Brooks & Simon 2012).

In Mozambique, for example, liberalisation of the economy curtailed opportunities for the growth of the domestic garment industry, and many factories turned into import–export warehouses, or used-clothing shops (Brooks & Simon 2012). The liberalisation process was accompanied by reduced purchasing power for many consumers, which in turn contributed

⁷The trade in second-hand clothes is often compared to food aid, and similarly to food aid it can depress the domestic production (Frazer 2008).

⁸See, for example, Baden & Barber (2005) for Senegal, Sutton & Olomi (2012) for Tanzania; Sutton & Kpentey (2012).

⁹Frazer points out that the import of second-hand clothing does not completely explain the variation in garment production or employment, and concludes that there are other factors contributing to the decline of the African garment production sector (Frazer 2008).

to the success of SHC. In the newly independent Ghana in the 1960s and 1970s, the textile sector was seen as an engine for economic growth, but by the mid-1970s the industry had experienced a major decline (Amankwah-Amoah 2015).

It is argued that the import of SHC was only one of several factors behind the decline. Others have cited an influx of counterfeit items and smuggling of fake products; increased global competition; the ineffective role of the government in promoting consumption of domestic products; the inability of firms to remain productive; and the emergence of the modern buyer-dominated garment value chain, in which small and micro Ghanaian enterprises could not participate (Amankwah-Amoah 2015). What is clear is that domestic garment industries were not adequately equipped to deal with the rapid exposure to international competition.

2.3.2 Competition from Asian producers

The organisation of the garment and textile sector into global value chains and the end of the quota system under the Multi Fibre Arrangement enabled the rise of China and other Asian countries as major producers of textile and clothing (Kaplinsky & Morris 2008, Morris 2006). This has severely affected sub-Saharan African countries' chances of gaining a sizeable share of the international market (Kaplinsky & Morris 2008).¹⁰

The competition is not only affecting firms producing for the export market, but also domestic African markets (Kaplinsky & Morris 2008, Edwards & Jenkins 2015).¹¹ In African countries the main competitor of domestically produced items is not used clothing, but rather new, cheap clothing imports from Asia.

2.4 Experience of phase-outs and bans in Africa

What does previous experience reveal about the effectiveness of bans and phase-outs of SHC in building a stronger garment sector? The main challenge in many African countries is their ability to effectively implement similar measures. Borders are often porous, and informal trade flows thrive. Nigeria restricted imports of used clothing to promote domestic manufacturing. However, the restrictions were not effectively implemented, and cross-border smuggling from neighbouring countries was common (Brooks & Simon 2012). Similar dynamics play out in South Africa, where government import bans are circumvented (Velia et al. 2006), and in Zimbabwe (Brooks & Simon 2012). Here, both countries allegedly import used clothes from Mozambique, and do not report these flows in official trade statistics. This lack of reporting makes them difficult to analyse but anecdotal evidence shows the large extent of this phenomenon (Brooks & Simon 2012). These issues are complicated by the fact that new clothes are imported as used clothing to avoid taxes, or disguised as used clothes (from Europe and North America) on market displays, as the

¹⁰Interestingly, though, the presence of Chinese and other Asian producers has also played an important role in promoting production. Chinese firms invested in the African garment sector to take advantage of the benefits offered by preferential schemes such as the Africa Growth and Opportunity Act (AGOA) of the United States, and the Everything But Arms preferences offered by the European Union (Kaplinsky & Morris 2008).

¹¹For example, Jenkins and Edwards (2013) show that China "crowded out" South African manufactured exports into other African markets.

latter fetch higher retail prices, as reported for Zambia and Mozambique (Brooks & Simon 2012).

These considerations are important for Tanzania. In 2003, Tanzania introduced legislation on national standards for used garments (TZS 758: 2003), which included a ban on imports of second-hand underwear (items generally categorised as ‘next to skin’ clothes, including vests, pants, brassieres, boxers and socks). Despite the introduction of these national standards and the legislative ban on used underwear, Tanzania has found it difficult to eliminate these imports in practice (see Chapter 4). And beyond the practical applicability of these bans and phase-outs, questions remain about whether these measures have been useful in promoting domestic manufacturing. While several countries have applied phase-outs or outright bans,¹² little to no research has been conducted to assess the effectiveness of these measures in promoting the development of the domestic garment and textile sector, when properly implemented.¹³

It is difficult to attribute the success or failure of the textile and garment sector to a single factor. However, it is important to highlight that the garment sector in Africa has faced the challenges highlighted above: decrease of public support as part of the general reform process, and the increased competition from other low-cost producers. In this context, the African garment sector has not managed to achieve a global level of competitiveness.

3 Data and definition

One of the main challenges when working on SHC trade is the poor availability and quality of official data. The first challenge concerns data on trade in SHC. The Harmonised Commodity Description and Coding System (in short Harmonised System, or HS) captures used clothing under HS code 6309. This presents several problems. Firstly, the code covers all sorts of used items loosely related to clothing. It includes not only clothes but also footwear, accessories such as belts, scarfs, towels and bedding, swimwear, and toys. At the same time, the equivalent codes for new items are much more detailed: new articles of clothing are grouped under HS codes 61 and 62 (with more than 200 trade positions in the HS at six digits for garments alone), footwear and headgear are under codes 64 and 65 respectively, and fabrics are covered under different categories, depending on the material. This discrepancy makes it difficult to compare the flows of new and used clothing.

Secondly, trade data reported by developing countries can be imprecise (Frazer 2008). For this reason, Frazer uses export data from OECD countries, rather than import data from Africa. However, as our work focused specifically on Tanzania, we used data reported by Tanzania, applying all the necessary caveats. Table 1 shows that there are considerable differences in the data reported by Tanzania and those reported by its trade partners.

Thirdly, incentives to underreport the value of SHC imports mean that data on SHC

¹²A full list is provided by the Office of Textiles and Apparel, Department of Commerce of the United States, and it is available here: http://otexa.trade.gov/worn_clothing.htm [accessed 15 September 2017].

¹³A study by Bankole et al. (2004) argues that the potential positive effect of the ban in promoting the domestic garment industry has been prevented by the lack of a good business environment and infrastructure (Baden & Barber 2005).

Partner	Imports declared by Tanzania (US\$) (a)	Exports declared by country (US\$) (b)	Variation
United Arab Emirates	10,386,808	3,624,658	-65.10%
USA	10,169,062	15,668,340	+54.08%
Canada	7,716,214	12,371,559	+60.33%
Republic of Korea	7,346,373	22,309,569	+203.68%
China	6,439,968	28,047,680	+335.53%
Pakistan	5,758,569	1,192,551	-79.29%
Germany	4,110,179	5,423,883	+31.96%
India	3,430,935	10,691,634	+211.62%
Poland	2,472,480	4,830,825	+95.38%
Australia	1,543,086	2,889,423	+87.25%

Table 1: Trade in SHC between Tanzania and its top-ten exporters.

Source: Imports reported by Tanzania by country (a) and exports declared by exporting country (b) for 2015. UN Comtrade data elaborated by author.

is even more unreliable. Some also argue that new clothes are often imported as SHC to avoid paying duties, further confusing the statistics (Baden & Barber 2005). Finally, as discussed in Chapter 2, there are many unrecorded cross-border transactions of SHC, which are not included in these official statistics.

Many studies group together the textile and garment sectors, which – though closely connected through backward and forward linkages – do have substantial differences. For instance, the textile sector is more capital-intensive than the garment sector (Fukunishi et al. 2013). And, while the phase-out of SHC can affect both sectors, its direct impact is most likely to be felt by its most direct competitor – that is, new garment production. This study therefore focuses on the garment sector, and excludes textiles.

4 Tanzania’s imports of second-hand clothing

4.1 Second-hand clothing trade

Global exports of SHC have increased consistently in the past few years – both in value and quantity. In 2003, 1.9 million tonnes of SHC were exported globally. This more than doubled in 2014, reaching 4.4 million tonnes. In 2015, the main exporters were the United States (with 20% of global exports by value), the United Kingdom (13%) and Germany (12%). In terms of imports, Pakistan is the largest importer, and Tanzania is the 15th largest with imports in 2015 worth almost US\$63 million.¹⁴

Figure 1 shows Tanzania’s imports of SHC over the period 1995-2015. The nominal value has increased six-fold – from less than US\$10 million in 1995 to more than US\$60

¹⁴It should be noted that in 2015 Kenya did not report its imports of second-hand clothing, therefore this data is missing. Data for 2013 show the following import shares of global imports for East African countries: Kenya 3%, Uganda and Tanzania 1.9% each, Rwanda 0.6% and Burundi 0.2%.

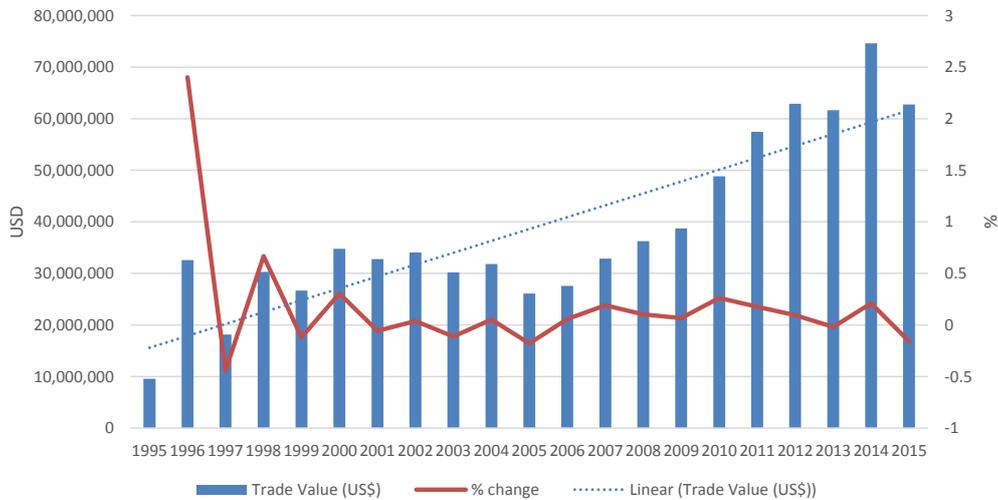


Figure 1: Tanzania's imports of SHC, 1995-2015

Source: UN Comtrade

million in 2015. However, this growth was not steady, and in several years the imports of *mitumba* actually decreased.

In recent years, imports of new clothing and footwear have increased, surpassing imports of used clothing. Figure 2 shows how the share of second-hand goods has been eroded in favour of new garments and footwear. In 1995, for example, Tanzania imported US\$84 million worth of new clothing and footwear – 70% of which were imported from China – compared to US\$63 million worth of SHC.

Tanzania has diversified its sources of imports of *mitumba* in the past 20 years. Figure 3 shows that the US and the UK used to be major sources of imports, covering almost 60% of Tanzania's imports in 1995. Together with the Netherlands – the third largest exporter to Tanzania – they covered 70% of the market. However, 2015 saw the United Arab Emirates (UAE) overtake the US as the biggest exporter to Tanzania.¹⁵ In the same year, the five largest exporters to Tanzania (Canada, China, South Korea, the UAE and the US) only covered 67% of the Tanzanian demand for used clothing.

4.2 Estimating imports of second-hand clothing

In this section, we produce the first available estimates in the literature of the number and types of SHC imported into Tanzania. This is important to assess the current consumption of garments. As discussed in Chapter 2, used clothing and footwear are imported in closed bales recorded under one single HS code, thereby providing no information on the types and number of items that enter the Tanzanian market. Instead, for this study, we use information provided by exporters to estimate what items are imported, and in what quantities. We compare imports and exports of new and used clothing with domestic

¹⁵It is unclear whether the UAE produces second-hand clothing, or whether it is just a global hub where the clothes are exported, sorted and then re-exported to other destinations; existing literature provides little information. Looking at the period 2007-2016, the UAE has been a net exporter in six years and a net importer in four years.

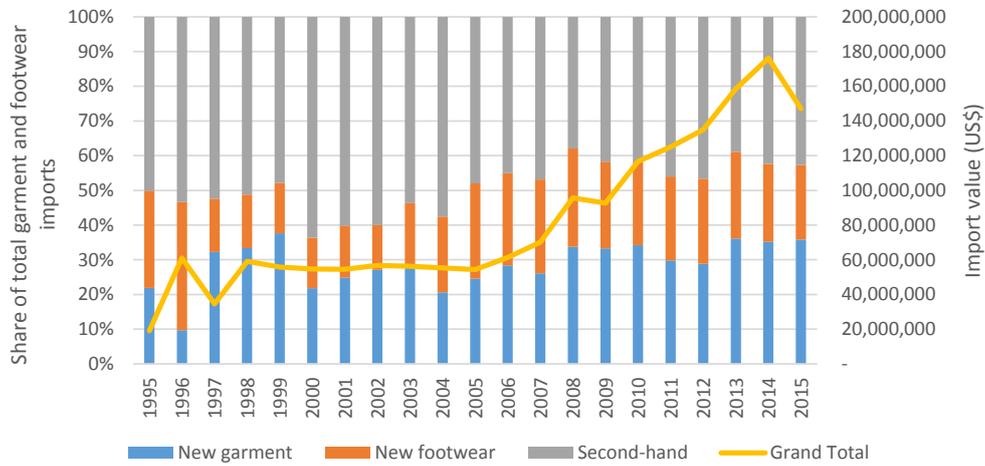


Figure 2: Tanzania's imports of new and used clothing and footwear, 1995-2015
Source: UN Comtrade

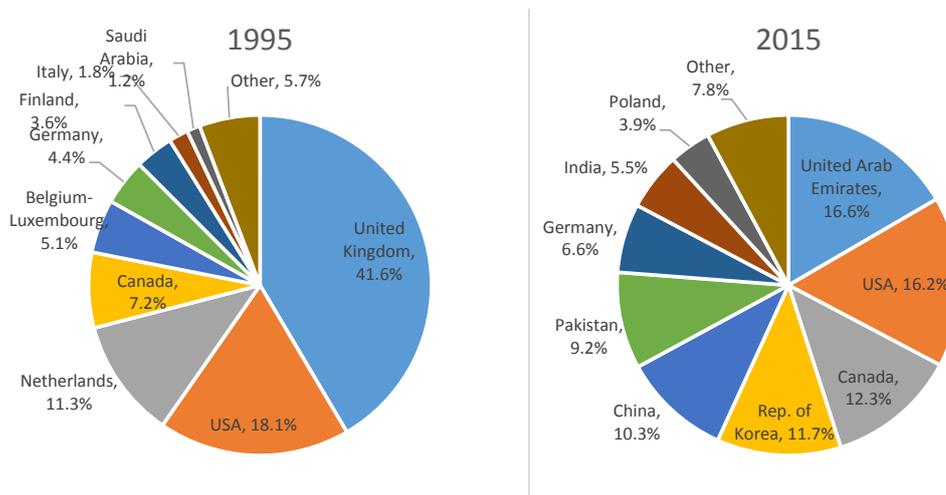


Figure 3: Tanzania's sources of SHC imports, 1995 and 2015
Source: UN Comtrade

production to assess the consumption gap.

To estimate imports, we first obtained information on the composition of the average container shipped to Tanzania from a UK-based exporter. We compared this with information received from another UK exporter to ensure that the container used for our estimate was representative.¹⁶ The information provided by the exporters includes figures for the number of the bales exported, and the items contained in the bales. We used this to identify the content of an ‘average container’,¹⁷ then calculated the total number of items imported by type. We used the total imports of *mitumba* for 2014 because, while data for 2015 is available, it is very recent and may be subject to change and revision. We also approximated the value (in US\$) and amount (in kilos) of each type of import. We then proceeded to do the same with exports of *mitumba*, which we used to estimate net imports. Our work relies on several assumptions:

- That our ‘average container’ accurately represents the composition of all *mitumba* imports. Although we obtained data from a limited number of exporters, it is unlikely that the composition of containers would differ significantly as they are all carefully tailored for the Tanzanian market. However, we are aware of a few shortcomings: for example, the exporters we interviewed do not export shoes, and therefore our ‘average container’ does not include shoes, which are often imported as *mitumba*.
- That the weights we have identified correctly represent the average weight of the items imported.
- That the exports of *mitumba* have the same composition as the imports.
- That the figures provided by UN Comtrade for the exports accurately represent the actual total exports. This assumption might also not hold true, as imports and mostly exports of SHC from Tanzania may take place through informal channels, and may therefore not be recorded in the official trade statistics.

As discussed in Chapter 3, shoes and other types of footwear are not included in this analysis. This is due to the nature of trade, in which exporters specialise in either footwear or garments, and rarely export both. The same is true of importers. To understand the split between imported footwear and garments, one would need to interview either all exporters or all importers of used clothing and footwear to Tanzania, a task that is beyond the scope of this study.

The results of our analysis are presented in Table 2. We estimate the total number of items imported to be around 544 million pieces, at a total value of approximately US\$75 million, with their value on the Tanzanian market being higher, depending on the retail prices. Total exports are much lower, at around 2 million pieces a year, bringing net import

¹⁶In order to protect the confidentiality of the commercial information provided by the exporters, we have anonymised the information and do not disclose any data at the disaggregated level.

¹⁷The overall weight of each bale tends to be similar, and the unit weight of each item determines the number of items in a bale. We complemented this information with additional data on the weight of each item. Information on the weight of each item was obtained from specialised websites. When the information was not available, the weight of each item was approximated by referring to the weight of a similar item (e.g. if weight was not provided for skirts, these were assumed to have a similar weight to shorts).

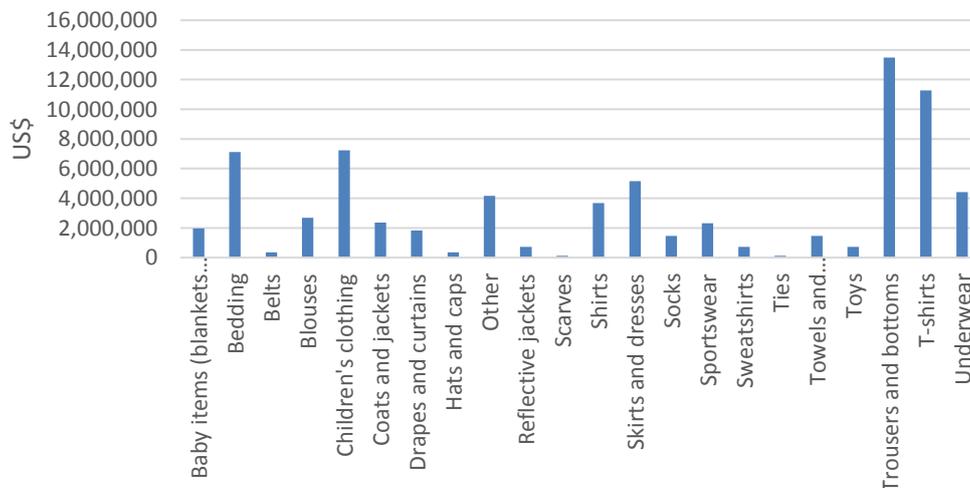


Figure 4: Imports of SHC by type and value

Source: Authors' calculations based on 2014 UN Comtrade data and data obtained from exporters.

to more than 542 million pieces annually. Imports of trousers and bottoms (for both men and women) account for the largest share of imported *mitumba* by value, totalling almost US\$14 million. T-shirts are by far the most imported item by number – estimated at around 140 million pieces.

Several interesting points emerge from this analysis. First, imported second-hand goods cover a wide variety of items, ranging from all types of clothing to household items and even toys. The phase-out of imports therefore has far-reaching impact, beyond just the textile, garment and footwear sectors. Secondly, underwear is imported into Tanzania in large quantities despite the ban. We estimated around 63 million pieces of underwear and nightwear worth more than US\$4 million, plus smaller quantities of used socks and stockings. This evidence suggests that Tanzania has not been successful in implementing the undergarment ban, and therefore might also struggle to completely phase out imports of used clothing in the future. Thirdly, as discussed, the nature of this trade means that these estimations do not include footwear. These figures are therefore likely to overestimate the imports of clothes and other items, and underestimate the import of shoes. Given that second-hand shoes are, on average, more expensive than clothes, we would probably obtain a total number of used items lower than 542 million pieces for the same value.

4.3 Domestic garment production

Tanzania produces garments for both domestic consumption and for export. Table 3 shows Tanzania's domestic garment production in 2014, based on data from a survey conducted by the Government of Tanzania among the main formally established factories. As the survey only provides an aggregate number of pieces of garment produced, we assumed that the total number of pieces produced are split equally by the types of items produced by the firms in the survey.

As the table shows, the total number of pieces produced is less than 20 million, all of

Items ⁱ	Total imports (estimated pieces)	Total imports (estimated kg)	Total imports (estimated US\$)	Total exports (estimated pieces)	Total export (estimated kg)	Total exports (estimated US\$)	Net import (estimated pieces)	Net import (estimated kg)	Net import (estimated US\$)
Trousers and bottoms	56,754,135	26,963,803	13,626,435	218,310	103,719	148,007	56,535,825	26,860,084	13,478,429
T-shirts	140,795,682	16,631,490	11,389,368	541,583	63,975	123,708	140,254,099	16,567,515	11,265,660
Children's clothing	35,964,593	10,394,681	7,306,903	138,341	39,984	79,366	35,826,252	10,354,697	7,227,537
Bedding	20,702,740	10,221,437	7,184,848	79,635	39,318	78,040	20,623,105	10,182,119	7,106,808
Skirts and dresses	30,832,533	7,276,277	5,202,821	118,600	27,989	56,512	30,713,933	7,248,288	5,146,309
Underwear	63,811,793	6,236,809	4,459,561	245,458	23,990	48,439	63,566,335	6,212,818	4,411,122
Other ⁱⁱ	30,202,324	6,063,564	4,209,986	116,176	23,324	45,728	30,086,148	6,040,240	4,164,258
Shirts	25,575,352	6,130,552	3,716,301	98,378	23,582	40,365	25,476,974	6,106,970	3,675,935
Blouses	36,298,887	3,811,383	2,725,287	139,627	14,661	29,601	36,159,260	3,796,722	2,695,686
Coats and jackets	8,431,241	4,677,607	2,393,735	32,432	17,993	26,000	8,398,810	4,659,614	2,367,735
Sportswear	10,394,681	3,291,649	2,353,657	39,984	12,662	25,565	10,354,697	3,278,987	2,328,092
Baby items	24,600,746	2,771,915	1,982,027	94,629	10,662	21,528	24,506,117	2,761,253	1,960,499
Drapes and curtains	2,598,670	2,598,670	1,858,150	9,996	9,996	20,183	2,588,674	2,588,674	1,837,968
Towels and bathroom items	2,969,909	2,078,936	1,486,520	11,424	7,997	16,146	2,958,485	2,070,939	1,470,374
Socks	41,578,725	2,078,936	1,486,520	159,936	7,997	16,146	41,418,789	2,070,939	1,470,374
Reflective jackets	2,309,929	1,039,468	743,260	8,885	3,998	8,073	2,301,044	1,035,470	735,187
Sweatshirts	2,969,909	1,039,468	743,260	11,424	3,998	8,073	2,958,485	1,035,470	735,187
Toys	2,078,936	1,039,468	743,260	7,997	3,998	8,073	2,070,939	1,035,470	735,187
Hats and caps	1,732,447	519,734	371,630	6,664	1,999	4,037	1,725,783	517,735	367,594
Belts	1,732,447	519,734	371,630	6,664	1,999	4,037	1,725,783	517,735	367,594
Scarves	1,019,086	173,245	123,877	3,920	666	1,346	1,015,166	172,578	122,531
Ties	753,238	173,245	123,877	2,897	666	1,346	750,340	172,578	122,531
Total	544,108,003	115,732,071	74,602,911	2,092,961	445,174	810,316	542,015,042	115,286,897	73,792,595

Table 2: Imports and exports of second-hand clothing by estimated number of pieces, weight and value, 2014

ⁱ The categories used here are relatively broad. For example, “t-shirts and vests” also includes polo shirts, while “scarves” also includes shawls and other similar items.

In contrast, exporters use more disaggregated categories, and often disaggregate by gender (e.g. men’s or women’s trousers, jackets etc.).

ⁱⁱ This includes items that do not fit into other categories, such as maternity clothes, workwear, party wear and others.

Source: Authors’ calculations based on UN Comtrade data and data obtained from exporters and factory survey.

	Factory A ⁱ	Factory B ⁱ	Factory C	Factory D	Factory E	Total
Leggings (knit)	1,200,000					1,200,000
Ladies' tops (knit)			900,000			900,000
Underwear (knit)	1,200,000					1,300,000
Sport tops (knit)		9,600,000				9,600,000
T-shirts (knit)	1,200,000					1,200,000
Polo shirts (knit)	1,200,000		900,000			2,100,000
Vests (knit)			900,000			900,000
Baby wear (knit)			900,000			900,000
Jeans				1,800,000		1,800,000
Workwear shirts (woven)					190,000	190,000
Total	4,800,000	9,600,000	3,600,000	1,800,000	190,000	19,990,000
% exported	50%	100%	80%	80%	0%	82%
Pieces exported	2,400,000	9,600,000	2,880,000	1,440,000	0	16,320,000

Table 3: Tanzania garment production by number of pieces, 2014.

ⁱ 2015 data

Source: data provided by the Government of Tanzania.

which fall within the category of knitwear. This is equivalent to around 10% of the imports of second-hand items. The data also shows the amount each factory exports every year. Four of the five firms producing garments export between 50% and 100% of their production, and only one (the one with the smallest production) produces exclusively for the domestic market. Around 82% of total domestic production is exported by the formally established garment factories, amounting to 16 million pieces per year. The marked export-orientation of the small domestic production casts doubt on the usefulness of an import phase-out. If domestic producers are oriented towards the export market, they are less likely to be interested in the small domestic market, even when this is sheltered by tariffs.

The Statistical Business Register Report 2014/15, prepared by the National Bureau of Statistics, provides a snapshot of all the establishments (large and small) present on mainland Tanzania. It reports 14,876 firms operating in the production of wearing apparel (National Bureau of Statistics 2016), and it also shows that 88.6% of the firms in the manufacturing sector employ 1-4 people. Assuming this holds for garment production, we can conclude that most the establishments operating in this sector are very small. There is no data on the production outputs of these establishments in Tanzania, but research conducted on similar sized tailoring shops in Africa reveals a production of 20-30 pieces per day per firm.¹⁸ This would increase Tanzania domestic production by 65-100 million pieces per year.¹⁹ In addition to the 14,876 firms reported in the survey, there may also be other informal establishments operating in the Tanzania, which are likely to be of a similarly small or micro size.

It is likely that these firms will vary considerably in capacity – ranging from semi-artisanal workshops to larger establishments, which will have consequences for their production levels. However, given the large number of these small and micro firms operating in the garment sector, together they may be able to meet a significant part of the domestic clothing demand – and some may even be exporting their products to neighbouring countries.

¹⁸See, for example, Manning (1993) for South Africa.

¹⁹Assuming a production of 300,000-450,000 pieces per day and 220 working days per year.

4.4 Domestic production and consumption gap

Domestic consumption of garments can be estimated by adding what is produced in the country to net imports of new and used clothing. This exercise is challenging, given the available trade data. For imports and exports of new clothing, UN Comtrade provides data on quantities (in kg) and values (in US\$) traded. However, the number of pieces is often not provided. As for *mitumba*, we have estimated the aggregated quantities and values, as well as the number of pieces (Table 2). For domestic production, the only information available is the number of pieces (Table 3). We therefore calculate the number of pieces for imports and exports of new clothes to compare these with imports and domestic production. We do so by using assumed average weight for each type of item. The results are presented in Table 4. The estimates of SHC imports and exports presented in Table 2 include items such as towels, bedding, drapes and curtains and others that are not strictly considered clothing. We exclude these items from Table 4.²⁰ For this reason, Table 4 has a lower figure for the net import of second-hand clothing.

The rightmost column in Table 4 contains the estimated level of domestic consumption of clothes in Tanzania, disaggregated by item type. Total consumption of clothes in Tanzania is estimated to be around 720 million items every year. Imports of new clothing total approximately 170 million pieces per year, while net imports of used clothing are more than three times higher at 540 million pieces. Domestic production is on a much smaller scale at fewer than 20 million pieces per year, and predominantly for export.

The number of exported items very slightly exceeds the number of domestically produced items. This could be due to several reasons, including the accuracy of the estimated weights we have used to calculate the amount of exports and small differences in data reporting. Our data on domestic production, for example, only includes formal establishments, which all provide a rough estimate of their exports (around 16 million pieces). Our export data refer to country-level trade data, which might include exports from smaller informal establishments.

These calculations suggest that the production gap is very wide. On average, domestic production (20 million pieces) accounts for just 3% of the total Tanzanian consumption of clothing (688 million pieces). This means there is a very large gap (97%) between the quantity of clothing consumed by Tanzanians and what is produced domestically – most of which is anyway aimed for export.

As our calculations do not include garment production from these smaller establishments, and in light of the discussion on small and micro garment firms, it is likely that the production gap is overestimated; the total production by these firms could range between 65-100 million pieces per year, mostly for domestic consumption. But even this would not fill the large gap between domestic production and demand, and it is this gap that the high level of imports of new clothing reflects.

A calculation of the production gap is somewhat simplistic, as it only compares quantities produced with quantities consumed. The reality is more complex: the 20 million pieces produced by Tanzanian factories may simply not be what Tanzanian consumers demand in terms of style, quality and price. Garments and footwear produced for the export market

²⁰We exclude the following categories: bedding, drapes and curtains, towels and bathroom items, and toys.

	Imported, new (# pieces) (a)	Imported (net), ⁱ second hand (# pieces) (b)	Domestic production (# pieces) (c)	Exported (# pieces) (d)	Domestic consumption (a+b+c-d)
Babies' and children's items ⁱⁱ	5,539,548	60,332,368	900,000	44,248	66,727,668
Blouses	2,269,539	36,159,260	900,000	213,600	39,115,199
Coats and jackets	6,204,862	8,398,810		79,642	14,524,030
Gloves	972,297			303	971,993
Hats and caps	6,407,597	1,725,783			8,133,380
Other	7,734,157	32,387,192		716,180	39,405,168
Scarves	6,612,647	1,015,166		118,559	7,509,255
Shirts	7,274,438	25,476,974	190,000	1,620,650	31,320,761
Skirts and dresses	45,155,480	30,713,933		36,704	75,832,709
Socks and stockings	25,770,380	41,418,789		2,820	67,186,349
Sportswear	2,948,482	10,354,697		555,597	12,747,582
Sweatshirts	2,658,649	2,958,485		165,957	5,451,176
Ties	516,113	750,340		20,483	1,245,971
Trousers and bottoms	4,751,958	56,535,825	3,000,000	756,837	63,530,946
T-shirts and vests	35,225,017	140,254,099	13,800,000	15,877,517	173,401,599
Underwear and nightwear	17,155,425	63,566,335	1,200,000	252,875	81,668,885
Total	177,196,587	512,048,055	19,990,000	20,461,971	688,772,671

Table 4: Estimated domestic consumption of garments

ⁱ This includes both imports and exports of used clothing.ⁱⁱ Includes blankets and clothing.

Source: Authors' calculations based on UN Comtrade data and data obtained from exporters and factory survey.

might not find buyers in Tanzania, and therefore domestic producers might not be interested in selling in the domestic market.

5 Potential impact of the phase-out

The phase-out of SHC imports is supposed to take place through a gradual increase in tariffs, as gazetted in June 2016 (East African Community 2016*a*). Tanzania adopted the change to the EAC Common External Tariff, meaning that the specific duty rate imposed by Tanzania on imports of worn clothes and shoes increased from US\$0.2 per kg to US\$0.4 per kg. The *ad valorem* rate, which is levied on the imported *mitumba* based on a percentage of its value, has remained unchanged at 35%.²¹

5.1 Substitutability of used clothing

The idea behind phasing out SHC is that, as demand consequently contracts, it will be reoriented towards new domestic clothes and footwear. In reality, this depends on the substitutability between new and used items. Do consumers view new (domestically produced and imported) clothing as substitutes for used clothing? If the answer is ‘Yes’, then the phase-out may indeed push consumers to replace (totally or in part) the used clothing they were purchasing with new items.

But the answer to this question of substitutability may be ‘No’. Used clothing and footwear are extremely diverse in type, styles, brand, and quality etc. The fact that they are lumped together under a single HS position forces us to think in terms of a homogenous good, when the reality is, it is not. Given its nature, the range of used clothes and footwear available is almost infinite. Consumers value this variety and they derive utility from having a wide range of products to purchase (Dixit & Stiglitz 1977). In addition, buying used clothing allows consumers to own internationally renowned brands at affordable prices, which would be otherwise unattainable in Tanzania.

New clothes do not offer the same variety. And it is possible, then, that consumers might still buy used clothing despite higher prices (and the extent of this will also depend on the price elasticity). If this happens, a phase-out of SHC will not necessarily generate a significant increase in the domestic demand for new clothes, and will simply act as an income effect. The increased price of SHC generated by the phase-out might also prompt smuggling of used clothing across the border. In this case, not only will consumers pay more, the government will also lose the revenue collected on imports.

5.2 Adjustment in the garment and footwear markets

Let us consider that consumers do see new clothes as a good substitute for used clothes, and the government manages to implement the phase-out effectively. In this case, the adjustment is transferred directly to the market for new clothes: consumers will buy new clothes instead of used ones. The phase-out will eventually shrink the market for used clothes and footwear substantially.

²¹The other East African Community countries have applied the same rate as Tanzania, with the exception of Rwanda, which has applied a US\$2.5 per kg rate (East African Community 2016*a*).

In this scenario, the immediate reaction to the phase-out will be an increase in the price of new clothes and footwear. For a given supply (fixed in the short term), the increased demand will push up domestic prices. Eventually, both domestic and imported supply are expected to increase, bringing down the domestic price. In reality, the phase-out will be gradual. Production may gradually increase as the phase-out is implemented. If investors know the ‘road map’ for the SHC phase-out, they can adjust investments to meet the gradual increase in demand. However, in the East African case, this has not yet been made clear.²²

The speed at which domestic production may increase depends on existing, unused production capacity. According to data on domestic production provided by the Government of Tanzania, only five large firms produce garments on a large scale, and these operate at an average capacity of 50% capacity, producing around 20 million pieces every year. Assuming firms can rarely operate beyond 80% of total capacity,²³ the ceiling will be around 32 million pieces. Therefore, production could expand in the short term by approximately 12 million pieces – around 63% of current output.

Tanzania is currently exporting garments and footwear. In the short term, the most immediate way of increasing domestic supply might be to reorient these exports to the domestic market – provided that these goods are similar. This will only happen if prices in the domestic market increase to match prices paid by exporters. A price increase will also be necessary to induce firms to boost output. An increase in domestic prices should be expected. Longer term, investments can be made to expand production capacity (section 5.5).

5.3 The effect on domestic prices and trade flows

Table 5 presents the evolution over time of the unit price (ratio between value and weight) of new garments and footwear against the price of SHC. There are methodological issues with respect to this calculation, heterogeneous elements (garment and footwear of different types) have been combined with SHC, which is traded in bulk.

On average, new imported garments and footwear are almost seven times more expensive than their second-hand equivalents. In individual items, nevertheless, the differences might be less or more pronounced. In the event of an effective phase-out, the share of new clothing and footwear in the consumer’s expenditure basket will rise considerably. While these might not increase as much as seven times, the effect will still be considerable in the short run, and it will affect the poorest consumers more than others owing to their reliance on purchasing cheaper SHC.

So far, we have assumed that the adjustment will be made entirely by an expansion of the domestic supply. However, as the level of protection faced by exporters of new garments and footwear into Tanzania is unchanged, the expected increase in the domestic price generated by an effective application of the phase-out in Tanzania may increase imports. As shown in Figure 2, SHC represents around 45% of total imports (in value terms) of

²²The joint communique suggests a three-year period for the phase-out (East African Community 2016b), but national governments have not provided details on how tariffs will be increased over this period.

²³The average capacity utilisation of the US for the period 1975-2016 is set at 79.9% (Federal Reserve Board 2017).

	New garments and footwear (US\$/kg)	SHC (US\$/kg)	Ratio
2005	4.03	0.55	7.38
2006	3.33	0.61	5.47
2007	3.65	0.58	6.27
2008	4.09	0.55	7.38
2009	3.18	0.56	5.69
2010	2.69	0.61	4.42
2011	3.38	0.66	5.14
2012	3.97	0.63	6.33
2013	6.21	0.63	9.84
2014	6.32	0.64	9.80
2015	4.86	0.62	7.88
Max	6.32	0.66	9.84
Min	2.69	0.55	4.42
Average	4.16	0.60	6.87

Table 5: Tanzania implicit import prices

Source: Authors' calculations based on UN Comtrade data.

garments and footwear over the last ten years. This suggests that an effective phase-out of the trade in SHC will have sizable effects on Tanzania's garment and footwear imports.

Table 6 shows Tanzanian imports of garments, footwear and SHC. If the phase-out is effectively implemented, the domestic price of garments and footwear will increase. This will benefit existing (and also potentially new) exporters into Tanzania. India, Kenya and particularly China – which accounts for 63% and 80% of Tanzanian imports of these garments and footwear respectively – are likely to benefit. And given its vast production capacity, China is likely to be the country that will benefit most immediately.

As shown in Table 5, the prices of new and used garments and footwear differ significantly. While the imports of new and SHC may be of similar magnitude in value terms, the quantity of SHC is around seven times greater. If we assume that the imports of SHC are valued at the price of the new ones, these imports will be worth US\$423 million. Consequently, if we assume that production cannot be adjusted and that consumers maintain their consumption levels, imports of garments and footwear will increase by US\$364 million, representing around 2.3% of total Tanzania's total imports.

The increase in imports might come not only from countries outside the East African region, but also from other EAC Partner States, which comprise the EAC Common Market, together with Tanzania. If a Partner State starts producing one or more items at competitive prices, the goods might be exported to the Tanzanian market. Goods produced in the region receive national treatment, and therefore do not face the same tariffs applied to goods coming from outside the EAC. While it is likely that other Partner States will also struggle to meet the local demand, it is possible that some Partner States specialise in a limited number of products that they manage to export within the region. This implies that Tanzania is likely to face increased competition, not only from outside the East African region, but also from within.

Garment			Footwear			SHC		
	US\$1,000	%		US\$1,000	%		US\$1,000	%
China	32,849	62.7	China	25,343	80.0	UAE	10,387	17
India	4,496	8.6	Kenya	3,305	10.4	US	10,169	16
Indonesia	3,045	5.8	South Africa	980	3.1	EU	7,856	13
South Africa	2,038	3.9	UAE	375	1.2	Canada	7,716	12
UAE	1,813	3.5	Thailand	285	0.9	Korea, Rep.	7,346	12
Kenya	1,621	3.1	United States	196	0.6	China	6,440	10
Hong Kong, China	1,195	2.3	India	189	0.6	Pakistan	5,759	9
Thailand	966	1.8	Indonesia	138	0.4	India	3,431	5
United States	552	1.1	Australia	135	0.4	Australia	1,543	2
Rest of EAC	39	0.1	Rest of EAC	1	0.0	Singapore	593	1
Rest of World	3,811	7.3	Rest of World	733	2.3	Rest of World	1,490	2
Total	52,425			31,679			62,730	

Table 6: Tanzanian imports of garments, footwear and SHC by country
Source: Authors' calculations based on UN Comtrade data, 2015.

5.4 Effect on employment and on consumers

The phase-out of SHC will impact all those involved in production and retail of new and used clothes in Tanzania. Importers, wholesalers and others engaged in the SHC supply chain may lose their business, and will need to look for new opportunities. These opportunities could include managing the trade of new clothes. This is considered to be a way in which to use existing apparel facilities to build the supply chain for partial replacement of SHC while minimising any loss of jobs and business. It is difficult to establish the number of retailers in the country, but some interviews with traders' associations indicate that there are around 200,000 operating in Dar es Salaam alone.

Textile manufacturing firms may benefit directly from a successfully implemented phase-out. Workers in these firms will gain job security (i.e. lower probability of being made redundant). Moreover, those currently unemployed and some of those currently employed in the SHC trade may find a new source of income. If, however, the phase-out makes imports profitable in the domestic market, these gains could be dwarfed. According to government data, around 8,000 workers in Tanzania are currently employed in garment production in large formal establishments. Assuming that production can expand by 63% in the short term (section 5.2), this could prompt an expansion in the demand for labour of around 5,000, if the same labour intensity is maintained. It is difficult to assess whether the creation of these jobs would offset the loss of jobs associated with the phase-out given the lack of information about the number of people employed in the SHC value chain.

5.5 Dynamic effects: development of the domestic garment sector?

The analysis conducted so far has focused on the short-term effects the phase-out of SHC might have. In the long run, however, investments can be made to expand production capacity. This can create new jobs and help develop the industrial sector, thus supporting the objectives of the phase-out.

The successful expansion of the Tanzanian garment sector will, however, not only depend on the phase-out; like all other manufacturing sectors in Tanzania, it faces a number

of challenges – ranging from a lack of finance availability to inadequate infrastructure and skills deficiencies, among others. Several studies and government documents discuss these challenges at length (International Trade Centre 2015, Dinh & Monga 2013, Textile Development Unit, Ministry of Industry, Trade and Investment 2016). If these issues remain unaddressed, it is unlikely that the sector will attract the new investment needed to expand its production capacity.

The SHC phase-out relies on the idea of protecting an infant industry from external competition, to give it space to grow and become more productive. The aim is for the domestic industry to be able to face the competition posed by foreign firms in domestic and international markets, thus making the tariff protection redundant and, ultimately, achieving competitiveness on the global market (Oqubay 2015).

Tariff protection is often used to shelter the manufacturing sector, but it is only one of many tools that can be used to achieve the same end. These include the provision of assistance and incentives to investors, building infrastructure and making the right mix of skills available. Tariff protection has been widely used as one component of industrial development strategies, but it is neither the most important nor the more effective (Chang, 2003). The use of these strategies has been instrumental into attracting investors in the East African garment sector. For example, attracting the recently established C&H garment factory in Rwanda required active involvement from the government, which granted export-processing zone status together with a series of incentives, including tax exemption, infrastructure and support for training workers (Booth et al. 2017, Behuria 2017).

As Amsden (1992) points out, in those countries that industrialised later, the state always intervened to offer incentives. In the case of South Korea, incentives were tied to performance: good performing firms were ‘rewarded’ with the possibility to expand into other areas, while poor performers were punished. If a government is unable to withdraw incentives and administer punishment, the incentives could be allocated after the desired targets have been reached (Khan 2015). The current phase-out is missing these key features. There is no mechanism to cut, eliminate or revert the increase in tariffs if business do not increase their production or become competitive. Nor is there any time limit or deadline to the implementation of the phase-out; East African firms can operate under the assumption that the higher tariffs on SHC will be in place for a long time, without any incentive to increase productivity because, with competition kept away by the tariffs, their profits can increase regardless. Under these conditions, the current phase-out can promote some degree of investment to take advantage of the rents generated by the increased tariff protection, but it is unlikely to push the Tanzanian garment industry to international competitiveness.

6 Concluding remarks

The phase-out of imports of SHC proposed by the EAC to promote its domestic garment sector will impact East African economies in various ways. The phase-out is based on the assumption that domestically produced clothing competes directly with used clothing, and that the imports of used goods have contributed to the decline of the domestic garment industry. However, a review of the existing literature has shown that there are several reasons for the decline of the African garment sector. These include the liberalisation undertaken in the 1980s and 1990s, which prompted a process of de-industrialisation and

was accompanied by growing impoverishment of many African citizens, which encouraged the import of SHC. Another reason is the increased presence of competitive Asian countries in garment value chains, and the subsequent availability of cheap new imported clothing.

This study has produced the first estimate of imports of SHC in Tanzania. It assessed the number of imported SHC by type, and then compared this with the levels of domestic production and imports of new clothing to estimate the magnitude of domestic consumption. This analysis has shown that imports of both new and used clothing dwarf domestic production. This indicates that there is enough room for the Tanzanian garment sector to grow.

The effects of the phase-out in the short term will depend on whether Tanzanian consumers consider new clothing to be a good substitute for used clothing, and on the price elasticity of their demand. We have identified the potential loss of employment for those involved in the SHC value chain, which might be partially offset by the creation of new employment in the garment sector, as a potentially adverse effect of the phase-out. We have also identified a potential increase in imports of new clothing, which may weigh on Tanzania's trade balance.

In the long term, the effects of the phase-out will depend on whether it prompts new investment. The challenges faced by current (and prospective) investors persist, and if these are not addressed, it is unlikely that the phase-out will generate enough new investment to replace the imports of new and used clothing. Instead, it might simply enable garment producers to appropriate the rent created by the phase-out, at the expense of Tanzanian consumers.

The available literature shows no evidence that similar phase-outs and bans have worked elsewhere (and in fact our work identifies this as a major gap in the existing research). Instead, we suggest that for these measures to actually prompt increased investment in manufacturing, they need to have a clear timeline and a performance-based system, and must be effectively enforced. All of these preconditions are absent in the East African case.

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