Sectorial Deindustrialisation of Zimbabwe’s Textiles and Clothing Sectors: Are Chinese Imports to Blame?

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ABSTRACT

In most emerging economies the establishment of the textiles and clothing sectors is the first bold step towards industrialisation. The sectors employs the highest number of women, accommodates the highest number of low skilled labour. Zimbabwe in recent years have suffered significant de-industrialisation of its textile and clothing sectors. Because of their labour intensive nature the de-industrialisation of the textiles and clothing sectors in Zimbabwe was a major setback to woman and low skilled labourers. There are widely held sentiments that clothing and textile imports from China are the key driver of de-industrialisation of Zimbabwe’s textiles and clothing sectors. This paper analyses the factors behind the deindustrialization of Zimbabwe’s clothing and textile sectors. The role of Chinese imports, macroeconomic instability, poor investment climate and other structural rigidities were considered.

Key words: De-industrialisation, clothing, textile, Chinese imports

INTRODUCTION

One of the remarkable features of the 21st century is the marked increase of China’s presence in Africa. The Chinese economy has grown by an average of 9% per annum in the last 25 years. The phenomenal growth and consequent rise in demand for raw materials like oil, metals, cotton etc, has led China to strengthen and forge new ties with Africa. The new wave of China-Africa relations are mainly driven by China’s resource security ambition and market seeking considerations. The rapid industrialisation of China has led to industrial overproduction and market saturation in some sectors, such as textiles and clothing resulting in the need for new export markets for their products (Pecoraro 2010). China has grown to become Africa’s third largest trading partner after USA and the European Union. According to Asche and Schuller (2008) trade between Africa and China has grown in the last few years, increasing from $5.5 billion in 1998 to over $106 billion by 2008. China exclusively exports industrial goods to Africa (Asche and Schuller 2008) while Africa exports minerals and agricultural commodities (crude oil, diamonds, cotton, timber, tobacco e.t.c.) According to Uche (2009) textiles, apparels and footwear constitutes 36 percent of Chinese exports to the African continent.

Zimbabwe, like any other African countries has witnessed an influx of Chinese investments and products since the turn of the new millennium. After embarking on the fast track land reform program in year 2000 in order to redress the land distribution imbalance, Zimbabwe’s relations with the Western countries deteriorated rapidly, culminating to the imposition of sanctions on Zimbabwe and withdrawal of balance of payment support. Zimbabwe was excluded from the USA African Growth and Opportunity Act (AGOA) of 2001 and travel bans were imposed on government ministers and other senior Government officials. With declining foreign direct investment inflows in light of isolation from traditional investors and decreasing donor assistance, Zimbabwe had to seek alternative economic partners. This according to Edinger and Burke (2008) accelerated Zimbabwe’s engagement with emerging economies including Libya, Iran, India as well as China. This revived and strengthened the long standing relations between Zimbabwe and China; which dates back to the days of the liberation struggle, leading to the adoption of the Look East Policy.
Ever since the adoption of the Look East Policy, Zimbabwe has been flooded with cheap manufactured Chinese products such as textiles, clothing, and footwear. The imports from China (Chinese Imports) are generally considered to be of lower quality and inferior to products from Europe and the USA. The relatively low prices of Chinese goods make them affordable and attractive particularly to the segment of the society with low purchasing power. Incidentally, this segment currently constitutes the majority of the Zimbabwean population thereby creating a large market for these cheap products. While Chinese imports provide cheaper access to more goods to the consumers, and is good for their wellbeing, in the long term it destructive to the economy of Zimbabwe.

China’s trade competitiveness in manufacturing is a recognized worldwide phenomenon. China has low labour cost with unskilled workers earning as little as 50 cents an hour, thereby reducing manufacturing costs by 1% per year (Manyeruke, 2005). Chinese labour is among the lowest in the world as shown below.

**Labour Cost Comparisons**

**Estimated Manufacturing Wage Rate Comparison**

<table>
<thead>
<tr>
<th>Country</th>
<th>US$ Per Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>$0.60</td>
</tr>
<tr>
<td>China</td>
<td>$0.70</td>
</tr>
<tr>
<td>Mexico</td>
<td>$1.80</td>
</tr>
<tr>
<td>Brazil</td>
<td>$4.50</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$5.00</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>$5.60</td>
</tr>
<tr>
<td>Singapore</td>
<td>$7.60</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$16.00</td>
</tr>
<tr>
<td>United States</td>
<td>$19.10</td>
</tr>
<tr>
<td>Germany</td>
<td>$28.80</td>
</tr>
</tbody>
</table>

*Source: Deutsche Bank Securities (European Comission 2005)*

With labour costs as low as $0.70 per hour, the Chinese manufacturers are highly competitive and are outcompeting fellow Asian countries (like Hong Kong and Singapore), as well as European countries and the USA. Chinese exports are competitive to the extent that they out-compete Africa’s industries in domestic and third country markets.

Since the turn of the century, Zimbabwe’s economy has broadly suffered deindustrialization across all sectors. The de-industrialisation of the textiles and clothing sectors is a notable issue given their labour intensive nature. The general sentiments among the Zimbabwean populace is that the sector collapsed due to the influx of Chinese imports. The Zimbabwean people have questioned the government’s wisdom in adopting the Look East Policy. Although the Look East Policy was supposed to substitute Zimbabwe’s European and USA traditional investors and trading partners, that never was. Instead the Zimbabwe- China relations turned to be more of a horse and a rider with Zimbabwe on the receiving end. A recent study summarized people feeling and perceptions about the China Zimbabwe relations;

‘Several questions, however, have been raised on whether the relationship between China and Zimbabwe is mutually beneficial. Many people are of the view that China has found the Zimbabwean market as a dumping ground for its products, with Zimbabwe gaining little in terms of exports to China. Some sectors have described this situation as imperialist in nature.
Others argue that China is taking advantage of Zimbabwe’s quest for allies after being isolated by the Western countries. Some pessimists have a conviction that this trade relationship between Zimbabwe and China symbolises a horse and a rider type of relationship.’ (Manyeruke, 2006:p.6)

Deindustrialisation can be defined in absolute or relative terms. In absolute terms deindustrialization is defined as a decrease of industrial manufacturing share or its contribution to gross domestic product (GDP) and declining manufacturing employment and income as well as manufacturing output. The absolute measure can be seen when there exists an actual fall in output, employment and profit or investment spending in manufacturing industry. The relative measure of deindustrialization can be applied when manufacturing industry might actually be growing from year to year, but if other sectors of the economy are expanding at a faster rate, and then the share of total output or employment may still be falling. The absolute measure is more suitable for describing the deindustrialization in textiles, clothing and footwear sectors in Zimbabwe, since actual output, employment and profitability actually drastically declined leading to the demise of several firms..

In developed countries deindustrialisation is simply the natural outcome of successful economic development and is generally associated with rising living standards. On the other hand deindustrialization in developing countries has to be taken seriously and can be disaster for the national economy, as many people who would have lost the job from manufacturing industry may not easily be absorbed in other sectors. The de-industrialisation of Zimbabwe’s textiles and clothing is of particular interest. The sectors generally employ the highest number of women, accommodates the highest number of low skilled labour. The sectors had an estimated total employment of 42 300 which was about 4% of Zimbabwe’s total employment (World bank 1994). The number excluded approximately 350 000 individuals involved in informal micro scale knitting, crocheting and sewing activities, selling their products in rural markets to neighbours and tourists. “(World Bank 1996, 81). The sectors are highly adaptable and can operate from the level of small to medium enterprises (SMEs) to bigger corporates. Furthermore, the sectors have other attractive features such as the low level of capital commitment required, low energy use, huge scope for value addition, huge scope for backward and forward integration.

This study intends to unravel the underlying reasons behind the collapse of the Zimbabwean TC sectors. The study is purely based on secondary data obtained from the National Employment Council for the Textiles Industry and the National Employment Council for Clothing Industry and other government publications.

ZIMBABWE’S TEXTILES AND CLOTHING SECTORS

Economies go through three stages of economic development, i.e. the primary sector driven economy, secondary sector driven economy and tertiary (service sector) driven economy. As development gets under way, the share of agriculture in national employment falls and there is a rapid increase in the share of manufacturing. This process is known as industrialisation. Industrialisation was defined by Biacuana et al (undated) as the expansion of the secondary or manufacturing sector in an economy that was previously dominated by primary activities. In the process of industrialisation, economic development is accompanied by (1) an increase in the share of national income from industrial manufacture (2) an increase in the share of people employed in industrial manufacturing sectors and (3) a continual rise in labour productivity in the leading industrial manufacturing sector and to a lesser degree in agricultural sector (Mansur 2008). In the process of transformation from Agrarian society to industrialised economy the establishment of the textiles and clothing industries are in most cases the first step towards industrialisation (Traub –Merz and Jauch 2006). For Zimbabwe just like any other emerging countries the textile and clothing sectors were the first stages of economic upgrading or diversification away from a dependency on primary commodities.
According to Nkala (2012) the word textile originally referred only to woven fabrics but now includes knitted, bonded, felted, and tufted fabrics as well. Textiles are used for wearing apparel, household linens and bedding, upholstery, draperies and curtains, wall coverings, rugs and carpets, and bookbindings, in addition to being used widely in industry. Naumann (2002) pointed that the clothing sector would include the manufacture of wearing apparel such as menswear, womens wear, workwear, underwear, hats and fur and leather clothes.

Zimbabwe’s initial stages of industrialisation was during the colonial period. The clothing and textiles sectors were established under import substitution policy. The Zimbabwe textiles sector dates back, to the early 1920s, well before independence. Zimbabwe already had big textile companies like Security mills, David Whitehead, Gatooma textiles, Textile mills and Scotford mills (Nkala 2012). The sectors continued to grow even in the post independence period. According to Mlambo (2006) as cited by Nkala (2012) fifty percent (50%) of the textile manufacturers and sixty one percent (61%) of the clothing manufacturers commenced their business operations between 1980 and 1989. The industrial growth recorded both in the pre and post independence (the first decade after independence) was obtained under the import substitution industrialisation (ISI) phase. Zimbabwe like other African countries had to abandon the ISI due to slow economic growth and debt crisis.

The adoption of the Economic Structural Adjustment Program (ESAP) in 1990 reversed the ISI policy through trade liberalisation, deregulation and privatisation among other reforms. The benefits of the programs were however not as pronounced as they were intended to be, as a result of various internal and external factors impacting negatively on the local economy. A severe drought (1991-1992) placed strain on the country’s financial resources and agricultural output, cotton included. Trade liberalisation left the economy vulnerable and exposed to foreign competition. Following the introduction of ESAP, the share of the textiles sub-sector in manufacturing output declined from 11.3% in 1985 to 7.9% by 1995, while that of the clothing and footwear sub-sector dropped from 7% in 1990/91 to 5% by 1995 (Kanyenze, 2006). By the end of 1999 a total of over 100 clothing firms and 6 textile firms had permanently shut down. According to Naumann (2002) notable closures of Zimbabwean clothing and textile manufacturers include Cone Textiles (>5 000 employees), Fashion Enterprises (>1 000 employees), Associated Knitting, Biona Textiles, A1 Knitting and Zimbabwe Textile Industries. There was however an increase in investment, particularly within the clothing sector by giant firms in improving their technological capabilities. In fact Naumann (2002) also indicated that under structural adjustment policies replacement of outdated machinery and equipment took place especially in the textile industry. The following extract summarises the impact on ESAP on T&C sectors.

The index of the volume of production for the textiles sub-sector plunged from 100 in 1990 to 59.3 by 1995 (due mainly to trade liberalisation) and further to 39.7 by March 2005 (due to both the liberalisation of trade and political crisis). The index for the clothing and footwear sub-sector fell from 100 in 1990 to 82.9 by 1995, peaking at 127.5 in 1999 before declining to 95.2 by the first quarter of 2005. The manufacturing sector dropped from an index of 100 in 1990 to 96 by 1995. This indicates that the manufacturing sector suffered de-industrialisation following the liberalisation of trade since 1991, while the textiles sub-sector was the worst affected. (Kanyenze 2006 pg 8).

After year 2000, Zimbabwe’s textiles and clothing sectors suffered the greatest decline. According to Mlambo (2012) the closure of numerous firms and the subsequent loss of employment for period 2000-2008 this was caused by the macro-economic environment that was prevailing during that time which was characterized by hyper-inflation. Naumann (2002) also attributed the collapse of clothing and textiles sectors to severe foreign exchange restrictions, an artificially pegged exchange rates (some 6-7 times higher that the official rate), high inflation and interest rates, which prevented Zimbabwean companies from affording and accessing the much needed capital and equipment. Also the stringent
foreign exchange repatriation requirements stipulated by the RBZ (at the pegged exchange rate) seriously undermined the success of exporting companies. During the same period, the US government and forty eight African countries drew the African Growth Opportunity Act, giving the African states full access to the American market. Zimbabwe was however excused from AGOA and therefore lost an opportunity to expand the clothing and textiles sectors through exports. Furthermore, the decline in Zimbabweans’ disposable income due to the hyper inflation made the general populace to turn to cheap but inferior Chinese products. Zimbabwean firms lost their domestic markets to Chinese products leading to the demise of a significant number of firms in the depicted in Figure 1 below.

Figure 1: Number of firms and capacity utilisation in clothing sector (2000-2011)

![Figure 1: Number of firms and capacity utilisation in clothing sector (2000-2011)](image)

Source: The 2012 National Budget of Zimbabwe, (p. 195)

The clothing sector as shown by the figure above had almost 500 firms (companies) in year 2000, with a capacity utilization of over 95%. There was a drastic decrease in the number of firms in this sector between 2000 and 2009 due to some of the factors discussed above. The number of firms in the sector declined from almost 500 to less than 250, while capacity utilization declined to slightly above 50% by year 2009. Even after the adoption of the multicurrency system (2009-date), firms continued to shut down and capacity utilization continued to decline to as low as 35% by end of 2011. The adoption of the multicurrency system resulted in a crippling liquidity crisis, which has seriously hindered efforts to recapitalize. Eversince the adoption of multicurrency system (MCS) bank deposits have remained subdued a factor which has seriously stifled the credit creation process. Zimbabwean banks because of the transient nature of deposits cannot offer long term loans, and the cost of borrowing are also too high a factor that is hampering recapitalization and consequently competitiveness.
The clothing sector was one of the key manufacturing sectors in Zimbabwe up to year 2000, with a workforce of 35,000 workers. Employment in the clothing sector fell from 35,000 to about 13,000 employees by 2009, a decline of almost 60% in a decade. Even after adoption of the MCS, the sector has continued to decline. According to the Financial Gazette of 12 March 2012, the clothing and textiles industry lost an estimated 11,000 jobs in 2011 alone with a contagion effect affecting 55,000 more.

**CAUSES OF DEINDUSTRIALISATION OF ZIMBABWE’S T&C SECTORS**

Economic literature distinguishes between "positive" and "negative" de-industrialisation. The former occurs when labour is shed as a result of manufacturing productivity rising faster than output; the displaced workers find new jobs in the service sector. Negative de-industrialisation is characterised by rising unemployment and stagnant or declining real incomes. The latter is a near accurate description of the sectoral decline of Zimbabwe’s clothing and textiles sectors. Deindustrialisation in developing countries and the subsequent decline in manufacturing employment are normally seen as symptoms of economic failure and signs of impending impoverishment. The causes of "positive" and “negative” de-industrialisation are distinctively different - one is the product of "natural progression" and the other of "failure".

**CHINESE EXPORTS**

According to Wood and Mayer (2010), the impact of China on other countries can be interpreted in Heckscher-Ohlin (HO) theory as occurring through a shift in world average factor endowments. The comparative advantage of a country depends on its endowments not in isolation but relative to the endowments of all other countries involved in trade. World comparative advantage positions were
altered by China’s emergence from near-autarky, because of its size and distinctive endowment structure.

According to Wood and Mayer (2010) China’s opening to trade effectively lowered the world average land/labour ratio and increased the share of workers with a basic education in the world labour force. The relative endowments of other countries were thus shifted in the opposite directions, which tended to move their comparative advantage away from labour-intensive manufacturing, which requires a lot of workers with a basic education but not much land. The corresponding increase in comparative advantage for developing countries was mainly in primary production, which uses a lot of land; for developed countries, it was mainly in skill-intensive manufacturing and services, which need workers with more than a basic education. Wood and Mayer’s arguments are confirmed by empirical evidence; according to Uche (2009) textiles apparels and footwear constitutes 36 percent of Chinese exports to the African continent. Zimbabwe is exporting primary products like agricultural products (mainly tobacco), mining products in China. According to Zimtrade (2012) the export composition of Zimbabwe has changed significantly between 1992 and 2012, in 1992 the clothing and textile sectors jointly contributed 11% of Zimbabwe’s exports (clothing 4%, textiles 7%). By 2012 the composition had changed to the extend that the clothing and textiles no longer have a single percent in Zimbabwe’s global export composition.

Zimbabwe was probably the worst affected nation by the emergence of China from because, the flooding of Chinese products coincided with the period of Zimbabwe’s hyperinflation (2000-2009). Not only were Zimbabwean firms outcompeted in their domestic markets, they also lost third country (export) markets to Chinese firms. The loss of third country markets became prominent with the end of the Multi-fibre Agreements in 2005, which left the clothing and textiles sector in Africa under tremendous competitive pressures as Asian countries, particularly China, could export directly to the USA and other lucrative markets in developed countries. As a result of increased competition from China, the value of Africa’s textiles and clothing exports to the USA dropped by 25 per cent between 2004 and 2006 (Kolinsky et al 2007). Even South Africa was not been spared by the surge in Chinese imports, imports of Chinese clothing products increased by 335% from 2002 to 2004 in US dollar value.

MACROECONOMIC INSTABILITY

After embarking on the fast track land reform program of 2000, the country’s relations with the ‘West’ deteriorated sharply leading to imposition of sanctions against Zimbabwe. The result of which, was the subsequent cutting of foreign aid and other Balance of Payment (BOP) support. The World Bank imposed restrictive measures on Zimbabwe in May 2000 due to accumulation of payment arrears, resulting in cancellation of loans and grants. The Organisation for Economic Corporation and Development (OECD) bilateral donors withheld official development aid, but continued with humanitarian assistance. It is noteworthy that as a result of the strained relations between the Zimbabwean and Western Governments, Official Development Aid (ODA) has been channelled outside the government system directly to beneficiaries through united nations (UN) agencies and Non-governmental Organisations(NGOs).

The cutting of foreign aid and other BOP support from multilateral institutions crippled the country’s budgetary position resulting in the country slumping into one of the worst depressions of the post war period. The country recorded one of the worst hyper-inflation eras the world has experienced. With sanctions imposed, Zimbabwean clothing and textiles firms lost export markets in Europe and America. In 1999 as shown in table 1 below 69% of Zimbabwe’s clothing exports were to Europe and the USA, while 68% of the textile exports were to the Europe and the USA.
Table 1: Textiles and Clothing Exports From Zimbabwe, 1999

<table>
<thead>
<tr>
<th>Clothing Exports</th>
<th>Textile Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>19% (SADC)</td>
<td>31% (SADC)</td>
</tr>
<tr>
<td>49% (Europe)</td>
<td>37% (Europe)</td>
</tr>
<tr>
<td>20% (USA)</td>
<td>21% (East Asia)</td>
</tr>
<tr>
<td>12% (Other)</td>
<td>5% (USA)</td>
</tr>
<tr>
<td></td>
<td>6% (Other)</td>
</tr>
</tbody>
</table>

Source: Du Mhango et al 2000 (in Muradzikwa 2001)

The sanctions and the hyperinflation episode of 2000-2009 also hindered recapitalization and acquisition of new technology thus reducing competitiveness of Zimbabwean products even in the domestic market. The galloping inflation, eroded the real income of Zimbabwean consumers, forcing them to turn to cheaper and at times inferior Chinese products.

INVESTMENT CLIMATE

The major concerns for Zimbabwe’s investment climate after the turn of the century relates to the land reform policy and indigenisation law. In 2008 the government introduced the Indigenisation Act, which requires that “indigenous Zimbabweans” own at least 51% of all enterprises. The regulation created a new wave of uncertainty further harming investment climate (RBZ 2012). The uncertainty as to the direction and implementation of this critical piece of legislation, acts as a major disincentive for long term large scale private investment, particularly in the form of foreign direct investment (ADB 2011 pg.7; RBZ 2012 pg.38). The international investors are still sceptical of a repeat of expropriation of private property which characterised the year 2000 fast track land reform program. Foreign investors still shun the country because of perceived high political risk and the general lack of well-defined property rights. The uncertainty in policy have seriously hindered the country’s ability to attract foreign direct investment and hindered both recapitalisation and transfer of technology. Thus even after the MCS, the T&C sectors have continued to decline.

Moreso, Zimbabwe’s unsustainable external debt overhang, estimated at $8.8 billion (as at February 2011) has become a serious development constraint since the turn of the century (ADB 2011). The continued accumulation of external arrears has seriously undermined the country’s creditworthiness and severely compromised the country’s ability to secure new financing from both bilateral and multilateral sources.

The decade long period of crisis had a contagious effect on other key production support sectors. Zimbabwe’s infrastructure deteriorated significantly during the period 1999-2009, the road, railways, and communication system are in a deplorable state. 81% of the manufacturers rated Zimbabwe’s infrastructure as “poor to very poor” during the Confederation of Zimbabwe Industries (CZI) 2012 manufacturing sector survey. The dilapidated infrastructure significantly increases transportation cost and production costs. Efficient transport infrastructure and services are a prerequisite for development and integration both regionally and into the global economy especially the 21st century characterized by production fragmentation. Power shortages and outages also significantly constrain the volume of production and even drive the production costs as firms at times resort to generator power. Zimbabwe generally ranks poorly in global comparisons of economic competitiveness. According to the World Bank (2011) “Doing Business Survey” Zimbabwe ranked 157 out of 183 countries of the world (ADB 2011). The unreliability and high cost of transport and logistics have consistently been identified as a major constraint, amongst many, in attracting investment into the manufacturing sector in Africa.

POLICY OPTIONS

In the face of globalization it is clear that the future of textiles and clothing sectors lies in their ability to achieve international competitiveness through unit cost reductions. Competitiveness of a country...
depends on macro and micro factors. With the average capacity utilization in Zimbabwe hovering around 34.4% (CZI manufacturing survey 2012), the overhead costs of production are spread over a limited range of products which significantly push the unit cost up. Zimbabwean firms are using obsolete technologies and their production is characterised by technical and economic inefficiencies. It is imperative that the government of Zimbabwe take deliberate efforts to help recapitalize industry and increase capacity utilization. It is also very important for the government of Zimbabwe to move swiftly to address other structural rigidities in the economy that hinder productivity like erratic power and water supplies, and dilapidated infrastructure. The government need also to move with speed and establish well defined property rights investment protection laws.

The government of Zimbabwe meanwhile need to put urgent safeguard measures on Chinese textiles and clothing imports to stem the surge of imports and to ban importation of second hand clothing in to the country. Zimbabwe also need to direct efforts towards the reorientation of consumer buying towards local products. Campaigns like the “buy Zimbabwe campaign” can be used. Zimbabwe’s leading clothing outlets should be advised to make partnerships with local industry and source their products from local manufactures. It is also vital to encourage Zimbabwean manufactures to adhere to high quality standards.

CONCLUSIONS

Although there are widely shared sentiments that Chinese imports have resulted in the collapse of Zimbabwe clothing and textile sector, the demise can not be solely attributed to that. It is crucial to acknowledge the role of the unstable macroeconomic environment characterised by hyperinflation, currency depreciation and the poor investment climate. Zimbabwe’s economy also has a number of structural bottlenecks that hinder competitive business. The dilapidated infrastucture, power shortages and outages seriously curtail effort to regain competitiveness. We urge the government to take urgent steps to stop import of second hand clothes, recapitalize industry and remove the existing production bottlenecks.

REFERENCES


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