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Master Degree Project in International Business and Trade

How Tigers and Lions Become Masters

A case study on how to emerge as a sourcing destination with evidence from
Kenya, China and Bangladesh

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Abstract

Global sourcing has become a well-known phenomenon and a much-researched topic. Most research has been conducted from a company perspective. However, there is a demand for a more thorough analysis on global sourcing from a country perspective. The following research contributes to this theoretical gap by analysing underlying factors for how sourcing destinations emerge. This research is a case study of the apparel industry in Kenya, China, and Bangladesh. Kenya is the main focus of this report where primary data is collected through a field research, whereas China and Bangladesh are used as benchmark cases based on secondary data. All cases presenting different strategies for becoming a sourcing destination. The analysis of the empirical findings together with the theoretical framework presents a three-step model of how to emerge as a sourcing destination. The model proclaims the need for one main pull factor supported by country specific competitive advantages for the establishment of sourcing activities. This should then be followed by the creation of a full value chain for the longevity of the sourcing destination. The generalizability of the model makes it applicable to most industries.

Keywords: Kenya, China, Bangladesh, apparel industry, sourcing destination

“I think last decade was the Tigers of Asia and I think this decade is going to be for the Lions of Africa”

(Jazwinder Bedi, 2014)

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Karin Levander

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Abbreviations

ACTIF	African Cotton and Textile Industries Federation
AGOA	African Growth and Opportunity Act
CODA	Cotton Development Authority
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
EAC	East African Community
EPC	Export Promotion Council
EPZ	Export Processing Zone
EPZA	Export Processing Zones Authority
EU	European Union
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GoK	The Government of the Republic of Kenya
ICT	Information and Communication Technology
KAM	Kenya Association of Manufacturers
LAPPSET	Lamu Port and Lamu-Southern Sudan-Ethiopia Transport Corridor
LDC	Least Developed Country
MFA	Multi Fibre Agreement
MIED	Ministry of Industrialization and Enterprise Development
MTP	Medium Term Plan
NEG	New Economic Geography
NIE	Newly Industrialized Economy
SEZ	Special Economic Zone
SME	Small and Medium Enterprises
SSA	Sub-Saharan Africa
WTO	World Trade Organisation

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1. Introduction

This section presents a background consisting of global shifts and global sourcing. This is followed by the problem discussion, which consequently leading to the purpose and research question of the study. The final section presents the delimitation of this research.

1.1 Background

Transformation of where and how production, distribution, and consumption of goods and services are taking place are continuously changing, and new sourcing destinations are emerging constantly (Dicken, 2011). This result in more fragmented and geographically dispersed production processes, which in turn have increased international intra-industry and intra-firm trade relationships. The nature and the degree of interconnection between different countries in a more globalised world have transformed, where booming international trade, technological advancement, and increased productivity have shortened the distances between countries (Andersen, 2006). This has resulted in increased mobility, and companies are not bound to source from the nearest environment. Instead, competitiveness and easily accessible resources has resulted in companies sourcing from all over the world. This opens up for new markets and the ability to optimize resource abundance (Senft, 2014).

Global shifts in production processes create a path dependency as preconditions from one geographical location affects the development in a new geographical location. In other words, historical patterns affect existing patterns, and moreover, it creates an understanding for these existing patterns (Dicken, 2011). However, path dependency does not mean determinacy. Still, a precondition for optimizing the comparative advantages across the globe is less political and economic barriers, which has further liberalised international trade (Pyndt and Pedersen, 2005). This has resulted in the establishment of a wide array of trade agreements and trading blocks that have given access for countries to enter the global market, in particular less developed countries (Senft, 2014).

The geographical shifts that are enabled through liberalized trade are eased by technological change. Technological change is one of the most important processes underlying globalization. Dicken (2011) argued that technological change is a fundamental force in shaping the patterns of transformation of the economy. For example, transportation and communication technologies have had huge impact by shrinking time and space. These are not forces of globalization, rather fundamentals for the globalization, as globalization could not exist without it.

An increasing phenomenon within the concept of globalisation is that of global sourcing. It has, as mentioned above, put many new countries on the global sourcing map (Senft, 2014). Companies experience several benefits from global sourcing, such as lowered production costs and more focused activities. Countries, on the other hand, are benefiting from sourcing in terms of being able to develop a fruitful industry that will have spill-over effects on the rest of the domestic economy (Pyndt and Pedersen, 2005). Global sourcing provides new opportunities for many, but it also makes domestic markets vulnerable as international competition intensifies (ibid.). Although sourcing enables a company to focus on core competencies and the country on its competitive advantages, it does contribute to ever-enhanced competition.

Due to intensified competition, global sourcing puts extreme pressure on production costs. Therefore, low cost countries in Asia, Eastern Europe, and now also Africa, is the primary target for companies looking for new sourcing destinations. Apart from low production costs, the labour abundance that can often be seen in these countries is also an important sourcing factor (Senft, 2014).

The companies' decision of where to source from is influenced by country specific characteristics. Although, Jensen and Pedersen (2011) find location attributes to be neglected in the sourcing literature, this line of theory gives a

thorough understanding of global sourcing patterns and its movements. There are also several models conducted to understand how a country becomes an attractive sourcing destination. However, most of them have the same underlying line of thought, namely that the country's characteristics should be in coherence with the needs of the sourced activity (Dunning and Narula, 1996; Jensen and Pedersen, 2011; Narula and Guimón, 2010). An example is textiles and apparels, where the principal need is a substantial labour force. Consequently, these activities need to be located in labour abundant areas with low labour costs (Gereffi et al., 2005). Hence, much of the decision of where to source is derived from the sourcing activity.

To summarize, it is a fact that the global economic map is continuously changing and the global shifts are spurred by sourcing patterns. As such, global sourcing can optimise competitive advantages, and therefore, it usually benefits both the company and the recipient country. For many developing countries, sourcing has been the beginning of industrialisation and improved living conditions for the population. In the next section, a problem discussion of this phenomenon follows resulting that leads into the purpose and research question of this study.

1.2 Problem Discussion

Global sourcing has become an increasingly studied phenomenon over the last couple of years. The growing interest derives from the knowledge that firms' sourcing decisions have a substantial impact on the global economy. Sourcing patterns are very influenced by the global shift seen in the last decade and vice versa. Developing countries has gotten more access to and influence over the world economy due to these shifts. Much research has been conducted in the area of global sourcing, which mainly focuses on *why* companies choose to source and *where* companies choose to source from. Less focus has been put on how sourcing destinations emerge from a country perspective.

The selection of sourcing location is to a great extent based on the attractiveness of the location. This is, attractiveness in terms of costs, skills, quality of infrastructure, risk profile, and market potential. Low costs of production and

labour abundance have also been key determinants in the choice of sourcing destination (Pyndt and Pedersen, 2005). However, according to a report from International Trade Centre (2011), the level of skills is becoming increasingly important factor when selecting a sourcing destination. Still, the importance of different country characteristics derives from the activity being sourced, according to several studies (Dunning and Narula, 1996; Jensen and Pedersen, 2011; Narula and Guimón, 2010).

However, there is a gap between theory and explanatory studies in this field of research, and the lack of research on country specific motivating factors and determinants of sourcing destinations is evident. The scarce academic contribution in this area provides a false impression of these studies being less important. However, analysing the underlying factors on *how* and *why* a sourcing destination emerges has become more influential.

As briefly mentioned above, most studies take the company perspective, analysing the firm specific factors leading to a sourcing decision. However, there is a growing importance to analyse this phenomenon from a country perspective as well. Here, focus will lie on the country specific determinants affecting a country's attractiveness and potential to emerge as a sourcing destination. This study attempts to do a study on how sourcing destinations emerge, as a contribution to a much-neglected part of the sourcing literature.

1.3 Purpose and Research Question

In response to the above background, the purpose of this research is to create an understanding for *how* a sourcing destination emerges, and thereby, contribute to the literature and existing sourcing theories. The purpose of this research is to answer the following research question:

How do sourcing destinations emerge?

In order to answer this question, we aim to create a comprehensive understanding of the related literature. From this, we intend to establish a

framework of existing theories on sourcing objectives, globalisation theories, and value chain creation. Based on this knowledge, we will analyse the cases of Kenya, China, and Bangladesh with starting point in different sourcing objectives.

1.4 Delimitation

This research is limited to the apparel industry. The choice of focusing on this industry is due to the fact that it has historically been the first step in the industrialization process for many emerging economies. Moreover, there is currently an on-going shift from South-East Asia to East Africa within the apparel industry making it highly relevant at the moment.

Due to limited resources and time, this research is restricted to three cases; Kenya, China, and Bangladesh. The case of Kenya is based on primary and secondary data collected during a field research, whereas the benchmarks cases of China and Bangladesh are based on secondary data. Through these three cases, we believe that we will be able to get a thorough understanding for the emergence of sourcing destinations. Moreover, the characteristics of the industry in these three countries will create good dynamics as these countries have faced different challenges during the development of their apparel industry making them emerge as global sourcing destinations for apparel.

To summarize, the reader should by now have got an understanding for the background and the purpose of this research and what theoretical contribution it aims to develop. Hereafter, the following chapter will follow: theoretical framework, methodology, empirical findings, analysis, and conclusion.

2. Theoretical Framework

The theoretical framework introduces relevant theories regarding globalisation, sourcing, and value chains. These theories will ease the interpretation and the analysis of the empirical findings in this study, and will be fundamental in order to answer the research question. The final section of this chapter summarises the theoretical framework.

2.1 Globalisation Theories

The concept globalisation is a vague. It may refer to two different meanings. Either it refers to the structural changes of how the global economy is organized and integrated, or it refers to the neo-liberal, free-market ideology. The different meanings of the concept cannot be separated, and therefore, there is a lot of confusion regarding the concept (Dicken, 2011). There are differences in the attitudes towards globalization and there are diverging opinions regarding whether globalisation is good or bad.

Economies that are part of global production networks may potentially be benefiting through capital injection, local firm stimulus, knowledge diffusion, and local employment creation (Dicken, 2011). Even though, economic activity is a key determinant in an economy's development, internal factors such as history, culture, political institutions, and the economy's resource base affect the prospects for human development. Globalization has resulted in increased trade and investments as well as improved technology; however, human development has not been improving (Dicken, 2011). In this section of the theoretical framework, globalisation theories regarding new economic geography, clusters, and countries specific competitive advantages will be investigated.

2.1.1 New Economic Geography, NEG

The NEG theory is rooted in the location theories (Leyshon et. al., 2011) concerning distance and area by investigating how transportation costs affect the price of products. The theories also explain the location of production units as well as the geographic extent of markets. Location theories have been criticized for having an isolated approach that biases the real world. However,

the location theories are discovered through research where regional science has been incorporated, the so called 'New Economic Geography', NEG.

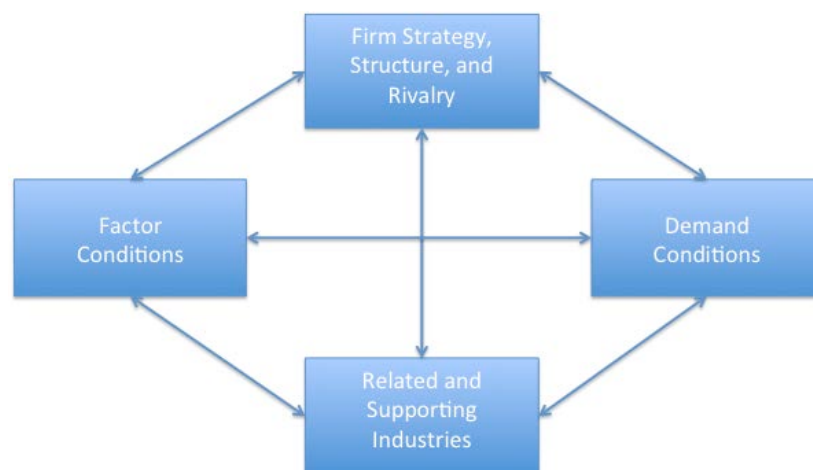
NEG investigates the location, distribution, and spatial organization of economic activities across the world. NEG was introduced in the 1990s and aggregates behaviour from individual maximization (Leyshon et. al., 2011). Krugman (1998) was the pioneer in NEG. He argued that there are different kinds of forces that affect geographical concentration. There are forces that tend to promote geographical concentration, 'centripetal' forces, and there are forces that tend to oppose it, 'centrifugal' forces. The centripetal forces involve the creation of linkages, concentrated labour markets, and pure external economies, whereas the centrifugal forces involve immobile factors, land rents, and pure external diseconomies. Based on this, centripetal forces can be translated into pull factors, and likewise, centrifugal forces can be considered push factors.

This is in contrast to older theories regarding economic geography and location theories that highly relied on economies of scale as the main driver for geographic concentration. Krugman (1998) refers to Weber (1909), Christaller (1933) as well as to Lösch (1940) that all built their theories on economies of scale. Krugman (1998) would rather argue that global shifts and the concentration of activities depend on the relative strength of centripetal and centrifugal forces. The centripetal and centrifugal forces are fundamental for the NEG theories. The ability to establish many parts of the same industry within the near environment is a crucial advantage for some industries. Where to locate can, as Krugman (1998) argues, depend on pure immobile factors, or more tacit forces like knowledge and skill. The ability for several actors to create vertical and horizontal linkages for knowledge transfers and benefit from various synergy effects from other firms is valuable in the global competitive structure, especially for industries with smaller actors (Kuah, 2002). The argumentation of geographical concentration above will be further developed in the next section in terms of clusters.

2.1.2 Country Specific Competitive Advantages

Porter (1990) analysed competitiveness and found that the countries that were more competitive had strengths in specific industries, rather than across the board. He investigated how firms within a specific industry could capture varying levels of economic returns depending on the market structures faced locally in terms of market attractiveness. Porter (1990) investigated why firms based in a particular country are able to create and sustain competitive advantage against the best global competitors in particular industries. He developed the *Diamond Framework* in order to explain this, a model where four determinants are identified: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. The model is presented in Figure 2.1 below.

Figure 2.1: The Diamond Framework



Source: Huggins and Izushi (2011), p. 15

The model investigates business environment qualities and provides an integrated perspective on the many factors that influence how productive a company can be in a given location. In addition to existing literature, the model provides three critical innovations. First, it is not limited to the individual factors as it also investigates the interaction between the different individual factors. Second, the model highlights demand conditions as critical for value generation capabilities within a location and how exposure to different

customers can enhance the development of distinct advantages relative to their rivals. Third, the model recognized the role of related and supporting industries, and thereby, introduced the concept of clusters (Porter, 1990).

According to Huggins and Izushi (2011), the presence of related and supporting industries contributes to the productive capability without involving transaction costs associated with sourcing. Moreover, the concept of clusters investigates the role of competitors, institutions, government agencies as well as other public and private actors that facilitates the creation of linkages and common action. Clusters enable and enhance firms to leverage the opportunities more effectively in a given business environment. The Diamond promotes the geographical clustering of industries through vertical and horizontal integration, and therefore, leading international firms within related industries are often found in the same location, either a city or a region (Huggins and Izushi, 2011).

2.1.3 Critique Globalisation Theories

As previously stated globalisation is a vague concept. Despite that, there is another important shortcoming of the globalisation theories. More specifically, how research previously has been conducted in the globalisation field. Historically, quantitative data has been used to a huge extent to capture trade relations in terms of volume. Dicken (2011) argued that this is not an appropriate of studying globalisation, as quantitative data does not capture the qualitative changes of globalisation when locations for production, distribution, and consumption are changing. As integration becomes increasingly extensive and complex through the web of global production networks the qualitative aspects become highly important to investigate. Hence, qualitative data should be collected in order to create an understanding for thin integration and its growing complexity. In international trade, changes in composition are usually more important than changes in volume, and hence, qualitative data is more appropriate (ibid).

To summarise, globalisation, although a vague and not new phenomenon, has opened up new opportunities for trade and mobility, both of individuals and

firms. This has enabled geographical clusters and the ability to benefit from location specific synergies (Krugman, 1998; Dicken, 2011). Due to shortened distances and increased trade; production, distribution and consumption does not have to be assessed in the same country or region. These activities can be spread to areas with beneficiary advantages for each process (Andersen, 2006). Competitiveness and easily accessible resources has resulted in companies sourcing from all over the world. This opens up for new markets and the ability to optimize resource abundance (Senft, 2014). Sourcing activities have substantial positive effects on both destination and firm and is a well researched topic, which will be further discussed in the next section.

2.2 Sourcing Theories

There is a somewhat growing consensus that the most useful key to understand the complex, globalised economy of the world is the concept of network. Networks as such explain the fundamental structural and relational nature of production and distribution. Production networks are dynamic and represent a broad relational framework that goes even further than most theories in trying to explain underlying forces of sourcing relationships (Coe et al., 2008). Deriving the discussion of global sourcing from the concept of networks will give a deeper understanding of how firms and host countries interact.

2.2.1 Global Sourcing Objectives

Much research has been conducted in the area of global sourcing the last couple of years. The interest of firm's increased tendency to move parts of its business abroad has generated a lot of interest. Partly because of the changes this causes for the specific firm, with cost reductions and enhanced productivity, but also because of how this trend affects the sourcing destinations. Recipient countries experience substantial changes in terms of skills, living conditions, and industrialisation (Pyndt and Pedersen, 2005). Still, according to Jensen and Pedersen (2011), many of these studies have neglected the location aspect when analysing sourcing decisions. They argue that globalisation of markets, which drives political and economic change; force a rethinking of the meaning of location and competitive advantage to include transmission of knowledge and

skill (Jensen and Pedersen, 2011). In an early model by Dunning and Narula (1996,) this line of thought was introduced. The model defined five different stages of economic development into which countries could be placed. In the context of this model, firms sourcing decisions could be derived from the recipient country's economic status combined with the characteristics of the sourced activity. Ergo, companies wanting to outsource high-skill activities look for countries in the later stages while simple and standardised activities often gets located to countries in stage one or two (Jensen and Pedersen, 2011). This model has later been expanded to include more variables, but the principal meaning is the same; countries' economic status influence sourcing decisions.

Sourcing decisions can be market-based, resource-based and/or efficiency-based (Pyndt and Pedersen, 2005). The market-based objective suggests that the aim for sourcing is to supply a specific market. The resource-seeking objective means that the company in question is looking for a certain resource, physical or tacit, that is either abundant or cheap in the chosen location. Finally, efficiency-seeking companies choose sourcing destination from factor endowments that will enhance productivity and lower costs. Taking this into account it is clear to see that there is no universal definition of what makes a good sourcing destination. It is therefore difficult to base sourcing objectives on a single motive, but rather it is a question of what a company expects to achieve through its sourcing activities. Kaufmann and Hedderich constructed a model in order to get an understanding over how firms evaluate potential sourcing destinations and what affects the sourcing decision (Tower and Song, 2010).

Kaufmann and Hedderich's supplier evaluation model investigates challenges related to global sourcing, such as cost and quality. A model that later was the basis for Tower and Song's research of the Chinese apparel industry on. The study was performed as a case study of an apparel sourcing company. The results show that the biggest challenges are the unforeseen risks in the delivery process, rigid negotiability, language barriers, and customer services. Many companies have moved their supply and production to Asian countries such as

China and Bangladesh, since they are competitive due to their low prices and increasing quality levels (Tower and Song, 2010). Due to strong business cultural beliefs and behaviour in China, Tower and Song added a sixth challenge, culture, which covers the aspects of language, customs, and business practice. Hence, an extended supplier evaluation model was developed including delivery, flexibility, cost, quality, reliability, and culture.

The model is primarily applicable to the South East Asian region (Tower and Song, 2010). Even though the study itself focused on the evaluation procedure for a company's sourcing destination, the model may also be applied in the decision-making procedure for a company's sourcing policy and thereby help to select a sourcing destination (ibid). This model creates an understanding of what sourcing companies are demanding, and hence, what they are expecting from the suppliers. Therefore, it gives an indication of what factors emerging sourcing destinations should focus on in order to become competitive.

2.2.2 Sourcing Objectives in the Apparel Industry

Investigating the apparel industry in particular, Dicken (2011) initially argues that price is a major determinant in the locational shifts of the industry. However, he further argues that, "*... the globalization of the clothing industries cannot be explained simply as a relocation of production in search of low labour costs. Other factors are involved including, in particular, orientation to specific markets*" (Dicken, 2011 p. 314). By looking at Asia, North America, and Europe, one can see that there have been different determinants forcing sourcing decisions. Europe's sourcing has depended on the price as well as on proximity to market. On the other hand, for North America there has been a trade-off between minimizing production costs and maximizing speed to market, and therefore, proximity to market has been an important determinant. Additionally, trade agreements have been a critical determinant of the sourcing destination for North America. Most lately, Asia's newly industrialised economies, NIEs, have matured and when orders are placed with actors in those markets they outsource the production. They have lost competitiveness in terms of price and

therefore triangle manufacturing¹ has appeared as a strategy in those countries. However, market proximity is crucial. For example, firms in Hong Kong and Taiwan often choose to source from China, whereas firms in Singapore choose to source from Malaysia and Indonesia (Dicken, 2011). Hence, labour costs and market proximity are key determinants for the recent global shifts in the apparel industry, and therefore, regionalization of apparel production networks have become more frequent.

2.2.3 Critique Against Sourcing Theories

Global sourcing has been a growing field of study over the last decade. The increasing interest is clear and the theories' are continuously being refined and adjusted. The acceleration in interest may challenge established theoretical frameworks regarding sourcing patterns (Doh, 2005). Hence, although frequently used, many theories lack in some aspects. Massini and Lewin (2012) found that most research on global sourcing and sourcing strategies often derives from the demand perspective. This is according to them a somewhat partial analysis. Instead, they suggest a co-evolutionary analysis where both supply and demand dynamics are included in the study (Massini and Lewin, 2012).

As stated above, sourcing theories mainly analyse this phenomenon from a firm perspective and not much research focuses on how firm influence their environment and vice versa (Lewin and Volberda, 1999). This argument is supported by Jensen and Pedersen (2011) who mean that the country perspective is somewhat neglected in the sourcing literature. This report aims to analyse sourcing from a country perspective and motivate how a sourcing destination emerge, which will be a contribution to the obvious gap in the sourcing theory.

The two previous parts of the theoretical framework have elaborated on theories regarding push and pull factors for sourcing. But what makes sourcing stay in

¹ A buyer places an order with a manufacturer, who shifts the production to offshore factories in low-cost countries

one location for a long period of time? In order to make the framework conclusive this aspect need to be covered. As Porter (1990) and Dicken (2011) argued, countries get additionally competitive on the global sourcing map if able to sustain and develop a full industrial cluster. Hence, aligning domestic activities to make the country attractive and available for such a formation is important. The following section will theoretically analyse this final factor through introducing the term 'value chain'.

2.3 Value Chain Theories

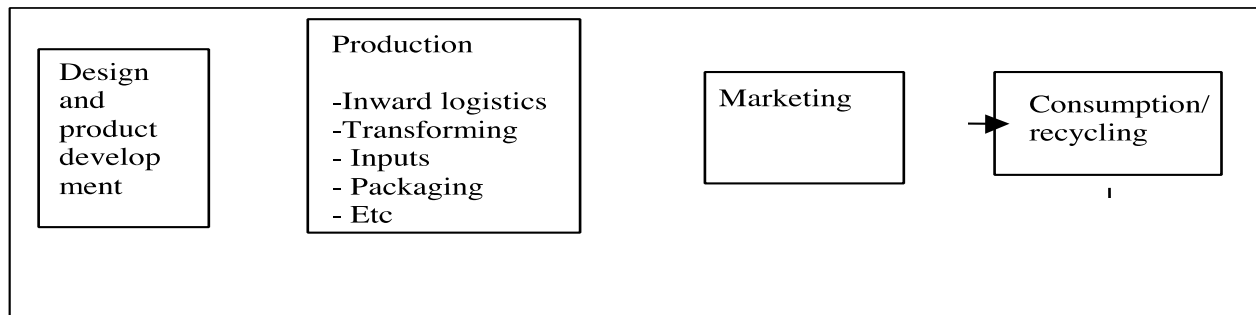
Analysing the phenomena related to globalisation from the 'value chain' perspective has been a growing trend the last couple of years. It has sprung from the idea that international trade is becoming more and more integrated. Firms are linked through sourcing and contracting arrangements, both nationally and cross-borders (Gereffi et al., 2001). These links have gotten a more prominent role in the field of research as the importance of networks has become more analysed. Through this, value chain theories highlights the fact that industries' and countries' access to international markets is not without implications. The way that value chains are designed makes it difficult for newcomers, and especially developing countries, without the right governance and structure to gain the skills, supporting services and economic strength required (Gereffi et al., 2005).

2.3.1 The Value Chain Definition

A value chain is defined as *"The process or activities by which a company adds value to an article, including production, marketing, and the provision of after-sales service"* (Oxford Dictionaries, 2014). The term describes the range of activities that are required to bring a product or service from conception to final product (Kaplinsky and Morris, 2001). A value chain can be contained in a single firm or exist between several actors. The activities can occur within a specified geographical location or at a wider, cross-national scope. Supranational value chains often operate in regional trade blocks. Value chain theories highlight the relative value of all the activities involved in the process of making a final good or service, both physical transformation and the input of producer services

(Gereffi et al., 2001). The value chain consists of several value adding links that contains various activities, as can be seen in Figure 2.2 below. These links are often two-way and there is reciprocity in each step of the value chain (Kaplinsky and Morris, 2001).

Figure 2.2: The Simple Value Chain Model



Source: Kaplinsky, R. and Morris, M. (2001), p. 4

Value chain theories provide substantial insight in several areas of the global economy. Analysing the dynamics of inter-linkages within the productive sector has turned out to take the discussion of economic development further than traditional economic and social analysis. The theories give an understanding for the causal link between globalisation and inequality as well as how these could be addressed (Gereffi et al., 2005). This in turn raises the awareness of the importance and beneficial effects of participation in global production markets and how this provides economic growth and raises living standards in less developed countries (Kaplinsky and Morris, 2001). Going beyond firm-specific analysis and instead focus on inter-sectorial linkages overcomes the static nature of traditional theories and gives a more conclusive understanding of the dynamics of economic development.

2.3.2 The Buyer-Driven Value Chain

There are several theories regarding the framework of value-adding chains. One is conducted by Gereffi and highlights the importance of coordination between actors and institutes as well as new international buyers for the development of dynamic and productive networks. The term 'buyer-driven value chain' denotes how global buyers have a huge impact on well-coordinated value chains. Buyer-

driven value chains are often found in labour intensive consumer goods (Gereffi et al., 2005). These chains are characterised by decentralised, globally dispersed production networks, coordinated by dominating lead firms in the upper value chain, firms that are not involved in the production generally.

Instead, they control production networks, manufacturers and often have their own, detailed supply specifications and conducts (Staritz, 2011). These actors often have a prominent position on the international market and can with incentives and ideas much influence how the value chains should be established. Global buyers use coordination to create a competent supply-base on which a well performing and competent production and distribution can be built, without direct ownership from governments or companies (Gereffi et al., 2005). This is especially evident in the apparel industry. Production and trade in the apparel sector is most often arranged in intra-firm networks on a global scale. This is due to its cost reducing effect but also because the apparel industry is very suited for this kind of arrangement, since intermediate products can be exported at each stage of the chain (Staritz, 2011). The apparel value chain is a typical example of a buyer-driven value chain, a structure that is often seen in labour intensive consumer goods.

Highlighting the importance of coordination from buyers and the relationships in these vertically integrated chains has put extra emphasis on the role of networks in the construction process of value chains. The importance of a strong network and good cooperation between the actors in the value chain seems to be the recipe for success (Gereffi et al., 2001). This theory also accentuates the fact that buyers have a high degree of influence over the value chains even without owning any part of either production or distribution (Staritz, 2011). However strong influence from buyers still, the governance of the value chains is not admitted to one actor, either buyer or supplier. Over the past couple of years, there has been a clear trend that capabilities in the supply-base have helped push the value chains from hierarchal or captive networks to become relational networks where actors along the value chain cooperate in a wider scope (Gereffi

et al., 2005). Information and knowledge sharing has become more important alongside with the importance of networks and relationship building. This occurrence can be found throughout the global economy (Staritz, 2011).

The shift towards coordinating one's activities in a value chain derives from the importance of competitive advantages. Fierce competition has put additional weight on the advantages of costs and risk diversification of outsourcing. Therefore, most companies and institutions align themselves into industrial value chains where they could benefit from economies of scale and spread the risk (Gereffi et al., 2001). It has also been shown that relational value chains becomes even more fluid and therefore offer additional decrease in cost and risk (Gereffi et al., 2005). This poses as another argument for the movement towards more integrated linkages within the chains.

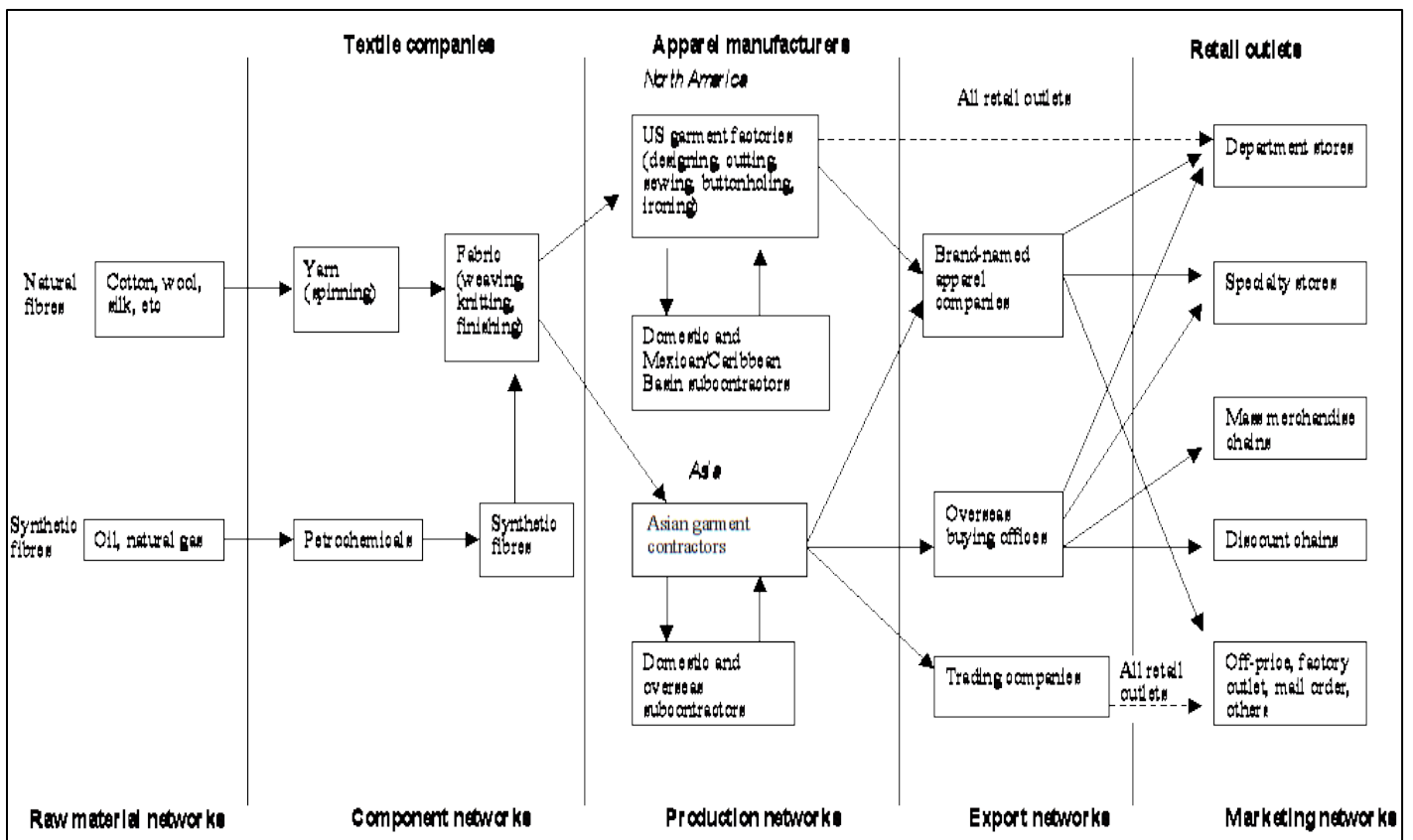
The above has discussed general value chain theories. However, to align the theoretical framework to the specific case of this report the following section will present value chain theories in relation to the apparel industry.

2.3.3 The Apparel Value Chain

The establishment of a textile and apparel industry has in many cases been central for less developed countries into industrialisation. Its labour-intensive character and export-oriented activities has meant poverty reduction and liberalisation for many developing nations (Staritz, 2011). This export-oriented industry has been characterised by global production and trade networks and the growing capabilities of its global supply base has allowed the sector to move from a captive to relational value chain structure. This has positive spill-over effects since knowledge and skills are more easily shared in the relational structure, something that is essential for developing countries' evolvment in the industrialisation process. The transition to a domestically integrated full-package supply allows local firms to become internationally competitive and generates substantial backward linkages to the domestic economy, a result of increasing supplier knowledge and one of the reasons for the East Asian success in apparel exports (Gereffi et al., 2005). This highlights the importance of the

development of a full apparel value chain. The apparel value chain is modelled in Figure 2.3 below.

Figure 2.3: The Apparel Value Chain



Source: Gereffi et al. (2005), p. 89

The apparel value chain is typically buyer-driven, as many labour-intensive industries, where buyers from developed countries act as lead firms. These lead firms have substantial influence over the value chain and their requirements are, from a developing country perspective, posing as an entry barrier (Fukunishi et al., 2013). Lead firms are also the primary source for material inputs, technology transfer and knowledge. Backward and forward linkages are extensive in the buyer-driven value chain, something that helps account for the labour intensity of the apparel industry (Gereffi et al., 2005). Developing countries often find their way into industrialisation through this gateway industry with its labour intensive, low-skill character. From this, they assess knowledge and later

develop into other parts of the process with higher entry barriers as a result. This process of developing a full value chain is however of significant impact for the longevity of the domestic industry and each process of the value chain needs to be strengthened to enhance competitiveness (Fukunishi et al., 2013).

Trade has driven global expansion of the apparel industry and it is one of the largest and oldest export industries. Although the industry has been expanding continuously since the 1970s, it has been affected by several crises, two in particular. These are the MFA phase out in 2005 and the economic crisis in 2008. Trade restrictions contributed to the international fragmentation of the apparel value chain where developing countries were somewhat assigned unwanted chores. However, the MFA phase out meant that retailers could source from various destinations in unrestricted quantities, which had the effect that firms started seeking strategies to align their production and sourcing networks to develop a full value chain within one country or region. Apparel protectionism has further declined over the years and the economic recession in 2008 spurred policies to promote the apparel-exporting countries. This and the substitution effect² encouraged further extension of the apparel value chain in developing countries. As networks evolve and expand internationally, new opportunities have emerged in the apparel global value chain (Cattaneo et al., 2010).

2.3.4 Critique Against Value Chain Theories

As most fields of research, value chain theories recognises some difficulties. The first challenge confronting this research is the various overlapping names and concepts. Different researchers use different terminology when discussing comparable concepts. It is also often the case that too much effort is put on convincing and arguing for the terminology rather than the core question (Gereffi et al., 2001). Porter (1990) defined the 'value system' as "...a set of inter-linked 'complete' firms that have all the business functions" (Porter, 1990). Today's research on value chains instead think about 'incomplete' firms linked to each other in value chains functions. However, focus should lie on the links and not

² Lowest cost suppliers gain market share vis-à-vis more expensive

the terminology as such, which is often the case. The lack of a definitive theoretical framework and terminology somewhat impede and limits generalisation that can be derived from these studies. It also complicates comparison (Gereffi et al., 2001). It is necessary to develop general parameters and definitions for value chains and also an array of parameters that could be used on a broad basis.

Still, the value chain perspective can contribute in several areas. Gereffi et al. (2005) have studied several cases with different value chain structures and concluded that production networks has become an important gateway for developing countries to enter developed markets. Analysing the governance of global value chains is key to understand how firms in developing countries can gain a prominent position on the global market and the risks and benefits of that. They also elaborate on the benefits of access and the risk of exclusion which derives from the fact that most of these firms are very much dependent on this access (Gereffi et al., 2005). Despite obvious dependency issues, this has opened up for a new field of analysis on developing countries ability to establish in the global economy. Analysing global value chains' determinant and outcomes can also contribute to the very elusive search for sustainable development in the economy of today.

2.4 Theoretical Outline

The theoretical framework presented above follows a clear structure. It take stand in a general discussion of global push factors with globalisation and cluster theories. Globalisation being fundamental for sourcing, it is apparent throughout the process as sourcing destinations emerge. This is followed by a competitive strategy model describing how countries can become and stay competitive on the sourcing map. The model by Porter (1990) inevitably leads the discussion from push to pull factors. The theoretical discussion of country specific pull factors continues through the next section that consists of sourcing theories. The global sourcing theories aim to provide an understanding for how countries and firms operate, what factors influence the sourcing decision, and how both actors are influenced by such a decision. Having finished the frame for push and pull

factors, there is a question of longevity. Why does sourcing stay in some specific locations? Here, several scholars have developed arguments that the ability to establish an industry with all important actors within the same geographical scope is vital for sourcing to stay (Dicken, 2011; Gereffi et al., 2005; Staritz, 2011). Therefore, the following and final section elaborates on the concept of value chain creation, which provides a substantial understanding for the forces involved, and effects of, value chain creation strategies. The presented framework creates a solid theoretical ground for the following analysis and is well aligned with the empirical findings in the three cases of this report.

3. Methodology

In this section, the research method is outlined. It includes the research approach, the research process, sampling, and the data collection. Furthermore, it is discussed how the quality of the research has been ensured in terms of validity and reliability.

3.1 Research Approach

This research consists of three country cases; Kenya, China, and Bangladesh. Kenya is the primary case and consists of both primary and secondary data. China and Bangladesh are two supplementary benchmark cases based on secondary data only. We performed a case study during March 2014 in Kenya with the aim to collect data required for this thesis. According to Collis and Hussey (2009), a case study is defined as “*a methodology that is used to explore a single phenomenon (the case) in a natural setting using a variety of methods to obtain in-depth knowledge*” (Collis and Hussey, 2009 p. 82). A case study does not only investigate a single setting, it also creates an understanding for the dynamics present within this single setting (Collis and Hussey, 2009).

Case studies are usually the preferred methodology when questions of *how* and *why* are being posed (Yin, 2009; Ghauri, 2004), when the researcher has limited control over events and when the focus is on a current phenomenon within some real-life context. Hence, the case study allows the retention of a holistic and substantial understanding for real-life phenomena. The strength of this methodology is the ability to use a variety of evidence such as documents, artefacts, interviews, and observations (Yin, 2009). Moreover, Merriam (1998) argues that the most significant characteristic of a case study is the fact that the researcher can limit the study, i.e. the case. For example, this case has been limited to the apparel industry and to the three cases of Kenya, China, and Bangladesh, which will be further discussed in the sampling section 3.3.

Eisenhardt (1998) and Ghauri (2004) argued that a case study is a useful research method when the field of research is relatively unknown and the researcher is aiming to build theories through the research. As this research

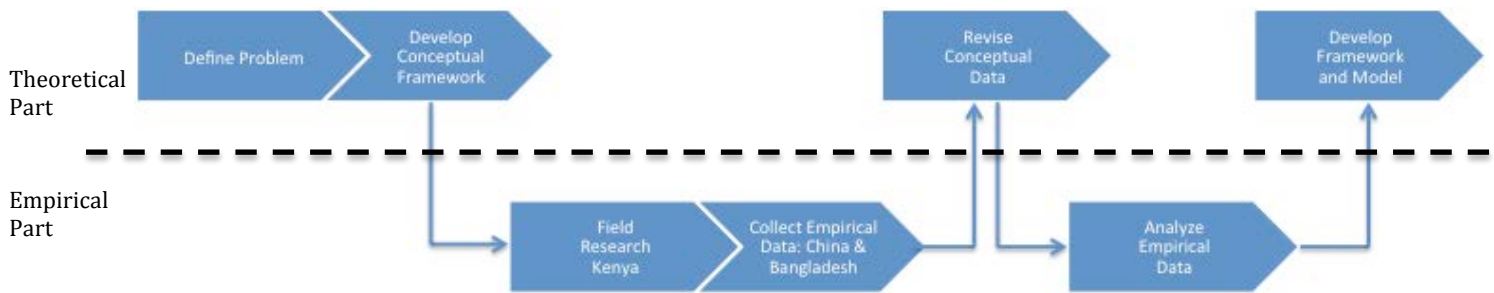
aims to fill the theoretical gap in global sourcing theories in terms of how sourcing destinations emerge, a case study was considered the appropriate approach.

This study aims to explain how sourcing destinations emerge. The global shift within several industries has spurred research within global sourcing during the last couple of years. Research in this area often include qualitative case studies, just as this one, which provides a realistic dimension to understand such a complex social phenomenon (Yin, 2009). Qualitative research enables in-depth studies about a broad array of topics since it lacks constraints that one, for example, can find in quantitative research methods (Yin, 2011). Also, the fact that case studies does not claim any particular methods for data collection makes it easy to conduct (Merriam, 1998).

3.2 Research Process

We adopted an abductive approach to our research, due to the belief that our research, in all three cases, will generate the suitable theory, and not the other way around. Here data is collected to build theory, rather than testing it (Bryman and Bell, 2007). The abductive approach is suitable when using semi-structured interviews as empirical data collection, as was the case in Kenya. It is suitable since the interviewed might touch upon subjects not covered by the theory assembled in advance (Merriam, 1998). Hence, requiring the researchers to adjust the theoretical framework. Therefore, the time before the field research was spent on preparing the field study rather than on studying theories in detail. Also, when analysing the cases of China and Bangladesh new angles made us revise our theoretical framework so that it would be valuable when analysing our empirical findings. Hence, the abductive research is iterative and rarely inductive (Bryman and Bell, 2007). Studying existing theory before the case study provided a foundation for the empirical research and gave guidance towards a preliminary problematisation. However, this initial question was revised as we proceeded with our case study and finally landed in a suitable theoretical framework. The abductive approach used in this research is shown in Figure 3.1 below.

Figure 3.1: The Abductive Approach



Source: Own model, based on the model by Lundin and Normman (2010), p. 284

As stated above, the abductive approach urges us as researchers to move between data collection and theory-related analysis, and use questions arising from primary findings to confront the theoretical framework continuously. This poses as a mean to ensure validity of the study (Andersen and Skaates, 2004). After the field research, it became evident what theoretical streams to focus on. Also, it provided a foundation for how to analyse the data collected for China and Bangladesh in order for these to become valuable benchmarks. Based on the above discussion, we find the abductive research approach to be well suited for our study, both in terms of delimitation, purpose, and validity.

3.2.1 The Analytical Process

The abductive approach provided validity to our study through its iterative character with combining and re-establishing our conceptual framework continuously (Merriam, 1998; Ghauri, 2004). It was a well-suited approach for our specific case and enabled us to conduct a comprehensible answer to our research question (Ghauri, 2004). The ability to continuously analyse our findings and link it to the theoretical framework provided us with a deep understanding about what factors had significant impact on emerging sourcing destinations. We began our research process with broad literature in order to get some information without becoming too focused before our field research. When analysing all empirical data from Kenya, China and Bangladesh a pattern emerged, which we could assemble into a model. This model is presented in section 5 of the report. The fact that our theoretical framework was structured in

alignment with our empirical findings enabled a thorough analysis and helped us draw well-founded conclusions (Bryman and Bell, 2007).

3.3 Sampling

The sampling of this study was based on several factors. The overall theme is to analyse how sourcing destinations emerge. In order to do a comprehensive analysis of this phenomenon, we decided to derive knowledge from a case study of the apparel industry in Kenya, and two less extensive studies over the same in China and Bangladesh.

We have chosen the apparel industry as the focus for our studies. Partly because of its character of being an initial stage for continued industrialisation in many developing countries, and partly because of the global shift that is visible in the industry today. Also, the textile and apparel industry is an industry that has experienced most aspects of offshoring and global sourcing (Pyndt and Pedersen, 2005), which makes it a very interesting industry for our study.

The decision to have three comparable cases, namely Kenya, China, and Bangladesh, is to get a well-grounded analysis over how sourcing destinations are established. Our purpose is to benchmark China and Bangladesh, two well-established sourcing hubs, against the initial stage of sourcing in Kenya, and discuss what factors drives this development. The choice of China and Bangladesh as case countries is based on several factors. First, because of the fact that these two countries have had a successful development as sourcing destinations, China in particular. China has been able to retain substantial synergy effects from its initial sourcing of textiles into other activities and become a diversified and influential sourcing destination for several industries. Second, China and Bangladesh have both been subject for substantial research. Therefore, much literature and information could be retrieved, which provided us with substantial insight in both cases. Third, these two countries have emerged as the two main sourcing destinations on the global market. Therefore, we found it interesting to investigate for our research purpose.

The choice of Kenya for our field research was partly due to its history of being a flourishing textile and apparel industry in the 1980s, but also due to the fact that it is a comparatively well-developed country with an improving economic situation, that has attracted international apparel retailers. We also believe that Kenya will pose an alternative strategy for becoming a sourcing destination compared to China and Bangladesh, which will make the analysis and the following conclusions more dynamic. Although both benchmark cases are Asian, we believe that the difference between the strategic plan and the political structure in these two countries differs substantially and therefore pose as two dynamic benchmarks. Hence, we do not believe the study to be biased towards Asia.

3.4 Data Collection

This study contains both primary and secondary data. The case of Kenya is a combination of primary and secondary data, whereas the cases of China and Bangladesh are based on secondary data only.

The case study involved both interviews and observations. During the preparation of the case study, the key actors within the Kenyan textile and apparel industry were identified. Efforts to get in contact with these organizations prior to departure for the field research were done. However, it was difficult to get in contact via emails, so proper contact was established after arrival in Kenya. Beside these Kenyan actors, interviews were conducted with a representative from the Swedish Embassy in Nairobi as well as with the managing director at Business Sweden. These two interviews aimed at creating a more comprehensive understanding for how international actors perceive the textile and apparel industry in Kenya and get an objective view on how the Kenyan actors are working in order to improve the conditions for the development of the industry.

We also visited four different factories, both foreign and domestic, that are producing apparel in Kenya. This in order to generate an understanding of the production processes as well as the conditions for the textile workers. Also, this

provided insight in the private sector of the Kenyan apparel industry, hence triangulation, assuring validity with both public and private actors. During these visits, informal interviews were conducted with factory managers. The factories were randomly chosen. The method used was snowball sampling, or networking, as the method is also referred to. This method is associated with the essential of including people with experience of the phenomenon being studied in the sample and highlights how the researcher may identify cases through the interaction with others (Collis and Hussey, 2009). Except the primary data collected during the field research, consultation of official reports and document have been done in order to complement our empirical findings.

In total 12 interviews were conducted, including the factories and the observations done there. The decision to interview both private and public actors as well as to perform observations during factory visits aimed to create a comprehensive understanding for the industry and its objectives. By visiting factories of different size, ranging from 700-10,000 employees, we got a good picture over working conditions, production range and potential challenges. All interviews were recorded and transcribed and both authors participated in most of the interviews. A semi-structured manner was used in order to create an open discussion where the interviewee is given the opportunity to share information the authors might not otherwise have come across. Question protocols were used during the interviews to keep the interviews clear, organized, and efficient.

3.4.1 Interviews

This section presents a table of all the interviews conducted during the field research in Kenya.

Figure 3.2: Table of Interviews

Name	Position	Organization	Date of Interview	Place for Interview	Length of Interview (minutes)	Language
Fredrik Folkunger	Minister Counsellor, Deputy Head of Mission	Embassy of Sweden, Nairobi	3 rd of March 2014	Nairobi	45	Swedish
Jane S. Ndungo	Manager, Trade Policy Analysis	Export Promotion Council, EPC	6 th of March 2014	Nairobi	60	English
Rajeev Arora; Joseph Nyagari	Executive Director; Program & ICT Manager	African Cotton and Textile Industries Federation, ACTIF	7 th of March 2014	Nairobi	60	English
David Magwaro	Deputy Director of Industries	Ministry of Industrialization and Enterprises, MIED	11 th of March 2014	Nairobi	50	English
Joseph Wairiuko	Policy Research and Advocacy Unit	Kenya Association of Manufacturers, KAM	11 th of March 2014	Nairobi	40	English
Dorothy McCormick	Research Professor	University of Nairobi	12 th of March 2014	Nairobi	35	English
Ricardo Ndubai	Managing Director	Ricardo Investments	13 th of March 2014	Athi River	35	English
Jaswinder Bedi	Managing Director	Bedi Investments	14 th of March 2014	Nakuru	70	English
Fanuel Lubanga; Hesbon Olweny	Head Marketing Officer; Manager Technical Services	Cotton Development Authority, CODA	17 th of March 2014	Nairobi	40	English
Jonathan Chifallu	Public Relations Executive	Export Processing Zoned Authority, EPZA	17 th of March 2014	Athi River	70	English
Robin Pettersson	Market Unit Manager	Business Sweden	18 th of March 2014	Nairobi	35	Swedish
Sourath Uppal	Merchandising Manager	United Aryan (EPZ) Limited	18 th of March 2014	Ruaraka	30	English

3.4.2 Influential Actors of the Kenyan Apparel Industry

In order to get a more comprehensive understanding of the different influential actors in the Kenyan apparel industry, this section provide a short presentation of these actors.

African Cotton and Textile Industries Federation, ACTIF

ACTIF is an integrating private organ for the African countries with the ambition to establish a knowledge platform and promote development of favourable policies. Today, there are approximately 20 African member countries and ACTIF is continuously working with increasing this number. Its goal is to enhance trade in African cotton, textile and apparel and the vision is “*an integrated cotton and textile and apparel industry that effectively competes on the world market*” (ACTIF, 2014a). It is also engaged in enhancing the private sector's involvement in regional policies and to provide an institutional framework for the development of the textile and apparel industry in Africa. It was established in 2005 by the cotton, textile, and apparel sectors from Eastern and Southern Africa and enjoys membership in several trading blocks such as COMESA and EAC (ACTIF, 2014b).

Cotton Development Authority, CODA

CODA is a regulatory state corporation under the Ministry of Agriculture with the aim to promote, coordinate, monitor, regulate and direct the cotton industry in Kenya. It was established in 2006 under the Cotton Amendment Act (CODA, 2014a). The board consists of representatives from the whole value chain and actively work with creating strong linkages between the different sectors. CODA's vision is “*to be the leading agent in the creation of a vibrant and sustainable cotton industry in the region*” (CODA, 2014b). CODA has engaged in several joint activities with other actors and has also gained strong support from ginners and spinners in their efforts to revitalise the cotton industry (CODA, 2010).

Export Processing Zone Authority, EPZA

The EPZA is a state corporation under the Ministry of Trade and Industry and was established in 1990 by the EPZ Act. Its mission is “*to promote and facilitate export oriented investments and to develop an enabling environment for such investments*” (EPZA, 2014a). The authority has a board appointed from both the public and private sector. It is a leading agency with a vision to contribute to socio-economic growth and strives to transform Kenya into a global hub for investment and trade (EPZA, 2014b). The main objectives for EPZA’s work is to create jobs, attract productive investments, diversify Kenyan exports, and create linkages with the domestic economy (EPZA, 2014c).

Export Promotion Council, EPC

EPC is a state organ and premier institution in the development and promotion of exports. It was established in 1992 with the objective to facilitate exports and support producers of export goods and services in order to encourage and increase the performance of the export sector in Kenya. The purpose of EPC is to give an outward orientation of an economy with a primary inward focus and today, EPC is the focal point for export development and promotion activities. The EPC vision is “*to excel in positioning Kenya’s goods and services as products of choice in the regional and international markets*” (EPC, 2014a). The council collaborates with several private and public organs with main focus on its five core pillars; trade information and delivery service, export markets and product development, SME development, developing of exporting skills, and trade policy facilitation (EPC, 2014b).

Kenya Association of Manufacturers, KAM

KAM is a private sector body that pose as an essential link for cooperation, dialogue and understanding between its members and governmental authorities. It was established in 1959 and launched a new corporate image in 2009 with the pursuit of policy advocacy, promoting trade and investment, and encouraging, enhance and administer sound policies that facilitate a competitive business environment and reduce cost of doing business in Kenya. The organisation prioritise several industrial sectors, one of them is the textile and apparel. KAM’s

vision is “*to be a World-Class business membership organisation effectively delivering services to its members*”. The mission is to promote Kenyan manufacturers in a liberalised market and focus on innovation, responsiveness, effectiveness and resilience (KAM, 2014).

Ministry of Industrialisation and Enterprise Development, MIED

The purpose of the Ministry of Industrialisation and Enterprise Development is to promote and facilitate Kenyan industrialisation and transform the country into a globally competitive, regional hub in line with the Kenya 2030 vision (MIED, 2014a). The Ministry’s vision is “*to be a leader in catalysing a diversified, globally competitive and sustainable industrial sector in Kenya*” (MIED, 2014b). It is actively working with other actors within the sector to establish an enabling environment in which Kenya can become internationally viable. The main policy objective for MIED is to enhance the manufacturing sector in Kenya with focus on the two main drivers for economic growth, namely productivity and competitiveness (MIED, 2014c).

3.5 Quality of Research: Validity and Reliability

In this section, the quality of the research will be investigated in terms of validity and reliability.

3.5.1 Validity

“*Validity is the extent to which the research finding accurately reflect the phenomena under study.*” (Collis and Hussey, 2009 p. 65) Meaning, internal validity explains how well the findings match the reality. Merriam (1998) suggests six strategies to enhance internal validity: (1) triangulation, (2) checks, (3) long-term observation/repeated observations, (4) peer examination, (5) participatory/collaborative modes of research, and (6) researcher’s biases. Most of the validity strategies above are present in this study, except for long-term observation/repeated observations, which we were unable to perform due to the geographical distance and limited time frame.

The fact that the data is collected through different methods, i.e. so called triangulation, reduces the likelihood of misinterpretation, increases our

understanding and explanation, helps us clarify meaning by defining different ways the phenomenon is seen (Ghauri, 2004). When needed, we also requested additional data from interviewees and discussed interpreted results to ensure validity. Moreover, peer examinations have been done with supervisor and other students within the field of International Business.

Regarding researcher's biases, the fact that we are from Sweden affects the research in several aspects including the effects of cultural differences during interviews and observations as well as the pre-understanding for the business context in Kenya. Also, we have an undergraduate degree within Development Economics, creating a thorough foundation for understanding the situation in a developing country such as Kenya. However, we do not have any previous experience of the textile or apparel industry.

3.5.2 Reliability

"Reliability refers to the absence of differences in the results if the research were repeated." (Collis and Hussey, 2009 p. 64) Meaning, reliability refers to the extent to which the research finding can be replicated. In order for research findings to be reliable, a repeated study would give results that are consistent with the data collected. Meaning that if a researcher would repeat this study, the same results would be obtained. Using case study protocols and developing case study databases can obtain reliability, since it establishes authenticity of the findings (Collis and Hussey, 2009). The reliability of this research is probably rather low, since there is an on-going transition making it difficult to replicate this study.

4. Empirical Findings

This section presents the empirical findings of the study. It includes three different cases analysing the apparel industry in Kenya, China, and Bangladesh. The data concerning Kenya is both primary and secondary, whereas the data concerning China and Bangladesh consists of secondary data only.

4.1 The Case of Kenya

The republic of Kenya is a low-income country located in Sub-Saharan Africa. Its GDP reached a level of USD41 billion in 2012. In 2012, Kenya's population equalled 43.2 million people (World Bank, 2014a). According to World Bank data (2014a), its GDP per capita is steadily growing and reached a level of USD 940 in 2012 compared to USD 800 in 2011, which is equivalent to an annual growth of 1.8% and 1.6% respectively (ibid).

4.1.1 Kenya's Apparel Industry

Kenya became independent in 1963 and has implemented a lot of different policy regimes since then. According to Chemengich (2013), the country first implemented import substitution with high tariffs in order to enhance industrialization, and there was a substantial involvement from the public sector in production, manufacturing, and marketing. The policy lasted until 1986 and resulted in a booming cotton and textile industry. From 1986 until mid 1990s, the focus was on liberalization and privatization, and the public sector's support decreased. During this period, export-led growth orientation started (Chemengich, 2013). The liberalization process resulted in a decline for the cotton and textile industry, and the import of second hand clothes undermined the domestic production. In 1995, regionalization aimed to harmonize market policies. However, the effect on the decline in the industry was limited. In year 2000, globalization created interdependence of global markets and imports of second hand clothes increased (Chemengich, 2013). Around the same time, the US government implemented the African Growth and Opportunity Act, AGOA, that removes tariffs on a lot of products imported from Sub-Saharan African countries. The act includes a feature particularly with regards to the apparel

industry. Therefore, the implementation of this act resulted in a significant growth of the apparel export in Kenya as well as in other countries located in Sub-Saharan Africa. Due to increased growth of the apparel exports, there were a lot of enterprises that registered within the EPZs. These enterprises are either domestic or foreign, and they mainly produce low-price apparel. As the fabrics are imported, it is only the apparel assembly process that takes place in Kenya, and hence within these zones (Fukunishi, 2012). However, Kenya has a well-developed vision for the next-coming 16 years that includes finding a competitive edge enhancing the industrialization in the country. This project is called Kenya Vision 2030.

Kenya Vision 2030

In 2007, the Kenyan government adopted Kenya Vision 2030. The vision for the project follows: *“A national long-term development blue-print to create a globally competitive and prosperous nation with a high quality of life by 2030, that aims to transform Kenya into a newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment.”* (GoK, 2014a). It was launched by the government in July 2008. The Kenya Vision 2030 is built on the Economic Recovery Strategy for Wealth and Employment Creation that was successfully implemented between the years of 2003 and 2007 (GoK, 2014b). The project is anchored on three key pillars: economic, social, and political governance.

The economic pillar aims to increase the prosperity throughout the country and to increase GDP. In quantitative terms, *“to maintain a sustained economic growth of 10% p.a. over the next 25 years”* (GoK, 2014d). The social pillar aims to create *“a just and cohesive society enjoying equitable social development in a clean and secure environment.”* (ibid.) Hence, it aims to improve the quality of life for the Kenyan people through human and social welfare projects and programs. Focus will especially be on education and training, health, environment, housing and urbanization, gender, children and social development as well as youth and sports. The political pillar aims to develop as one nation with a democratic

system that is issue based, people centred, and result oriented and accountable to the public (GoK, 2014c).

In order to reach the objective with Kenya Vision 2030; macroeconomic stability, continuity in governance reforms, enhanced equity and wealth creation opportunities for the poor are required. There are eight key sectors that will undertake reforms that will be fundamental for Kenya Vision 2030. These key sectors involve macroeconomic stability for long-term development, human resources development, public sector reforms, and land reforms. Moreover, infrastructure, energy, science, technology, innovation, and security will be prioritized (GoK, 2014c). The project will be implemented in successive five-year medium term plans, MTPs. The first MTP covered the period 2008-2012 (GoK, 2014b). Kenya Vision 2030 is of great importance for the apparel industry, since it is stated that the textile and apparel industry specifically is a key contributor to the economic objectives due to its labour intensity.

Export Processing Zones, EPZs

In 1990, the Export Processing Zone Authority, EPZA, was established. It is a state corporation under the Ministry of Trade and Industry. The authority aims to promote and facilitate export-oriented investments (EPZA, 2013a). There are 47 Export Processing Zones in Kenya, whereof 45 are privately owned and two are public. The zones are geographically spread throughout the country and are located in 13 different counties. The county of Mombasa has the largest number of zones, followed by the county of Nairobi (EPZA, 2012). The Athi River zone has the highest concentration of enterprises with almost 50 per cent in 2012. Further, this zone has the highest employment and highest exports (EPZA, 2012).

In 2012, a quarter of the EPZ enterprises were wholly Kenyan, a quarter was joint ventures, and half of them were foreign investments. The apparel industry is the most dominant industry within the EPZ program. In 2012, the industry created roughly 80 per cent of total local jobs. The apparel industry contributed

with 45 per cent followed by agro processing at 16 per cent, and minerals/metals/gemstones at 10 per cent. Although, the apparel industry faces intense competition from particularly countries in Southeast Asia and has an issue of high production costs in Kenya, EPZ exports of apparel equalled USD 239 million in 2012, which constitutes 82 per cent of total apparel exports. The EPZ enterprises' share of apparel export has decreased, as it was equivalent to 90.6 per cent in 2011 (EPZA, 2012).

The growth of the zones has enabled the EPZ program to achieve its objectives of employment creation, expansion and diversification of exports, increase in productive investment, generation of foreign exchange earnings, technological transfer, and creation of linkages with the customs territory. The mission of EPZA is stated as follows: *"To enhance economic and social development in Kenya by promoting, facilitating and creating enabling environment for investments in Kenya's Export processing Zones and Special Economic Zones, SEZs."* and the vision is: *"A leading agency contributing to the socio-economic growth and transformation of Kenya into a global hub for investment and trade."* (EPZA, 2014b).

A recently developed aim of the zones is to encompass more economic activities by developing the EPZs to Special Economic Zones, SEZs. Strategies therefore include the transformation of the policy, legal, and regulatory environment of EPZs to SEZs, to enhance the impact of SEZ investments on local investors and communities, to expand the SEZs in Kenya, to improve corporate image and communication, to have effective investor facilitation programs as well as to have an active and efficient authority. Today, the EPZs are experiencing challenges such as inadequate infrastructure with poor transportation systems, high cost of electricity, unreliable water supply, and low level of business facilitation. Challenges to be addressed through the transformation from EPZs to SEZs (EPZA, 2009). Recently, it was also announced that the government has initiated a project of developing a 'textile city' within one of the EPZs that should

satisfy the demand from apparel manufacturers. The project will among other things involve spinning and production of fabric (Wahito, 2014).

4.1.2 Competitive Advantages and Disadvantages in the Kenyan Apparel Industry

There are several advantages and disadvantages in the Kenyan apparel industry. The country still suffers from infrastructural shortages due to its status as an less developed country. However, recent industrial improvements have enabled advancement in several crucial areas for the establishing of a fruitful apparel industry.

A prioritized industry with good business ethics

Recently, the government decided to prioritize the textile and apparel industry. The private actors put pressure on the government that resulted in the decision that the industry needs to be prioritized in order to develop its full potential (Wairiuko³, 2014). The government is responsible for the creation of employment and by prioritizing the textile and apparel industry they will probably be able to target their ambition in terms of creation of employment as the industry is highly labour intensive both horizontally and vertically (ibid.).

Another important area for the Kenyan government is to persuade the American congress to prolong AGOA after 2015. AGOA creates an exceptionally good opportunity for the African countries. It allows a duty preference that is ranging between 16-37 per cent, which is quite substantial (Chifallu⁴, 2014). The AGOA has been crucially important for several African countries since the phase out of the Multi Fibre Agreement, MFA, in 2005. The increased competition from Asian LDCs was somewhat limited due to the preferential conditions AGOA provided for the African countries (Chemengich, 2010). AGOA revived the textile and apparel industry in Kenya. The implementation of AGOA resulted in the set up of business by foreign investors in the region as well as long-term sourcing from the region. For example, many Asian firms reallocated some of their business to get preferable access to the US market (ibid.). However, the fact that AGOA

³ Interview with Joseph Wairiuko, KAM

⁴ Interview with Jonathan Chifallu, EPZA

expires in September 2015 does not support investments as it creates uncertainty regarding the future of the textile and apparel industry in the region. There are on-going negotiations regarding the extension of AGOA, but nothing is settled so far. If an extension for 10-15 years is managed it will create confidence in the industry's future, which will enable investments that will enhance the creation of linkages and fabric could be produced locally (Magwaro⁵, 2014). The uncertainty of AGOA also puts pressure on the actors on the Kenyan market to diversify their business in order to become less vulnerable and not only dependent on one market (Chifallu, 2014; McCormick⁶, 2014).

Although very dependent, AGOA is currently the key to a sustainable apparel industry in Kenya and therefore important. If not extended, it will heavily affect the textile and apparel industry as this most likely would result in an expansion of this industry in Asia. Therefore, there will be no incentive to deepen the cotton-textile chain in Sub-Saharan Africa (Chemengich, 2010). AGOA has been very beneficiary for the Kenyan apparel industry and has developed the industry in a way that would probably not have been achieved without the preferential access to the US market. However, it has made the industry very vulnerable and it has developed a competitive industry based on policy advantages rather than firm-level advantages: *"... Kenya's textile and apparel exporters will need to develop a business advantage over their competition based on firm-level advantages, rather than advantages offered by US trade policy."* (USAID, 2012 p. 9). Hence, Kenya has to decide how to reduce costs or how to differentiate to products where it can create a competitive advantage and make its apparel industry sustainable without relying on certain markets.

Another mean to make the Kenyan apparel industry strong and sustainable is to pursue ethical production. The business ethics within the textile and apparel industry in Kenya are good. Although, the industry is facing a lot of challenges world wide in regards of environmental issues, child labour, low wages, and poor

⁵ Interview with David Magwaro, MIED

⁶ Interview with Dorothy McCormick, University of Nairobi

working conditions, the initial development of the industry has been very successful and the country has managed to produce ethically (Wairuko, 2014). As Wairuko (2014) expressed himself: *“We do not corrupt our compliance so that we can be competitive with China. It’s better to go slowly and that we are sure that all that is being manufactured is being done so in a holistic and ethical manner.”*

Dependency on third-country fabric

One of the main challenges for the apparel industry in Kenya is that the manufacturers have to import the fabric and accessories used for producing apparel. The imports are mainly from Asia. There is some production of fabrics in Kenya, but the main reason for importing is that these products do not meet the requirements of the buyers, especially not in terms of quality (McCormick, 2014). Folkunger⁷ (2014) highlights that this requires the manufacturers to plan their production in detail and to plan long time ahead the start of a production. Moreover, it affects the competitiveness of the apparel industry in Kenya compared to the apparel industry in countries such as Cambodia and Vietnam (KAM, 2014).

Therefore, there is a need to set up fabric manufacturers within Kenya and to develop the entire value chain. If this were to be done, the cost of fabric would be reduced and it would support the growth of the local economy (Ndungo⁸, 2014). The industry would also be able to increase its speed to market (Arora⁹, 2014). However, at the moment there is a lack of investments into the lower value chain. Due to the vast investments required for a textile mill, it is very difficult to attract investments to this part of the value chain. To attract investment to manufacturing units is much easier, because a manufacturing unit can be packed and shipped away overnight (McCormick, 2014). Chifallu (2014) believes that an improved legal structure is crucial in order to support this kind of investments. He further argues that vertical integration is a matter of time.

⁷ Interview with Fredrik Folkunger, Embassy of Sweden Nairobi

⁸ Interview with Jane Ndungo, EPC

⁹ Interview with Rajeev Arora, ACTIF

The initial costs are very high, but after time when it gets efficient and productive and one can handle big volumes then the benefits will be awarded.

Infrastructural challenges

Even though a lot of improvements have taken place recently, there are infrastructural challenges in Kenya (Arora, 2014). There are substantial shortages in terms of energy and in terms of roads and ports. The challenge of electricity is of great concern for the different actors on the market (Chifallu, 2014; McCormick, 2014; Magwaro, 2014; Pettersson¹⁰, 2014). The electricity is too expensive and outages are frequent, causing cut downs on efficiency (McCormick, 2014). In order to be able to develop the textile and apparel industry, there is a need to reduce the energy costs (Chifallu, 2014). Currently, there are negotiations between the government and the private actors. The private actors are striving to make the government promise that the energy costs will go down within the next three years (Wairiuko, 2014). MIED has agreed on investigating whether it would be possible to subsidize some specific sectors. As the apparel industry is very labour intensive and benefits the economy and its society, a subsidy might be possible for the apparel industry (Wairiuko, 2014).

In terms of roads and ports, barriers have been removed along the corridors, bypasses have been built, the port in Mombasa has been dredged, and other ports are being developed as well (Wairiuko, 2014). According to McCormick (2014), the infrastructure is being improved, but it is improving slowly, especially in terms of roads. Since the majority of the fabric, trimmings, and other inputs to the textile and apparel industry are imported there is a lot of transportation of these goods and poor infrastructure that affects lead-time and speed to market, which have negative impact the industry. As McCormick stated: *“If you have your industry in Nairobi you usually are importing fabric that comes in through the port in Mombasa and it takes as long or longer to get from Mombasa*

¹⁰ Interview with Robin Pettersson, Business Sweden

to Nairobi as it does to get say from China to Mombasa.” An expression that highlights the result of poor infrastructure.

Nevertheless, the logistically strong port in Mombasa is a substantial contribution to the industry’s development (Nyagari¹¹, 2014). It enables excellent connectivity to the rest of the world, which is a great advantage for the textile and apparel industry as well as for other industries (Bedi¹², 2014). The development of the Northern corridor as well as the Lamu Port and Lamu-Southern Sudan-Ethiopia Transport Corridor, LAPPSET, are important improvements being developed. There are also a new terminal built at the Jomo Kenyatta Airport, a new railway is being built, and improvements are taking place in the different Kenyan ports (Pettersson, 2014). Moreover, Information and Communication Technology, ICT, as well as transportation are very good in Kenya and the country is ahead in these areas compared to its neighbouring countries (Magwaro, 2014; McCormick, 2014).

High cost labour force

Another cost that is of great concern for the industry is the cost of labour (Folkunger, 2014). Apart from the fact that wages are high there are also ceremonial wage increases every year, which means that the manufacturers receive lower margin every year (Ndungo, 2014). As it is a labour-intensive industry, the wage is a variable that has huge impact on the final product, and hence, a challenge that needs to be reviewed (Arora, 2014). In order to cope with those high wages, there is a need to increase the productivity. A strategy of how to increase the productivity as well as the culture of how to do business is required for future development (Chifallu, 2014). Consequently, the high electricity costs together with the high labour costs leaves Kenya with very uncompetitive prices (Ndungo, 2014).

Concerning the labour force, there are also challenges in regards of educational level and skills. Overall, Kenya has a well-educated labour force, but if looking at

¹¹ Interview with Joseph Nyagari, ACTIF

¹² Interview with Jaswinder Bedi, Bedi Investments

management level the appropriate education and skills are not available within the country. Therefore, there are expatriates at management level (Nyagari, 2014). There are especially high-level technical skills that are not available (McCormick, 2014). Moreover, the right skills within middle management, merchandising, factory management, supervision, and quality control are not either available (Chifallu, 2014). Therefore, employees at these positions are foreigners. These employees are usually of the same nationality as the owner of the factory if it is foreign-owned. The fact that the investors cannot get the skills in the country, rather bring it in from their country of origin, affects the costs as they have to pay the wages of their country of origin, and there are also other costs involved in employing expatriates (McCormick, 2014).

Chifallu (2014) argues that if one wants the textile and apparel industry to grow there is a need to establish professional training institutes. He further refers to some Asian countries that have established these kinds of institutes and how that has resulted in that trained labour with skilled expertise for the sector is easily available there. The fact that there are no good career paths for young interested workers hampers the willingness to education within the textile and apparel industry, which has to be changed if aiming to increase the level of expertise in the country (McCormick, 2014).

Even though expertise and skills at management level is not present, there is a large trained labour force (Arora, 2014). If comparing with the neighbouring countries, it is a big difference in skills and the productivity is therefore approximately 30% higher in Kenya compared to these countries (Bedi, 2014). In terms of productivity, Folkunger (2014) stresses that the wages and working conditions are giving incentives to the workers to increase their productivity in order to decrease time at work. According to Chifallu (2014), the labour force is easily trained and very adaptive and productive. Ndungo (2014) supports the attribute of being adaptive as well. She highlights the flexibility of the producers in terms of industry requirements, buyer requirements, and

consumer requirement, and argues that this flexibility and attribute of adaption contribute to the Kenyan textile and apparel industry's competitiveness.

The importance of changing the perception of Africa

The challenges discussed so far have been tangible, but another challenge that is of great importance to tackle is the intangible challenge regarding the mind-set and the perception about Africa (Arora, 2014). Many people associate African countries with poverty and conflicts, and therefore get very surprised when visiting these countries. In general, the perception of Africa is 30 years behind its actual development. For example, the main challenge for Business Sweden is to change the perception of these countries (Pettersson, 2014). According to the manager of Ricardo Investments, Richard Ndubai¹³ (2014), it is a lot easier to deal with the Americans now than dealing with the Europeans, because the Europeans are still striving to increase their confidence and trust in Africa.

To conclude, despite the main challenges discussed, there are also some other challenges that have been briefly discussed during the field research. This includes lack of support from the government and a high level of bureaucracy (Folkunger, 2014) and political instability (Arora, 2014). Also, cost of finance, cost of logistics (Arora, 2014), and lack of upgraded technology that requires investments to upgrade textile machinery as the current one is obsolete (Wairiuko, 2014). Moreover, other competitive advantages mentioned during the discussions were a very high degree of entrepreneurship and an entrepreneurial spirit (Pettersson, 2014), an excellent location for exporting to Europe (Chifallu, 2014), and a good opportunity and potential to develop the entire value chain (Chifallu, 2014).

4.1.3 The Evolution of a Full Apparel Value Chain in Kenya

Low costs and short lead times are the two most prominent features when analysing the attractiveness of the textile industry of today. Consumers are demanding shorter delivery times and price sensitivity is high due to fierce competition. Establishing a full value chain within the textile and apparel

¹³ Interview with Richard Ndubai, Ricardo Investments

industry in Kenya is therefore of outmost importance in the ambition of becoming a competitive sourcing destination.

Governmental agencies are effective but segregating

Establishing a full value chain is important, however, the progress is slow and many steps remains unutilised still. One of the hampering reasons has been that the Kenyan government has not looked at the apparel industry as a whole for many years and there has not been enough effort put on connecting the different parts of the link (Arora, 2014). According to Rajeev Arora at ACTIF (2014), focus has instead been on instant results, which, for example, has severely damaged the cotton farming with no regeneration. However, this is changing. The government has realised that the sector needs to be prioritized and this is a very good sign. The textile sector has been strongly promoted by the government during the last couple of years and much effort has been put on establishing specialised ministries with different responsibilities within the industry (Ndungo, 2014). One of those is the Cotton Development Agency, CODA. This poses a signal that the government is aware of the fact that reviving the cotton growth within Kenya is a major part of creating a full and strong apparel value chain (Arora, 2014). This will in turn will create renewal and hopefully encourage a new generation to pursue cotton farming and weaving, which will make the sector will grow stronger (Ndungo, 2014). Establishing a strong foundation in the lower part of the value chain is expected to generate productive spin of effect throughout the whole industry.

The creation of specialised ministries is also a step in the ambition of enhancing information gathering and knowledge transfer within the sector. The different departments are experts in their fields and can pursue lobbying and policies with specialised target. This in turn will create more focused actions without a too rigid top-down governmental control. However, having separate departments for different areas is also somewhat segregating. The different ministries work separately and only handle projects within their jurisdiction, which hamper the ability to see the apparel industry as a whole (Ndungo, 2014). Rajeev Arora at ACTIF continues on that note, *“We want the government to have a more*

integrated view on the industry. Some components of the industry is dealing with the Ministry of Agriculture, some components are dealing with the Ministry of Industrialisation some the Ministry of Finance. These disjointed policies are the ones that have been affecting the sector” (Arora, 2014). To see and fortify the links between all the different parts of the apparel industry is of outmost importance and also the main challenge for the development of a full apparel value chain within Kenya. All parts of the chain must be linked to each other so that investments made could be transmitted to all parts of the industry. It is crucial to make sure that the upper parts of the industry are well connected to the lower parts, all the way down to cotton farmers (Olweny¹⁴, 2014).

The weak backward linkages are enhancing the perception of instability within the industry, which has had the effect that investments are not being made in the lower parts of the value chain, like cotton growing and ginning. This in turn impedes the possibility of increasing volumes in the upper parts, which is very much needed since lower volumes make average costs high and the industry cannot benefit from economies of scale (Olweny, 2014). However, Olweny continues with stating that they have noticed that investments in backward linkages are being made, but there is still a long way to go. Several stakeholders within the Kenyan apparel industry support this opinion and underpin the importance of strong linkages and that actions are being taken. Jonathan Chifallu at EPZA (2014) is proud to say that they are now cooperating with several of the others, such as ACTIF, CODA and the Ministry of Agriculture in linking up the value chain.

Political will is essential for value chain creation

Most stakeholders in the apparel industry agree upon that the responsibility of building the value chain lies within the Kenyan government. As stated above, much has been done to facilitate the instituting of the different parts from the governmental perspective. This signalise a much-needed political will. A political will to be a self-supporting textile producer. *“If you look at other countries, there*

¹⁴ Interview with Hesbon Olweny, CODA

was always an element of political will. In India, they had the textile-upgrading fund, which allowed people in the textile industry to upgrade their plants and equipment to a better quality at low governmental prices” (Chifallu, 2014). Still, there are several areas that are lacking behind. Chifallu means that the government should be responsible to boost the infrastructure and come up with policies to attract investments, which are two very weak areas in Kenya at the moment. He continues with suggesting that the government should enforce policies with the objective to attract the leasing of land for example. This could in turn create consortiums of cotton farmers that could form a strong base.

Another challenging area for the apparel value chain is the wage level, or the uncertainty of the wage levels in Kenya. The yearly ceremonial wage increases makes it hard to plan for future expansion in every sector of the value chain (Ndubai, 2014). The wage level in the country is often mentioned as one of the main challenges for the establishing of a full value chain within Kenya. Still, the political ambition to reinforce the apparel industry is clear to see. What is lacking is rather a decisive and substantial strategy that spans over the entire industry. The government needs to support the infrastructure, especially electricity, and have a more cohesive strategy for the wage level in Kenya in order for the apparel value chain to be strong and sustainable (McCormick, 2014).

The neglected middle part of the value chain

Although there are different opinions regarding what part of the value chain is the weakest, several agree upon the fact that the middle part, namely fabric, has been somewhat neglected (McCormick, 2014; Chifallu, 2014). Arora (2014) means that the textile side has gotten far too little attention over the years. *“You find that a lot of work is going to either the production side, which helps the farmers once in a while, or the end side, which is the EPZ, but always neglecting the middle of the value chain.”* McCormick (2014) agrees that it is the fabric production that is lacking the most, which in turn affects the whole chain. She argues that the fabric to some extent creates the full value chain and that fortifying that part would diminish some of the scepticism toward cotton

farming that many Kenyans feel. She gets support from Wairiuko (2014), who agrees that the weakest link is the fabric, and more specifically the spinning and weaving, mainly due to obsolete machinery. The out-dated equipment results in unutilised capacity that in turn hampers the progression of a sustainable value chain.

China is currently the main beneficiary of AGOA

The domestic production of fabric is an area where the Kenyan apparel industry really needs to speed up. Partly because of the reason of becoming competitive with regard to lead times but also because much of the profit associated with AGOA is actually leaving the country. Chifallu (2014) illustrates this in stating that AGOA is probably the best thing that has happened for China. *“We feel that AGOA is not quite having the impact it should have because of one component – China. According to the Americans, the US gives Africa the benefit of access to the American market but the main beneficiary is China”*. This is due to the fact that the vast majority of the fabric manufactured in Kenya is sourced from China. So in order to build up all the parts of the value chain, Kenya needs to put emphasis on starting producing its own fabric. This in turn will create some stability, which is crucial for the very needed investments throughout the entire chain (Chifallu, 2014). This problem is acknowledged and effort is being put on bringing investments into the spinning and weaving and the Kenyan government has given the notion that there will be a fully integrated textile sector within a few years (Wairiuko, 2014).

Regionalisation to enhance competitiveness

Although several actors within the Kenyan apparel industry work on a national basis, there are also widespread endeavours for creating a regional value chain. According to McCormick (2014), there has been a move towards regionalization within several areas of the value chain. The development is still slow, but it has a clear objective of realising competitive advantages within the different countries in the East African Community, EAC. One of these areas is cotton farming, where countries in the region can cooperate, utilising their competitive advantages. For instance, Ethiopia has a better water and electricity supply that enables fabric

production in comparison to Kenya. This could then in turn help Kenya focus on manufacturing and more skilled activities within the value chain. Kenya has originally been an apparel manufacturer destination in the region and it still supplies a lot of goods to the region in terms of apparel manufacturers (McCormick, 2014). Therefore, the skill already exists and can be utilised in a more effective manner with this regional approach.

Another is electricity supply. Ethiopia for example has a much more efficient electricity supply with costs that are half of the ones in Kenya. Being able to transfer electricity between the countries would therefore reduce costs along the entire chain and benefit the end product in terms of competitiveness (Pettersson, 2014). This requires strong linkages between actors in the region. Organisations, such as ACTIF, are established just for the purpose of bringing the East African countries together in these questions. There is no regional competition amongst the countries in the EAC, rather the opposite. Therefore, ACTIF actively work with creating a network between strong national actors within the countries with the aim of linking them closely together (Arora, 2014).

One of the activities pursued by ACTIF is the building of information platforms from which members can share and spread knowledge a much needed factor in the endeavour of a strong regional value chain. *"We realised that there was a gap, countries was not even talking to each other and we find that linking up is a path to developing."* (Nyagari 2014) The organisation is a firm believer in that strong linkages between different parts of the value chain in different countries are the way to succeed (Arora, 2014). Still, there is a lot to do in terms of regional integration. Pettersson (2014) has seen some progress in that area but is also very clear that there is still a long way to go. Taxes need to be harmonised, policies and regulations need to be established and consistent import duties. The region also has to become more homogenous. Efforts with regional visas and such have been made, but it is still very heterogeneous (Pettersson, 2014).

4.1.4 Future Objectives for the Kenyan Apparel Industry

As discussed above, much has been done to enhance the competitiveness of the Kenyan apparel industry. However, the progress is slow in several areas and there are still substantial changes and improvements to pursue.

Differentiation of markets

As of today, Kenya is heavily dependent on the US market due to AGOA. This makes the sector very vulnerable to potential downfalls in the American economy. One way to reduce the dependency is to start producing for the domestic and regional market. This is an area where the country can see some expansion and some efforts have been made, however the progress is slow (McCormick, 2014). Today, there are mostly uniforms to social institutes in Kenya and neighbouring countries. However, this initiative could easily include more products and be the beginning of a more diversified and strong foundation for the Kenyan apparel industry, and the economy at large (Ndungo, 2014).

There is an initiative called 'Buy Kenyan, Build Kenya' that aims to promote the locally produced apparel. This initiative highlights the positive synergy effects with supplying the domestic market, both in terms of environmental issues, but also, as stated above, the indigenous economic growth (Lubanga¹⁵, 2014). "*Buy Kenyan, Build Kenya*" state that all public procurement entities should procure local textile and apparels in line with the Revised Preference and Reservations Regulation 2013 (Wairiuko, 2014). The importance of the domestic market is supported by the EPZA. Although these zones are focusing on exports, efforts are being made to transform some of them into SEZ where factories can produce for both domestic and international markets (Chifallu, 2014). Still, today the domestic and regional demand is very limited due to high prices and a widespread second hand market (Wairiuko, 2014). However, if the second hand market could be regulated, much indicates a successful forming of a strong domestic and regional retailing (Chifallu, 2014).

¹⁵ Interview with Fanuel Lubanga, CODA

A difficulty for the textiles and apparel industry in Kenya and its future is the lack of integration between the different actors along the value chain. There is a need to integrate these different actors and to strengthen the relationship among them (Lubanga, 2014). Ngwaru (2014) also believe that the cooperation among private and public actors are crucial for the development of the industry. McCormick (2014) argues that the integration of the different actors will make their agenda more coherent and give rise to a more proactive approach, which McCormick believes is in contrast to the current situation: *“I think the government does tend to react rather than plan ahead in some area”*.

Trade agreements and investments

AGOA has substantial effects on the apparel sector, throughout the whole production. The limited time frame increases the impression of instability, which hampers potential investments in all areas. Although most actors are aware of the dependency issue, it is not an option to phase out AGOA at the moment. A renewal of AGOA with a longer time horizon, approximately 10-15 years, is of great importance for the future of the Kenyan apparel industry (Bedi, 2014; Magwaro, 2014; Chifallu, 2014; Arora, 2014; McCormick, 2014). Longer periods will establish confidence in potential stakeholders that will invest in the sector. This will create a positive spiral of domestic sourcing and enable establishing of own fabric production, as one example (Wairiuko, 2014).

Also, the ambition to become a substantial player on the European market is constant. Although the market is dispersed and do not generate huge volumes, compared to the US market, it is attractive due to the higher prices (Chifallu, 2014). Negotiations of establishing a European long-term trade agreement are being made and will hopefully be reality in a few years (Bedi, 2014; Magwaro, 2014; Chifallu, 2014; Ndungo, 2014). This will also decrease the dependency on the US market and spread the risk of exports.

Another obstructing issue for investments in the sector is the perception of Kenya, and Africa as a whole. Developed countries in Europe and US still have a somewhat obsolete picture of Africa being very undeveloped. This is of course

true for some areas and especially for some countries, but it is important to see the difference between countries in Africa (Arora, 2014). Kenya as such has great potential with entrepreneurial spirit and a long history of being industrialised (Bedi, 2014). Being able to pursue this image to the developed west will probably increase these countries' propensity to invest and establish long-term trade relationships with Kenya (Nyagari, 2014).

Regionalisation and value chain creation

Effort is being put on vertical and horizontal integration within the sector. The benefits of a wholly developed value chain are clear, with lowered costs and lead-time as the two most prominent. The government has realised that the linkages, both forward and backward, within the sector will create positive spill-over effects on the whole economy with knowledge and technology sharing (Wairiuko, 2014; Lubanga, 2014). However, it might be more fruitful for Kenya to focus on joint efforts on a regional basis where the East African countries can contribute to the apparel value chain in areas where they have competitive advantages (McCormick, 2014). This will decrease the pressure on one single country and also increase regional integration, which as stated above will have positive effects on a diversified export market (Ndungo, 2014).

Another important strategy for the future is to establish policies to promote indigenous investments in the apparel sector. This is something that will create sustainability and stability in the sector, since domestic investors are more committed and prone to stay in the country even during more complicated circumstances. This is for example seen in Bangladesh, where local manufacturers are now the majority owners (Chifallu, 2014).

Counteract high costs of energy and labour

At the moment, Kenya is struggling to be competitive on price. The price of manufacturing in Kenya is very high, especially in terms of energy and labour costs. KAM's remedy to the Kenyan Government suggests that there should be no wages increment for the next three years (Wairiuko, 2014).. This is crucial since the industry is highly labour intensive and due to the fact that there are already

high labour costs in Kenya. Therefore, the government should stop the ceremonial wages increases that occur during the Labour Day every 1st of May. As the government aims to increase the employment, the ceremonial wage increases need to come to an end (Chifallu, 2014; Lubanga, 2014). Further, it has a negative effect on the textiles and apparel industry's competitiveness. An example that highlights the high labor costs in Kenya is when comparing the wage of a sewing operator in Kenya and Ethiopia. In Kenya, the monthly wage equals approximately USD 165, whereas it equals approximately USD 45 in Ethiopia (Wairiuko, 2014). On the other hand, comparing labor costs with other countries is difficult as different countries are on different parities. Kenya cannot reduce the wages, but except hindering ceremonial wage increase in the future, one can oversee how to increase productivity and how to improve the culture of how to do business (Chifallu, 2014).

Moreover, the cost of energy is a huge proportion of the production costs, and is not reasonably priced. The Ministry of Industrialization and Enterprise Development has a target to bring down the energy costs. The textiles and apparel industry is a prioritized sector, and the energy is a prioritized sub-sector as it is very important for the country's export drive as well as for implementing accreditation (Magwaro, 2014). In Kenya, the cost of electricity is USD 0.22 per KWH, whereas it is USD 0.022 in Ethiopia. Wairiuko (2014) suggest that the government should give subsidies to the actors within the textiles and apparel industry in order to rescue the industry and enable the development of the full value chain. The suggested time frame for this subsidy is four years. By subsidizing the industry and enable its development, a number of new jobs will be generated. The additional revenue the government will receive through taxes would finance the subsidies offered to the sector. There will also be other revenues obtained due to improved welfare.

Wairiuko (2014) further argues that the issue of energy is the most prioritized sub-sector, since it has such a huge effect on the industry and for the development of the value chain. It will be extremely difficult for Kenya to become

competitive if the energy costs remain at such high levels as it has reached today. If one will be able to attract investments to the energy sector, it is believed that energy costs will be brought down to reasonable levels within three years.

Socially responsible production

The issue of price has been the main determinant for the global shifts of the textile and apparel industry. Most recently, when the prices in China started to increase companies started to move to Bangladesh. However, that shift has not been without constraints. The textiles and apparel industry in Bangladesh has received a lot of medial criticism due to fatal accidents and poor working conditions. Therefore, the buyers have lost their confidence in sourcing from Bangladesh, as there are both social and economic issues there. Today, the demand is for a sustainable supply chain and people do not want to buy apparel that is not manufactured in a socially responsible manner. This development has created an interest in Africa and in East Africa in particular (Bedi, 2014).

McCormick (2014) agrees on the suggestions provided by Bedi. She believes it is the unsafe conditions that are the greatest concern in Bangladesh, conditions she has not experienced in Kenya. The workers may be required to do overtime in Kenya, overtime that is only sometimes paid, because the workers are given a target no matter how long it takes, the target should be met in the end of the day. This might result in people having to work a few extra hours without compensation. So that is certainly an abuse, but not in terms of the physical surroundings and the factories themselves (McCormick, 2014). Wairiuko (2014) highlights that they ensure that all their members are compliant to certain standards and that their operations do not cause any social hazards. Moreover, he argues that the production in Kenya is environmentally conscious.

The interviewees that raised the issue of socially responsible production all argued that the Kenyan actors are all very compliant when it comes to social responsibility (Chifallu, 2014; McCormick, 2014; Wairiuko, 2014). Further, they believe that is the reason for Kenya becoming a new sourcing destination for textiles and apparel. Since Kenya is not competitive on price, social responsibility

might be a competitive advantage increasing the competitiveness of Kenya as a sourcing destination for the industry.

4.2 The Case of China

The People's Republic of China is an upper middle-income country (World Bank, 2014b). According to World Bank data, its GDP equalled USD 8.227 trillion in 2012. In 2012, China had a population of 1.351 billion people with a GDP per capita USD 6,091 compared to USD 5,447 in 2011 (ibid). This indicates an annual growth of 7.3% in terms of GDP per capita in 2012, meaning a reduction of 2011 year's growth of 8.8% (World Bank, 2014b).

4.2.1 China's Apparel Industry

During the first decade of the new millennium, the Chinese textiles and apparel industry have experienced a lot of changes. In 2001, China became a member of WTO, and thereby, committed to lowering tariff rates, opening its domestic market, granting trading rights to qualified enterprises and individuals, and providing access to foreign-funded retailers interested in doing business in the country (EC, 2005). So far, China has followed the commitments in accordance with the agreement.

Today, China is the world's biggest producer and exporter of apparel and textile. Moreover, the country is a potential buyer and importer as it is a fast-growing market. China itself as well as the world market have benefited from the opening of China's domestic market. China is involved in almost all parts of the textile and apparel value chain. 80% of the production of apparel is clustered around the coasts (ITC, 2011).

So how did China manage to become the world's largest exporter of textiles and apparel? It is the liberalization of the production and export regime and tremendous increases in production capacity that are the main reason for China's impressive performance within the industry. The elimination of quota price premiums and high price competition has created downward price pressure. A lot of attention has been submitted to the fibre processing industry,

which has integrated the value chain of the apparel and textile industry, and thereby, become one of China's key competitive advantages. In the upper part of the value chain, the capacity has increased, which has enhanced efficiency and quality of production (EC, 2005). Hence, there is a huge variety of fabric available for producing apparel.

In the beginning of the 1990s, the government funded a restructuring program that revived the textiles and apparel industry that prior to the restructuring program mainly involved unprofitable, indebted state-owned companies. The government provided public funds to enable the industry to upgrade the technological level. The different measures provided by the government together with the improved economic situation in the country made it possible for China to become the world's largest exporter of textiles and apparel (EC, 2005).

Improved efficiency and productivity is a result of the upgraded equipment that was initiated under the ninth and tenth five year plans (1996-2000 and 2001-2005), which are restructuring processes that were subsidized by the Chinese government (EC, 2005). The 11th five-year plan's focus was to optimize and upgrade industrial structure by strengthening the technological capability of the industry. In 2006, several development strategies were outlined that encouraged further restructuring of the industry as well as upgrading of technology. In the same year, the government proposed three policy objectives aiming to maintain the competitiveness of the industry (Stewart, 2007). The objectives were to enhance the industry's independent innovation capacity and developing brand names on the world market, to optimize the industrial structure and upgrading technologies and equipment of the industry, and to restrict inefficient, polluting, and energy-wasteful production facilities.

There are also benefits available locally for textiles and apparel companies that are supported by sub-central governments. These benefits include monetary awards, loan interest subsidies for technology renewal, and preferential treatment in land use and energy use as well as tax incentives. The monetary awards have primarily been contingent upon export performance and brand

development. Industrial parks are also set up giving tax benefits, preferential treatment in land use and administrative fees (Stewart, 2007).

The Chinese government has actively encouraged the textile industry to implement upgrading strategies in terms of investments in capital equipment. The textile industry has experienced gradual consolidation and concentration, which is partly driven by buyers. It is a pull effect that is due to the demand for large suppliers with large capacity and efficient operations. The apparel industry is one of the most liberalized industries in China, and is more or less entirely deregulated. Even though, the state is still an important shareholder in the textile industry, it has gradually disinvested from the apparel industry (EC, 2005).

4.2.2 Competitive Advantages and Disadvantages in the Chinese Apparel Industry

The four main competitive advantages of China's apparel and textile industry are: price, quality, costs, and the entire value chain. High competition has decreased margins and resulted in good prices. The quality is comparatively high and represents good value for the buyers. In 2005, the costs were still low due to low labor costs as well as factory and land costs (EC, 2005). The fact that China has the entire value chain within the country is an excellent opportunity for them, since it increases the flexibility of the producers and enhances their potential to meeting the buyers' requirements. International retailers believe main advantages with sourcing from China involve proximity to market, economies of scale, and low processing costs (ICT, 2012).

Prices

The Chinese government has prioritized the apparel industry and a lot of intervention has been made as discussed in previous sections. The elimination of the export quotas has had a significant impact on the development of the industry. Even though, production costs have increased, producers still had relatively good margins on their production due to the elimination of these quotas. However, the increased competition resulting from the elimination of quotas has decreased the margins for the producers compared to the margins before quota elimination (EC, 2005). Therefore, producers are selling their

productions with extremely small margins in order to gain market share and survive.

Quality

The fact that Foreign Direct Investments, FDIs, have been crucial for China's development within the apparel and textile industry as it resulted in improvement of product standards and technology. High amounts of FDIs and technical expertise have been attracted to the Chinese market in the last decades. This has enabled the production of value added product, which has resulted in higher margins within the industry (Biselli, 2009). A disadvantage with this development is that more complex technology will require more qualified workers, which will then reduce labour cost advantage in the future. Although, it has been beneficial for buyers as the Chinese producers have been able to meet their requirements in terms of quality.

Costs

Even though costs in general are increasing in China creating a global shift of production, particularly seen in the apparel industry, costs are comparatively low (EC, 2005). However, there is a growing concern for the future in terms of costs for labour, factories, and land (The Economist, 2012). Furthermore, domestic raw material inputs reduces costs compared to if they would have imported the fabric as well as other inputs that they can now purchase domestically.

Full Value Chain

One of the main advantages of the apparel industry in China is that the country has been able to develop the full value chain. Therefore, the producers have a high level of flexibility, and hence, have the ability to meet buyer requirements in terms of product specification, quality, and quantity. Moreover, the presence of the full value chain minimizes lead time (EC, 2005). Furthermore, lead times are competitive due to good and accessible infrastructure and logistics.

4.2.3 Future Objectives for the Chinese Apparel Industry

The future prospects for China's apparel industry involves positive aspects such as an increasing domestic consumption, increasing productivity, a large and flexible pool of labour that is appropriate for seasonal industries, and an sophisticated value chain that creates reliability and availability (The Economist, 2012; Zakkour, 2014).

On the other hand, there are also some challenging aspects that need to be combatted. Due to increasing costs of production, companies have started to look for new sourcing destinations, putting pressure on the Chinese apparel industry. The increased production costs are in particular due to increased wages, which primarily depends on improved technology that requires a higher level of skills for the labour force (The Economist, 2012). Even though, labour costs are of the greatest concern, there is also an increasing concern in terms of land prices, environmental and safety regulation, as well as taxes for the future (The Economist, 2012).

In order for China to stay competitive and develop its apparel industry, it needs to move up the value chain. Meaning that the country has to produce higher value-added products where they have a comparative advantage (Zakkour, 2014). If China would like to maintain its competitiveness within the apparel industry, innovation is the key to success. Being innovative would involve creating designs, make on demand, and venturing into higher technology components (Zakkour, 2014).

Moreover, China is trying to liberalize other sectors and increase these sectors' contribution to their economic growth. For example, they are trying to achieve this by the Shanghai Free Trade Zone, FTZ, where certain sector are going to be liberalized in order to enhance economic growth (Yang, 2014). Hence, Chinas has reaped the benefits of the apparel industry and the industrialization of the country enhances the development to other, more complex industries.

To summarize, technology and innovation capacity development have been the key targets for the Chinese government's strategies for the textile and apparel industry. Since the industry is labour intensive, and hence, is very beneficial for the Chinese economy in terms of employment, the government has been very keen to support the textiles and apparel industry by excessive funding and tax incentives in order to enhance the development of the industry and to keep it competitive globally.

4.3 The Case of Bangladesh

The republic of Bangladesh is a low-income country located in South Asia. According to the World Bank (2014c), Bangladesh had a GDP of USD 116 billion in 2012. Currently, the country has a population of 155 million people and a GDP per capita of USD 752, compared to 732 in 2011 (World Bank, 2014c). Annual growth of GDP per capita was in 2012 5.0%, slightly lower than the equivalent number in 2011 of 5.5% (ibid).

4.3.1 Bangladesh's Apparel Industry

Bangladesh has a long history of being an apparel manufacturer. In the late 1970s, East Asian manufacturers started sourcing from Bangladesh. This as a result of the MFA quota with the aim to benefit from the country's abundant low-cost labour supply. The sector has since grown strong and clothing exports now represent 80 per cent of total exports from Bangladesh (Staritz, 2011). The country's main advantage is still the low wages, but also the fact that much of the sector is locally owned (Banerjee Saxena and Salze-Lozac'h, 2010). The MFA, foreign investments and preferential market access to both the US and the EU have played a central role in this development. In addition, has the Bangladeshi government supported and prioritised the sector and there has been a high degree of local entrepreneurship within the apparel industry (Staritz, 2011). The following text will present the case of Bangladesh's apparel industry with emphasis on challenges and future prospects.

The apparel production in Bangladesh has been growing strong for almost four decades. This is due to several factors. For one, Bangladesh has the lowest labour

costs in the textile world (Staritz, 2011). Although this has several negative effects as well, it has helped the industry enormously. Being a labour abundant sector, wages play a significant role in the decision on sourcing destination. Apart from the wages, Bangladesh also had specific policies that supported import of raw material as well as export of final products. Securing the input supply and promoting exports of manufactured apparel played a central role in the start and growth of the clothing sector. Two policies in particular had a significant impact, namely the bonded warehouse and the back-to-back letter of credit. Basically these two policies enabled clothing manufacturers to better financing its activities. The bonded warehouse eliminated duty payment requirements and other bureaucratic difficulties and the letter of credits facilitated loans for exporters (World Bank, 2005). A third policy of relevance was the cash incentives, which allowed direct financial support to clothing manufacturers (Staritz, 2011). All these factors helped building the strong foundation of the apparel industry, which came to be very important.

Even though Bangladesh have benefitted from low wages and preferential policies, the apparel industry would not have had the same development without the MFA. The MFA quota was supporting growth of apparel exports in many less developed countries, but Bangladesh was a clear winner (Staritz, 2011). Using its unfulfilled quotas into the EU and US kick-started the establishing and growth of the industry. However, the MFA was phased out in 2005. This posed as a terrible threat for the industry in Bangladesh since it was heavily dependent on its access to the EU and US. Surprisingly, Bangladesh's apparel exports experienced a robust growth after 2004 and the market remained stable and increasing for several years (Razzaue and Eusuf, 2007). This showed the strength in the industry, which was additionally proofed during the economic crisis in 2008-2009 where Bangladesh showed remarkable resilience. There are two prominent explanations to this resilience. First, there is the 'Wall-Mart effect', which describes the consumer preference towards cheaper basic apparel during

recession (Staritz, 2011). This substitution effect¹⁶ helped boosting the apparel sector in Bangladesh, which is primarily focused on basic apparel. Second was the 'China effect', explaining the shift towards Bangladesh as wages increased in China (BBC, 2012). The effect of, or rather lack of effect, from the MFA phase out and global recession signal that the Bangladeshi apparel industry has become solid over the years.

4.3.2 Competitive Advantages and Disadvantages in the Bangladeshi Apparel Industry

The apparel industry in Bangladesh has grown remarkably strong over the years, as stated above. Low production costs in the form of low wages is by far the key advantage for the Bangladeshi apparel industry. However, low cost being the main driving force other areas are lacking behind. Some of them due to limited political and financial resources. The following will elaborate further on the challenges facing the apparel industry in Bangladesh.

Dependency on few markets

One of the main challenges for Bangladesh is its dependency in the EU-15 and US markets. These two comprise 85 per cent of Bangladesh's total apparel exports. The lack of market diversification is a risk and makes the industry vulnerable to fluctuations in the global economy. However, Japan is showing an increased interest in Bangladeshi clothes. This is a result partly due to their ambition to diversify its import base, but also because basic apparel is growing sector in Japan, which is a competitively strong sector for Bangladesh (Staritz, 2011).

Wages and social responsibility

The link between Bangladesh's apparel export and poverty alleviation is clear. The labour intensive nature of the clothing industry has created job opportunities for a large share of unskilled workers (Razzaue and Eusuf, 2007). Still, the fierce competition and consumers' price sensitivity has put pressure on wages and working conditions of the textile workers. Bangladesh exporters have

¹⁶ Lowest cost suppliers gain market share vis-à-vis more expensive

a bad record of ignoring labour and environmental compliance. The increased pressure on codes of conduct from international buyers have exposed apparel firms to a great challenge of achieving a balance between staying competitive with regard to costs and ethical compliance (Staritz, 2011). Several groups and institutes, both national and international, are working with the issues of increasing wages, enhancing safety in the factories and change the perception of the labour force in general. Regional programmes has also been launched into Bangladesh and is pushing for compliance in several areas (Fukunishi et al., 2013). This is a very positive development but there is still much to be done in the area of social responsibility and working conditions for the textile workers in Bangladesh.

Enhance productivity and skill

The low wages is accompanied by limited productivity, which diminishes some of the benefits of low cost labour. The low productivity derives from the limited skill of the workers, managers and supervisors (Fukunishi and Yamagata, 2013). The gap is specifically obvious in the areas of middle management, techniques and design, and marketing. Some firms, especially foreign-owned in the EPZs, have started to provide in-firm training. However, many are still reluctant to offer these trainings since employee turnover is high (Staritz, 2011).

Raw material and lead-time reduction

Bangladesh has comparatively long lead-times for apparel products. This is mainly due to the lack of raw materials. The Bangladeshi textile industry is not able to fulfil the growing need of the apparel industry. Therefore, much of the input is imported on third country basis. The long lead-times can be accepted for now since most of what is exported is basic products that are ordered long in advance and in large volumes, and not time sensitive fashion items. However, if Bangladesh wants to move towards producing higher value-added clothing lead times must be reduces significantly (Staritz, 2011). The most forward way to reduce lead times is through vertical integration. Developing integrated processes throughout the industry have several benefits, e.g. capturing value in the chain and fulfilling rules of origin requirements. Governmental policies, such

as long-term loans, and cash incentives is needed to promote the domestic production and phase out the dependency on third country fabrics. Fortifying backward linkages through the value chain enhances productivity and production flexibility, something that will help Bangladesh stay competitive. It also increases domestic value and have significant positive spill-over effects on the rest of the national economy in terms of skill and development (Fukunishi et al., 2013).

Infrastructural challenges

Power, transport, and logistics are three areas in which Bangladesh need to improve significantly (Banerjee Saxena and Salze-Lozac'h, 2010). Currently, the most acute is power. Power outages are frequent and they severely affect the productivity. Unreliable power supply has caused delays in production schemes and also has a negative impact on the environment since many companies keep their oil fuelled generators. Second is transport and logistics. Facilities have improved over the years, but the port still run on obsolete equipment, which cause additionally increased lead-time (Staritz, 2011).

4.3.3 Future Objectives for the Bangladeshi Apparel Industry

The apparel sector in Bangladesh is strong and competitive, however, the need for rejuvenation is clear. If Bangladesh wants to continue to have a strong and growing apparel sector, the country need to make investments in human capital, rather than just reducing input costs (Banerjee Saxena and Salze-Lozac'h, 2010). Due to the increased awareness regarding the working conditions in the textile factories around the world, and the increased interest from consumers, Bangladesh need to find a balance between low production costs and just working conditions. As mentioned above, programmes have been launched and the most successful is within the EPZs. The reason for their success is several and many have to do with the fact that EPZs form a small community with short distances and in which pressure can be put on all actors. Also, EPZs have a central zone administration, which acts as a regulatory authority with tools to monitor and enforce compliance (Staritz, 2011). Focusing on CSR and human capital is crucial for the future for Bangladesh's apparel industry.

Production of basic clothes is Bangladesh's competitive advantage. However, if wanting to sustain the growth of the sector, the country needs to move into producing higher value products. This will allow higher profit margins and also allow a much-needed diversification of exports. Also, basic clothing is heavily dependent on low wages, which for now is Bangladesh strong side. But as new sourcing destinations in Africa are appearing, this might not be the case in a few years to come (Staritz, 2011).

Finally, regional integration has great impact on competitiveness. Regional sourcing will reduce lead time and input costs as well as promoting the regional market. Regionalisation also offers market diversification, which is crucial for spreading the risk. Still much of the trade in East Asia is restricted by tariffs and duties, but if these could be removed, many countries, including Bangladesh would be able to seize great opportunities of creating, and sustaining, a competitive sourcing region for apparels (Staritz, 2011).

Overall, Bangladesh has a strong apparel industry. This has been proven by its resilience both in the MFA phase out and also in the recession of 2008. However, there are room and need for improvements if the industry is going to stay competitive. First, the country cannot depend fully on its low production costs very much longer since many other low-cost countries are emerging as sourcing destinations for apparel. Therefore, the country need to focus on improving other areas such as infrastructure, productivity and skill as well as reducing lead-time by sourcing fabrics from neighbouring countries. Also, Bangladesh needs to diversify its export markets to reduce the alarming dependency on EU and the US. This can be achieved through increased regional participation.

To conclude, the three countries investigated in this research have different competitive advantages and disadvantages affecting the development of their textiles and apparel industry. China and Bangladesh initially benefited from low production costs. However, costs have increased in China and the country does no longer have the advantage of being a low cost production site. Bangladesh is

still benefitting from low production costs. Movement to East Africa, and Kenya in particular, has started, but it does not depend on the production cost only. Due to great concerns regarding social responsibility in Bangladesh, Kenya is taking the opportunity to develop a competitive advantage in terms of socially responsible production. Except this main competitive advantage differing between Bangladesh and Kenya, these two countries are facing similar challenges in the future. Even though, the countries are in different stages of their apparel industries' development, it can be concluded that similar strategies have been implemented in order to become sourcing hubs for global apparel.

5. Analysis

In this chapter, the theoretical framework provided in chapter 2 will be used for discussing and analysing the empirical findings in chapter 4. The analysis of this research implies that there are three main determinants required in order to emerge as a sourcing destination. First, there need to be an initial pull factor. Second, this needs to be supported by country specific comparative advantages. And third, in order to be a sustainable sourcing destination the country, or region, need to develop a full value chain. A general model of these three will be presented in the first section of this paper. The three different main determinants will be discussed in three separated subchapters, and then, in the end of the chapter, a summary of the three determinants and a final presentation of the model conducted will be presented.

5.1 Global Sourcing Model

Based on our empirical findings from strategies from our three case countries, we have been able to conduct a chronological model for how sourcing destinations emerge. We have identified three steps necessary for establishing a sustainable sourcing destination. The model is derived from a country perspective. As mentioned in the introduction, these three are first, a substantial pull factor. Second, supportive comparative advantages and third, the ability to establish a full value chain. These three factors need to be supported by political will throughout the entire process. Also, underlying this model is the globalisation push factor, however, not shown in the model since the model describes global sourcing from a country perspective. If able to fulfil all of these a new sustainable sourcing destination will emerge. This general model is presented in Figure 5.1, below.

Figure 5.1: Global Sourcing Model



Source: Own Model

Pull factor: pull factor(s) provides an initial attraction towards a region.

Supportive comparative advantage: country specific character that provides enhanced attraction towards a specific market in combination with the initial pull factor.

Value chain creation: after having achieved both of the above, the value chain enables cost reduction, speed to market and flexibility in production. This is the final step in order to become a sustainable sourcing destination.

The following sections will analyse the above in more detail. It will also elaborate on the interaction between the three factors. In addition to these, we will discuss the importance of political will that pervades through the whole process.

5.2 Pull Factors for Global Sourcing

Globalization has changed the global economic map, where production, distribution, and consumption of goods and services are continuously changing location. Improved communication and transportation technologies have facilitated this transition (Dicken, 2011). Historically, low-cost production has been the key determinant for sourcing decisions (Senft, 2014). However, our research implies that other aspects as well have an increasingly important role in today's globalized world. The situations in China and Bangladesh, with rising production costs and ethical issues, create a push factor for the geographical shift of textiles and apparel production. Further, there are also pull factors

involved in this shift explaining why sourcing is attracted to certain geographical locations. In this section, we will present two pull factors, low-cost production and accessible trade, that have been identified as the two key determinants for global sourcing.

The concept globalisation describes the phenomenon of decreasing distance between countries, a result of technological advancements especially within communication and transportation (Dicken, 2011). Dicken (2011) further argues that the geographical movements derive from the search for low cost production. Apart from low costs, sourcing activities are being located to countries or regions with abundance of the needed resource (Senft, 2014). Consequently, much of the attractiveness of a sourcing location is derived from the characteristics of the activity being sourced (Dunning and Narula, 1996; Jensen and Pedersen, 2011; Narula and Guimón, 2010). For the labour intensive apparel industry, wages have a huge impact on sourcing decisions. This is supported by the primary data collected in Kenya, where several interviewees mentioned wages as the main challenge (Chifallu, 2014; Bedi, 2014; Magwaro, 2014). The fact that Bangladesh and China, at least initially in China, had very low labour costs made them the production leaders seen today (ICT, 2012). In Kenya, however, wages are not comparatively low (Chifallu, 2014). As lowering production costs are the main issue when sourcing, this is a challenge for Kenya as a sourcing destination for apparel.

In labour intensive industries, such as apparel, wages have a huge impact since the only objective for sourcing has been to lower production costs. However, further research in sourcing objective theories has resulted in Dicken (2011) revising this previous statement and instead arguing that there are several other factors that are equally important. This is also found in the empirical data of this report, where another factor for the potential of emerging as a sourcing destination is beneficiary and accessible trade (Nyagari, 2014; Staritz, 2011; EC, 2005). The impact of trade blocks and quota agreements on emerging sourcing destinations is evident both in Kenya, China, and Bangladesh. The MFA enabled

both China and Bangladesh to grow substantially as apparel exporters. This was additionally supported by the WTO membership for China (ICT, 2012) and preferential access to the US and Europe for Bangladesh (Staritz, 2011). The same development is seen with AGOA in Kenya. Access to big and important markets is crucial to establish a fruitful industry and become a successful sourcing destination. Based on the empirical findings of this study, trade agreements have had a huge impact as a sourcing pull factor (Arora, 2014). This is in contrast to old theories regarding economic geography and location theories that highly relied on economies of scale. Rather, it is supported by the NEG theory indicating that there are other push and pull factors affecting the choice of sourcing destination (Krugman, 1998). Here, beneficial trade agreements giving access to certain markets can be considered as a pull factor, attracting sourcing companies.

However, trade agreements may also cause vulnerability and dependency. So, even though the trade agreements are important in order to become an attractive sourcing destination, it is crucial for emerging sourcing destinations to enhance market diversity as well as product diversity (Staritz, 2011). This was found in Kenya as well as in Bangladesh, which both are highly dependent on a few markets. Kenya on the US market (Chifallu, 2014; Nyagari, 2014) and Bangladesh on the EU-15 and the US market (Staritz, 2011). By spreading risks and reducing the dependency on these markets, the economies of Kenya and Bangladesh would become less vulnerable in case of complicated circumstances in their export markets. For China, the situation is quite different due to its relatively mature apparel industry (ICT, 2012). China's approach should rather be to focus on higher value-added products within the apparel industry, or to diversify into new industries.

Accessible trade and costs are the two main pull factors for emerging sourcing destinations. However, these need to be complemented by supportive comparative advantages. These will be elaborated on further in the next-following section.

5.3 Comparative Advantages as Supportive Objectives

Sourcing decisions can be market-based, resource-based and/or efficiency-based. Taking this into account it is clear to see that there is no universal definition of what makes a good sourcing destination (Pyndt and Pedersen, 2005). Instead, countries stand out and become competitive through attractive, supportive comparative advantages that are attained through political incentives. This was evident in the empirical data collected for all three countries, where infrastructure, skill and ethical production emerged as the most important. The following will elaborate further on these advantages.

5.3.1 Infrastructure

Emerging as a sourcing destination puts extra pressure on infrastructure where power, transport, and logistics need to be sufficient to meet the increasing demand. Sufficient infrastructure is a reason for why China is one of the largest sourcing destinations in the world, despite increasing wages (EC, 2005). The ability to transport goods fast and efficient and have production without outages can be more cost reducing than low wages for labour abundant industries (Banjeree Saxena et al., 2010). Hence, poor infrastructure might be the reason why not to choose a country as a sourcing destination. Insufficient infrastructure and high cost of power is the main challenge found in Kenya and Bangladesh.

Currently the most severe is power, in both countries. This is well known from governmental perspective, and the infrastructure in Kenya is being improved. Now, effort is put on reaching agreements regarding power supply from neighbouring countries (Pettersson, 2014). The port in Mombasa is being expanded and the obsolete port in Lamu is being rejuvenated (Arora, 2014). Also, roads are restructured, and the two bypasses around Nairobi will significantly reduce the transportation time (Wairiuko, 2014). Based on the experiences from China, these improvements could probably help Kenya to develop a infrastructural competitive advantage.. China has been remarkably successful and efficient in providing sufficient infrastructure for its growing industries (EC, 2005).

5.3.2 Skill

Another aspect when analysing potential sourcing destination is whether the country can provide the necessary skills. The level of skill of course depends on the activity, but it is important for most firms to know that they do not have to put extra effort into training workers on all levels (Chifallu, 2014). Also, the fact that a country can provide industry specific education, both for further training and development of new skills often pose as an extra incentive for sourcing firms (Arora, 2014; Nyagari, 2014).

China has over the years had a great development in its skill base. Today, most skills are acquired and therefore a wide array of products can be sourced from the country (Biselli, 2009). Some firms in Bangladesh have started to provide in-firm training. However, many are still reluctant to offer these trainings since employee turnover is high (Staritz, 2011). Kenyan actors are also pushing for actions to improve skills with plans to establish training facilities for middle management and technical skills within the apparel industry as a starting point (Chifallu, 2014; Nyagari, 2014). The ability to provide sufficient skills is, when looking at the case of China, a competitive advantage as an emerging sourcing destination. Hence, pursuing skill development in Kenya and Bangladesh is a pervasive strategy.

However, skills are interconnected with labour costs (Biselli, 2009). Low skills are associated with low wages, and vice versa, high skills generates high wages. As seen in the case of China, there have been initiatives for improving the technology, which needs to be supported by improved skills among the employees. When skills are improved, the employees require higher wages, and hence, results in an increased wage level (Staritz, 2011). In Bangladesh, there are low wages, and as there are primarily basic production taking place in Bangladesh, we can assume that the skills are relatively low. However, in Kenya, the wages are comparatively high even though they are producing similar products compared to Bangladesh. Despite this, we see an interconnection

between low wages and low skill level, and that there are other factors influencing the wage level in Kenya, for example ethical compliance.

5.3.3 Ethical Production

The intense competition in the global market is putting high pressure on costs, which makes it difficult for developing countries to be compliant in terms of fair wages and working conditions (Hearson and Eagleton, 2007). This has for instance recently been a major issue within the apparel industry in Bangladesh. The sometimes alarming conditions of the textile and apparel production in both China and Bangladesh have generated a lot of medial attention during the last couple of years. This has raised awareness both among consumers and retailers that puts pressure on producers' compliance. Due to an increasing number of low-cost countries being accessible for sourcing, costs are no longer the single objective for sourcing decisions. Instead, other factors have become increasingly important as a mean to establish a unique competitive advantage. In order to stand out on the global sourcing map, Kenya has chosen to focus on ethical production (Bedi, 2014).

Low production costs have been the main competitive advantage and a factor that has attracted international retailers to source from China and Bangladesh, which in turn have affected their ability to ethical compliance. Kenya, on the other hand, does not benefit from such low production costs, but has instead focused on fair and sustainable production (Staritz, 2011; Folkunger, 2014), partly as a strategy to outweigh the disadvantage of comparatively high wages (Wairiuko, 2014; Bedi, 2014). Here, there is a potential for a competitive edge against both China and Bangladesh. This is also, with its increasing global importance a huge advantage for Kenya as an emerging sourcing destination. The ability to find a competitive strategy, apart from low factor costs, is a successful approach to emerge as a sourcing destination and become visible on the global sourcing market. This niche approach is of substantial importance in becoming competitive. Although, it is necessary to prioritise when establishing a competitive edge, it is also important to keep in mind that all factors mentioned

in this case study are needed when emerging as a sourcing destination (Folkunger, 2014).

The above has analysed important aspects that are more or less fundamental in order to emerge as a sourcing destination. Historically, low costs have been the main determinant of where to source from. However, this research shows tendency on a new pattern, that cost is somewhat equally important as several other country specific factors. Apart from the country specific factors presented, the empirical data also suggest that political will is a crucial feature, underlying all factors discussed above. The Kenyan government has prioritised the apparel sector, during the last couple of years (Wairiuko, 2014; Magwaro, 2014), which shows a much-needed political will in Kenya, something that is crucial for the development of the industry. This is also something that has been seen in Bangladesh. Here, the government made it easier for people to lend money in order to set up indigenous factories and through that create a strong, national apparel industry with the right institutions (Staritz, 2011). A similar incentive can be seen in China, where the government provided public funds to enable the industry to upgrade the technological level (EC, 2005).

The different measures provided by the government in both Bangladesh and China has had a huge impact on their ability to become the world's largest sourcing destinations for textiles and apparel. The political will is essential for the successful development of industries due to the fact that it enables the creation of a full value chain. The development of the value chain is a critical factor in creating a sustainable sourcing destination, and hence, for the country to become an attractive sourcing destination. This will be further elaborated on in the next section.

5.4 The Importance of Value Chain Creation

The process of developing a full value chain is of significant impact for the longevity of the domestic industry, and each process of the value chain needs to be strengthened to enhance competitiveness (Fukunishi and Yamagata, 2013). Value chain theories give an understanding of the importance and beneficial

effects of participation in global production markets, enabled by a full value chain (Gereffi et al., 2005; Kaplinsky and Morris, 2001). Establishing a full value chain is beneficial for most industries. Also, backward and forward linkages entailed with the creation of a full value chain have substantial spill-over effects on other industries in the country, hence enabling further industrialisation. Value chain creation can be said to create a positive industrial spiral.

One of the main challenges for the apparel industry in Kenya is that the manufacturers have to import the fabric and accessories used for producing apparel. The same is found in Bangladesh. Both of these countries have comparatively long lead-times for apparel products due to the lack of raw materials. The Bangladeshi textile industry is not able to fulfil the growing need of the apparel industry. Therefore, much of the input is imported on third country basis (Staritz, 2011). However, Kenya does have the ability to establish a full value chain that meet the domestic demand. What inhibits this development is the lack of investments in the lower part of the chain (Lubanga, 2014). This is partly due to the fact that the government has been unable to identify this industry in its whole and push for policies to promote investments throughout the value chain (Olweny, 2014). This is in bright contrast to China, where a lot of attention has been submitted to the fibre processing industry. This has integrated the value chain of the apparel and textile industry, which has become one of China's key competitive advantages (EC, 2005). A full value chain enhances productivity, which in turn also reduce the cost of production, another substantial advantage.

Bangladesh has not been able to develop the value chain domestically. However, the South East Asian region provides the textile value chain making it easily accessible for Bangladeshi firms. Hence, the country has been able to develop their apparel industry based on their competitive advantage of low price without an entire domestic value chain (Staritz, 2011). In the case of Kenya, there are still diverse opinions regarding if the development of the value chain should be obtained on local or regional level. Regionalisation of the industry would enable

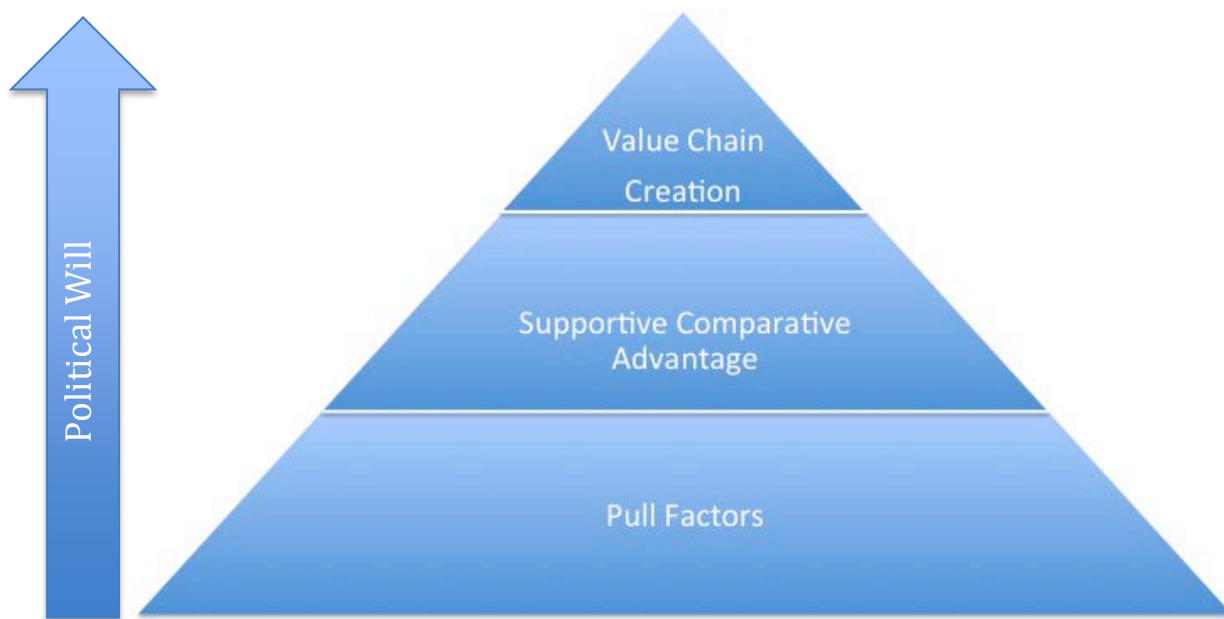
the East African countries to utilise their comparative advantages, which in turn would enhance productivity (Pettersson, 2014; McCormick, 2014). For instance, Ethiopia are more suitable for production of fabric due to low energy costs, whereas Kenya are more suitable for production of apparel as they have a higher level of skills due to its history with apparel (Bedi, 2014). Also, having strong production linkages between the countries would help the region to become an influential actor.

To summarise, having East Africa emerging as a sourcing destination would mean another substantial global shift. Although this research is limited to apparel, it is evident that developing a strong industry in this sector will provide opportunities within other industries as well. This can for example be seen in the case of China, where textiles has opened up for development of skills and infrastructure that in turn has enabled the establishing of more advanced industries at hand. Analysing these cases provides insight and understanding about what factors influence the development of a sourcing destination. It seems like the recipe for success is to have an attractive initial pull factor, such as low cost or accessible trade. This then needs to be underpinned by supportive comparative advantages and investments that could provide the final step, a full value chain. The development of a full value chain is crucial for the longevity of the domestic industry and the continuous industrialisation, and hence the emergence as a sourcing destination. The following section will elaborate on a model conducted over sourcing destinations in the apparel industry.

5.5 Apparel Sourcing Model

The apparel industry has been the initial step of industrialisation for many developing countries as explained throughout this report. Based on our findings and the general model portrayed above, we have been able to also create a model specific for emerging sourcing destinations within the apparel industry and how the above discussed factors influence this process. The apparel sourcing model we have developed is provided in Figure 5.2

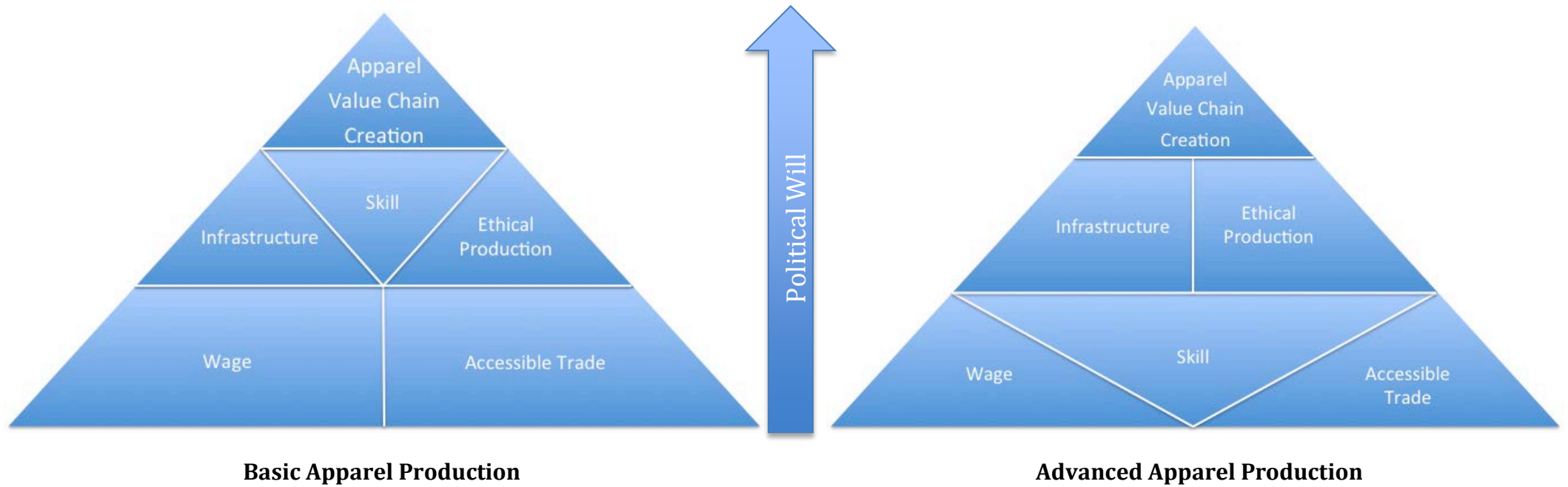
Figure 5.2: Apparel Sourcing Model



Source: Own Model

The model above is a general description of the main determinants of a sustainable apparel sourcing destinations. This provides foundation for the following two models below, which describes the development from basic apparel production to advanced apparel production. In the latter of the two, a skill become more important and is therefore considered a fundamental pull factor, together with wage and accessible trade. Wage does not disappear but have a diminishing importance of the emergence of an advanced apparel-sourcing destination due to the fact that skills becomes more important. Continuing on this reasoning, we argue that most industries have the same development, meaning that it starts with a basic production, which then transforms into an advanced industry. Noteworthy is the increasing importance of skill between basic and advanced production. This is due to the fact that more advanced production requires more advanced technology and hence increased skill base. However, when discussing in general terms we do not refer to costs as wages since there are other costs that are more important than wages in non-labour abundant industries.

Figure 5.3: Applied Apparel Sourcing Model



Source: Own Model

6. Conclusion

The last chapter, the conclusion revisits the research question presented in chapter 1, and highlights the conclusion of this research based on the empirical findings and the analysis. The main finding of this research is that there are three key determinants for emerging as a sourcing destination. The characteristics of these determinants will be summarized individually below. Thereafter, a recommendation for future research within this field of research and the practical implication of this research follows.

6.1 Research Question Revisited

The purpose of this research is to provide an understanding of what factors affect the global sourcing pattern in today's globalised world. It has been investigated through the following research question: *"How do sourcing destinations emerge?"*. The research is limited to the apparel industry in the three case countries; Kenya, China, and Bangladesh. A conclusive theoretical framework together with empirical findings collected through primary and secondary data provide the frame for the analysis. The case of Kenya is mainly conducted through primary data, while the cases of China and Bangladesh consist of secondary data only. We have identified three main findings of our research in stating how sourcing destinations emerge, which have resulted in a chronological global sourcing model. These factors will be summarised individually below.

First, a pull factor is needed to attract companies to source from a specific destination. In our research we have been able to identify two main pull factors, namely production costs and trade agreements. This finding is supported by several researchers, for example Dicken (2011) and Senft (2014). Analysing this further, low production costs have been the key determinant for sourcing for many years and is still ranked as the main objective. This is especially evident in buyer-driven industries, such as the apparel industry, but is also true for many other industries (Dicken, 2011). In labour abundant industries, wage has is the most significant production cost. Trade agreements are the other pull factor

proven fundamental for the choice of sourcing destination (Senft, 2014). Trade blocks and quota agreements have had evident effects on countries' and regions' development as sourcing destinations. The empirical evidence in this research supports this, where trade agreements in Kenya, China, and Bangladesh have had substantial impact on the countries' successful development of their sourcing industries. Having access to important markets and/or low production costs is essential for emerging as a sourcing destination.

Second, although there is no clear definition of what is considered a comparative advantage (Pyndt and Pedersen, 2005), it is still a needed contribution for a country to emerge as a sourcing destination. Host countries often focus on pursuing one advantage in particular to stand out on the global sourcing map, but still, it is important to keep somewhat balance between several so that the total lack of one area does not become a comparative disadvantage instead. Our study of the apparel industry found that infrastructure, skill, ethical production, and political will are important factors for a sourcing destination, which supports the argument by Dunning and Narula (1996), and Jensen and Pedersen (2011), that a country's comparative advantage is derived from the sourced activity. Although cost and trade are the two main factors, the comparative advantages steer the sourcing decisions to a specific country or region. When analysing our results of this study we found that the comparative advantage(s) provides a supporting sourcing objective for sourcing firms, and is therefore crucial for a country's ability to emerge as a sourcing destination.

Third, and probably the most important finding, is the effects of establishing a full value chain. The value chain enables sustainable development of an industry and creates knowledge and technology transfer. This in turn have positive spill-over effects on other industries in the country and over all industrialisation development, as has been stated by for example Kaplinsky et al. (2001) and Fukunishi et al. (2013). Whether the value chain is domestic or regional is less important according to our findings. What is important is that it is established within the near region. Apart from vertical and horizontal linkages, a value chain enables shortened lead times which is a substantial competitive advantage, not

only in the apparel sector. Based on our findings, we draw the conclusion that a full value chain is the recipe for sustaining sourcing attractiveness. The importance of a full value chain is supported by Gereffi et al. (2005). It is also evident in the cases of China and Bangladesh as well as highlighted in several interviews conducted in Kenya. Hence, we conclude that the establishing of a full value chain is of great importance for the emergence of a sourcing destination.

Finally, to summarize, the purpose of this study is to answer the research question; *“How do sourcing destinations emerge?”* and thereby, create an understanding for what factors affects the pattern of global sourcing. We identified three main findings through our research; first, there needs to be an initial pull factor making a location attractive to investigate further, secondly, there needs to be comparative advantages that supports the initial objectives, and third, in order to emerge as a sustainable sourcing destination there is a need to develop a full value chain making it beneficial for the country as well as the sourcing company. The model follows a chronological structure where one step is leading to the other. Also, the importance of the different factors varies over time, where for example, wage has a diminishing importance, whereas skill has an increasing importance when moving from basic to advanced production. The three determinants form a generally applicable model for emerging sourcing destinations, and hence, provide a contribution to the existing sourcing theory.

6.2 Contributions and Recommendations for Future Research

As indicated in the theoretical framework in section 2, globalisation and sourcing literature has been criticized for being one-sided and almost exclusively focused on sourcing from a company perspective (Massini and Lewin, 2012). Also, the need for qualitative studies with a clear and consistent terminology in this field is increasingly requested (Dicken, 2011; Gereffi et al., 2001). Hence, our research has the ambition to be a qualitative case study focusing on the country perspective in analysing globalisation and global sourcing patterns. Also, being heavily criticized in value chain theories, we have continuously sought to be clear and consistent in our academic terminology.

Based on this research, we feel confident in arguing that countries should focus on establishing attractive pull factors and enabling full value chain creation. Although, this research is based on findings from the apparel industry in three countries, we believe our model to be applicable to several industries due to the wide scope and general importance of the investigated factors.

Although generally applicable the global sourcing model, presented in the analysis derives from our empirical findings in the apparel industry. However, to confirm its conclusiveness we argue that further research should apply this model to other industries in order to evaluate the model's aptness. This will enhance its theoretical power and make it become a useful tool for research on country specific sourcing strategies.

We further believe it to be valuable for continue analysing the importance of industrial value chains in emerging sourcing destinations. This together with a multilevel approach, where firm, sector and country is considered, will provide a more conclusive explanation to how global sourcing operates. Here, we argue that focus should lie in vertical linkages and how these have positive spill-over effects. Also, more emphasis need to be forwarded to how these vertical linkages may enhance economic and social development. In the ever-changing globalised world, global shifts are occurring constantly. Therefore, this field of research needs to be continuously revised.

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