CUTS TDP PROJECT

CASE STUDY: THE CLOTHING INDUSTRY IN SOUTH AFRICA

(FIRST DRAFT)

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1. Introduction

Historically, the South African clothing industry benefited from the protection afforded by high tariffs in the era of the National Party's import-substitution policies. The sector, which is geographically concentrated in the Western Cape and KwaZulu-Natal provinces, was well established by the second half of the 20th century and produced predominantly for the domestic market. The development of the industry in KwaZulu-Natal occurred in the wake of the previous government's racial industrial development policies which attracted Asian manufacturers to the 'homeland' border areas.

From the 1980s onwards the sector has increasingly been exposed to international competition, a process which was significantly accelerated when South Africa acceded to the World Trade Organisation's Agreement on Textiles and Clothing (ATC) in 1994. The Uruguay Round of the General Agreement on Tariffs and Trade (GATT) signalled the incorporation of the clothing and textile industries into the world trade regime. In compliance with the ATC, WTO member states had to phase down tariffs by 1 January 2005, ending the Multi-Fibre Arrangement which held sway over the industries since the 1970s.

One of the stated aims of policies of economic openness and trade liberalisation has been poverty reduction through growth (Culpeper 2005: 4). Trade policy and poverty link in the following ways: trade policy affects trade, which in turn affects poverty through its implications for the economic activities in which poor people participate; its effects on the prices of goods and services purchased by poor people; and effects on government taxation and spending, which affects poor people's entitlements from government (Page 2004: 2).

Despite the above-stated policy aims, trade liberalisation may detrimentally impact on income distribution through 'exposing previously protected domestic industries to greater foreign competition, causing income and employment losses' (Culpeper 2005: 11). The case of the clothing industry in South Africa provides an illustration of such an outcome, as the liberalisation of trade in South Africa precipitated the decline of the clothing industry and resultant employment loss. While other economic factors also contributed to its deterioration, it is accepted that global exposure has placed the industry in a 'difficult period', necessitating restructuring (DTI 2005). Restructuring has involved the contraction of the formal sector of the industry, the shedding of jobs and the informalisation of the industry (Altman 1993; ESSET 2003; USITC 2004).

From the South African government's point of view, economic and political imperatives necessitated economic policy that would promote international openness, partly to deal with profitability and productivity problems in the manufacturing sector, as reflected in trade and balance of payment problems. An 'implicit bargain' saw the ANC committing to macroeconomic stability and international openness in return for white business agreeing to the modification of the racial ownership of assets (Gelb 2005: 368-9). Thus, in adherence to the ATC, the South African government agreed to dismantle clothing and textiles tariffs. This was done at a faster rate and over a shorter period than required. Developing states embarking on rapid and incorrectly sequenced reforms, such as liberalisation, could cause social disruption through 'considerable and long-lasting' unemployment (Stiglitz 2002 in Culpeper 2005: 11). In South Africa, rapid liberalisation of the clothing industry meant that the industry was ill prepared for the resultant swift rise in clothing imports, especially those from China: from 11 million units in 1995 to 335 million units in 2004 (Clothing Trade Council of South Africa 2005). As seen elsewhere, the period after liberalisation commenced was characterised by formal job losses of 36 863 between 1995 and 2001, and a further 37 723 formal job losses between 2002 and 2005 (Clothing Federation of South Africa 2001 in Western Cape Investment and Trade Promotion Agency (WESGRO), 2002: 9; Clothing Trade Council of South Africa, 2005: 19).

The consequences have been especially acute for the predominantly female workers in the sector. Studies have shown social dislocation (Van der Westhuizen and Deedat 2003; ESSET 2003; Van der Westhuizen 2005) for two reasons. First, prior to employment loss these workers were low wage earners who increasingly found themselves to be the sole breadwinners as jobs in other sectors were lost, which has meant that after these workers' employment loss such households have been pushed into poverty. Second, these workers cannot find alternative employment due to limited economic diversification and the low rate of job creation and, hence, labour absorption in South Africa. The latter point is strengthened by experiences elsewhere:

‘Between 70 and 80 percent of the workers in the clothing sector are women in most poor countries, and many – perhaps most of them – would not have had an income in the formal sector in the absence of the clothing industry. If we assume that these workers have a higher income and higher productivity in the clothing sector than in their best alternative economic activity, the income gains in poor, clothing-exporting countries are higher than [economic model estimates]’ (Nordas 2004: 30-31).

The effects of liberalisation have not been ameliorated by the United States’ Africa Growth and Opportunity Act (AGOA): while AGOA participants have benefited from AGOA preferences with an overall increase of 35 percent in apparel exports to the US between 2003 and 2004, South Africa has experienced a decrease in clothing exports to the US during the same period (US Trade Representative 2005). The primary reason is the appreciation of the currency, which supports the assertion that ‘greater openness may be associated with greater volatility and economic shocks, for example, through capital surges or shifts in the terms of trade. Volatility, in turn, tends to affect the vulnerable and the poor the most’ (Culpeper 2005: 11). This was indeed seen in South Africa as more low-skilled clothing workers lost their jobs during this period.

Because of South Africa’s proven inability to compete with China, the end of the Multi-Fibre Arrangement on 1 January 2005 did not improve South African clothing products’ access to the US and EU markets. Given these realities, the expected free-trade agreements between South Africa and China and India, respectively, do not augur well.

The industry has responded to the increase in global competition through adjustments at various levels. The clothing value chain is a buyer–driven chain, and with the increased exposure to international markets retailers have improved their import capacity and are sourcing significantly increased volumes of clothing from overseas producers. Historically, manufacturers dealt with market pressures through decentralisation to lower wage areas, including in neighbouring states. After 1994, manufacturers have increasingly found themselves competing with global producers, and have adjusted their operations in two ways:

- ❖ shedding the manufacturing function and thereby the labour component, partially or wholly, to become design houses or importers;

- reorienting themselves to export markets.

The former has led to the assembly of apparel being externalised to the household, as either a livelihood strategy by retrenched workers or as a cost initiative by large manufacturers.

While the clothing industry is one of two industries that have received explicit government support (the other sector is autos), assistance for these adjustments was primarily focussed on promoting production for export. Support that could have been beneficial, such as for small, medium and micro enterprises, was primarily not accessed by the burgeoning Cut, Make and Trim (CMT) section of the sector.

This paper provides a case study of the clothing sector which, given the extensive disruption of the sector, examines how the industry has adjusted to the challenges of global competition. Furthermore, the paper will investigate the adjustment options which remain to be pursued to prepare for and benefit from global exposure, and what the reasons may be for failure in this regard, including the failure of manufacturers to reorient their operations towards exporting and utilising AGOA preferences. Additionally, the paper will explore the relevant factors in those cases where firms have continued producing in spite of increased competition. The paper will also examine the policies and actions undertaken by the government vis-à-vis the sector, including the exploration of alternatives to liberalisation and the preparation of the sector's employers and clothing workers for increased competition and its consequences. To conclude, the paper will briefly look at alternative strategies vis-à-vis (1) liberalisation; and (2) in amelioration of the negative effects of liberalisation on the clothing industry. The next section will explain the methodology followed in the study.

2. Methodology

This study includes a literature review of relevant studies, research reports and newspaper articles, augmented by interviews with the primary actors in the industry and the Department of Trade and Industry. Attempts to secure an interview with the trade union for the sector, the Southern African Clothing and Textiles Workers'

Union (SACTWU), were unsuccessful. Interviews were conducted on the basis of the following:

- Geographical representation (Durban; Cape Town; Johannesburg; and the non-metropolitan areas of KwaZulu-Natal and the Western Cape);
- Size of the manufacturer (from the largest clothing company, Seardel, to the smallest, as represented by the KwaZulu Natal-based CMT Employers' Organisation and the Cape Town-based CMT Employers' Association);
- The clothing value chain (apart from the large and small manufacturers, interviews were sought with retailers and secured with the second largest South African retailer, Truworths);
- Policy input (the manager of clothing and textiles at the Department of Trade and Industry was interviewed); and
- To establish representation of views from exporters as well as producers for the domestic market.

The next section provides an overview of the state of the industry.

3. The state of the industry

The clothing sector's decline has been associated with import penetration due to the liberalisation of trade, which commenced under the National Party in the 1980s and increased in pace during the 1990s (Altman 1993; ESSET 2003; USITC 2004). Historical factors influencing its decline include the following:

- the industry's insulation due to apartheid sanctions and protective tariffs;
- comparatively concentrated production and ownership[1] structures, causing inefficiencies because of high overheads;
- the predominance of family-run businesses which are operated conservatively, do not seek to maximise growth, and are not pursuing novel production and management methods. Related hereto are the low levels of capital investment;
- the lack of pursuance of strategies apart from labour cost flexibility, such as marketing, operational change, and skills development;

[1] Meaning a small number of large companies is responsible for a high percentage of production, while cross-ownership abounds.

- labour relations marked by an 'apartheid mentality' (Altman 1993: ii; 26; 33; ESSET 2003: 15; DTI 2005).

The industry continued its decline throughout the 1990s and the first half decade of the 2000s, as evidenced by the following statistics:

Table 1: Average percentage change in selected indicators for the clothing industry between two periods: 1994-1998 and 1994-2003

Real value added at basic prices	-10,4%
Real exports	-4,4%
Real output per employee	-11,9%
Real remuneration per employee	-6,8%
Real value of sales (1998-2003)	-12%

Source: Barnes 2005: 3

The table below shows how the clothing industry's percentage of gross domestic product has declined since 2000, along with the related textiles and leather industries.

Table 2: Clothing, textiles and leather as percentage of South African gross domestic product (2000-June 2005)

2000	**2001**	**2002**	**2003**	**2004**	**2005 (First two quarters of the year)**
3.72%	3.49%	3.55%	3.23%	3.04%	2.83%

Source: Reserve Bank Quarterly Bulletin[2], constant 2000 prices, seasonally adjusted

The increase in production in 2002 is also reflected in the next table that show an increase for clothing exports under AGOA. This surge in clothing exports can be explained as being due to the boost of a weaker rand and the benefits of the government's Duty Credit Certificate Scheme (DCCS).

Table 3: Total South African apparel exports to the US market under AGOA

2001	**2002**	**2003**	**2004**	**7/2004 Year-to-date**	**7/2005 Year-to-date**
$194.887m	$200.019m	$232.318m	$141.466m	$80.714m	$44.370m

Source: US Department of Commerce, www.agoa.info

[2] Clothing data not available separately.

Labour rates are determined through sectoral negotiations in the National Bargaining Council (BC) for the industry. All employers in the clothing sector have to be registered with the BC, which was established through a consolidation of the regional bargaining councils in 2002. Even if a manufacturer is not party to agreements on wage rates and conditions of employment concluded in the BC, such agreements are extended through a ministerial order to non-parties. The only employers who are exempted from paying the agreed-upon wage rate are those with five or less employees. The clothing industry's wage structure differs according to geographic location. Cape Town workers receive the 'metro rate', which is between 40 and 50 percent higher than the official rate of the 'non-metro' areas where the majority of clothing workers in KwaZulu Natal work. 'Metro wages' also include benefits such as medical aid and provident fund which are not part of 'non-metro' wages. In 2005, trained, experienced clothing workers earned R611 per week in Cape Town, compared with R463 in KwaZulu Natal (Barnes 2005: 5).

Table 4: Comparison between hourly wage rates for 2002 in the clothing industry[3]

2002								
South Africa 'non-metro' minimum wage	**South Africa informal sector urban rate**	**South Africa**	**China**	**India**	**Bangladesh**	**Kenya**	**Mauritius**	**China Entry-level clothing factory worker**
$0,51[4]	$1,09[5]	$1.38	$0.68	$0.38	>$0,40	$0.38	$1.25	$0,25
No social security benefits payable. Source: Van der Westhuizen 2005; SACTWU 2002		Amounts include social security benefits. Source: US International Trade Commission 2004						*Washington Post* (20/6/02)

Table 4 shows the different hourly wage rates in South Africa compared with its main competitors in the global clothing market in 2002. While the formal sector rate is

[3] Figures available from different sources are compared to gain some picture on wages. It is assumed that the rate for South Africa in the USITC study is the official rate for formal urban clothing workers, which would include provident fund, unemployment insurance fund and medical aid fees.
[4] Minimum wage for machinist in 2002 = R211.16 per week. Calculated with the end-2002 Rand/Dollar exchange rate of R9 to the dollar.
[5] During peak season. Excludes possible overtime payment.

double that of the average rate in China and more than three times that of India, the minimum hourly rate in 'non-metro' areas is less than the average hourly rate in China but double the rate for an entry-level worker in some parts of China. This minimum hourly rate is paid at factories in rural KwaZulu Natal and elsewhere where wage payments are lower than urban rates, as per the BC approved rates. Lower wages in rural areas correspond with the lower skills levels of workers producing lower-value garments aimed at the mass market. Historically, manufacturers in these areas have been Asian, and apparel from these areas has frequently been exported. Conversely, producers in the Cape Town area, who are geographically closer to the buyers (retailers) and fashion designers, have focussed on higher-value fashion items which require more skill, hence workers are more skilled and wages higher.

Employment levels in the industry have fluctuated in the past 16 years since liberalisation commenced. Table 5 below shows the drop in employment in the wake of the National Party's liberalisation policy of 1989, the Structural Adjustment Programme. Table 6 shows employment at a higher level in 1997 than in 1992, and then a trend of steady decline from 1997 onwards. However, this data is generated by Statistics SA, and does not reflect the reported number of jobs lost. These figures also differ from that emerging from firms registered with the education and training authority of the sector, which is a total of 124 037 in 2005. This number represents employees working for organised employers, which did not include informal employers at the time of the formation of the SETA at the end of 2004. Barnes (2005: 4) calculated total employment in the clothing sector as 158 879 by using the formal vs. informal clothing sector employment figures in the September 2003 Labour Force Survey and the formal employment figures of Statistics SA. While fluctuations in employment, under-registration of workers, and increasing informalisation explain why figures still seem too high, these problems may only be resolved by more accurate data collection.

Table 5: Employment in the clothing industry 1987 – 1992

1987	**1988**	**1989**	**1990**	**1991**	**1992**
131326	134163	127750	120524	114300	107028

Source: South African Standardised Industry Database, Quantech (2004)

Table 6: Employment in the clothing industry 1997 – 2004

1997	1998	1999	2000	2001	2002	2003	2004
126901	116740	123902	121615	117281	117417	114932	113922

Source: South African Standardised Industry Database, Quantech (2004)

4. Reactive restructuring of the clothing industry after 1994

The adjustments in the clothing industry occurred in the context of South Africa's accession to the WTO Agreement on Textiles and Clothing (ATC). As explained in a recent DTI submission to parliament[6]: 'The South African government has always been clear in its policies that the country cannot afford to artificially sustain uncompetitive industries through import substitution or protectionist measures. Based on this, the government has committed itself to support this sector through a range of initiatives with the understanding that, in its current form, the industry was neither competitive nor sustainable and needed to change' (DTI 2005). Policy space has thus been determined by the government's commitment to liberalisation. The DTI contends that the clothing industry has enjoyed 'sustained and extensive protection relative to other sectors', and has had sufficient notice and support to adjust to global exposure. Examples are the Duty Credit Certificate Scheme (DCCS) and the comparatively high tariff applicable to clothing. This section examines the industry's adjustments in reaction to liberalisation, and the government's initiatives in support of the clothing industry as an officially targeted 'growth sector' within the context of the policy commitment to liberalisation. The government's recently released Accelerated and Shared Growth Initiative for South Africa (ASGISA) – a growth strategy that seeks to catapult the economy to 6 per cent growth between 2010 and 2014 by targeting its binding constraints – and industrial policy both attach great importance to this sector.

South Africa commenced the liberalisation of the clothing sector in compliance with the WTO's ATC, deciding unilaterally to halve *ad valorem* tariffs over a shorter period than required—7 instead of 12 years—to a maximum of 40 percent by 2004.

[6] Presented by Iqbal Sharma, acting deputy director general in the Department of Trade and Industry and responsible for the international trade and economic development division. No author is indicated on the document itself.

Consequently, clothing imports into the South African market escalated rapidly. With China being the most competitive exporter of clothing in the world market, the vast bulk of clothing imports came from the Asian giant, with the value of clothing imports surpassing that of exports for the first time in 1998. In the wake of a significantly stronger South African currency, import growth showed the most dramatic increase between 2002 and 2005. Units from China jumped from 85 million in 2001 to 123 million in 2002 (45 percent); to 215 million in 2003 (75 percent); to 335 million in 2004 (56 percent) (SARS Customs figures quoted in Clothing Trade Council of South Africa 2005). Manufacturers contend that China's success in the South African clothing market can at least partially be ascribed to an 'unequal [international] playing field' (Interviews 4; 8; 11). Benefits that accrue to Chinese producers are a fixed exchange rate undervaluing the Chinese currency by up to 40 percent (only changed in the second half of 2005); lower labour costs in the absence of a human rights regime; non-performing loans at a 1,5 percent interest rate; export incentives; state-subsidised infrastructure; production by state-owned enterprises which sometimes run at a loss; and possible input subsidisation in the Chinese textile industry (CloTrade 2005: 3; Lande *et al*, 2005: 25). Chinese officials have however denied these claims and insist that China's competitiveness is the result of its 'market economy' policies (*Sunday Times*, 9/10/2005).

South Africa, as part of the Southern African Customs Union (SACU), is also a party to the Southern African Development Community's Trade Protocol of 1996. While the protocol contains special agreements on clothing and textiles with a view to extending protection of the industries for a limited time (Kalenga 2004), by 2005 tariffs were lowered to one-third of their 2000 rate.

Apart from multilateral agreements, South Africa has also renegotiated bilateral agreements with Southern African states such as Malawi, Zimbabwe and Mozambique, allowing the importation of clothing at below Most Favoured Nation (MFN) duty rates (Bennett 2003: 9). The SADC Trade Protocol and bilateral agreements create the opportunity for the importation of apparel into the South African market at lower rates than the WTO rates.

The Southern African Customs Union's negotiations for a free trade agreement (FTA) with China are continuing apace, and will specifically affect the clothing industry. Chinese negotiators expect further abolishment of tariffs as part of the FTA, with resultant worker redundancies in the South African clothing industry (*Sunday Times*, 9/10/2005). The Southern African Customs Union has also committed itself to negotiating an FTA with the second most competitive clothing manufacturer in the world, India, which will firstly be focussed on reducing tariffs in manufactured goods such as clothing (*Business Report*, 23/3/2005).

The dumping of illegal goods on the South African market through undervaluing or not declaring goods has been a significant contributing factor to the industry's woes. Indications are that large quantities of goods have entered the country from the Far East and the Southern African Development Community (SADC) without duties being charged (Bennett 2003: 9). Difficulties have been encountered in rooting out the problem because of corruption and a lack of capacity and resources in the customs administration (Bennett 2003: 9). A task team has been appointed to look into this issue (Western Cape Provincial Development Council 2004). In a submission to South Africa's International Trade Administration Commission (ITAC), the Clothing Trade Council of South Africa (CloTrade) called for the institution of WTO safeguard measures against China for under-declaring the values of its clothing imports at South African entry points and dumping distressed merchandise on the South African market. China's average declared unit price and average declared weight at customs is respectively about half of other countries' values, causing price suppression in the apparel market (CloTrade 2005). China also exports overruns and products to South Africa for which orders were cancelled, a practice which is difficult to prove because of complex anti-dumping procedures, according to CloTrade (2005: 16).

Cheap imports caused a price deflation within the industry, a phenomenon witnessed across the world in the apparel market as garment prices have declined by 15% over the past five years (Interview 10). As elsewhere, it forced adjustments in the South African industry, especially by manufacturers, as buyers now had the choice of imported goods at lower prices, and manufacturers were therefore competing with such goods, as well as goods from the rural areas and from CMTs. Before 1994, manufacturers' primary strategy to deal with market pressures was to decentralise plants in a hierarchy by region and by race. The decentralisation of production to lower-wage areas in South Africa's non-metropolitan regions (especially KwaZulu Natal) has been followed since the 1940s, and was reinforced by the NP's racial industrial decentralisation policies in the 1980s, and continues to be pursued as a strategy by manufacturers, including South Africa's largest clothing manufacturer Seardel. Decentralisation has since at least the 1980s also been effected to other states in the sub-region, such as Lesotho, Swaziland and Malawi. Much has been written on this strategy (e.g. Altman 1993; Gibbon 2002; Hart 2002), rendering further explanations unnecessary. Up until the beginning of the 1990s, decentralisation was sufficient as a strategy of flexibility. However, global exposure forced new strategies not dissimilar from what have been witnessed elsewhere in the world. These are:

- The first strategy is to shed or reduce the manufacturing function and thereby the labour component, partially or wholly, leading to some manufacturers becoming design houses or importers. This particular adjustment ('downsizing' through retrenchments and casualisation) has led to the assembly of apparel being externalised ('outsourced'), including to the household, either as a cost initiative by large manufacturers or as a livelihood strategy by retrenched workers. Casualisation involves the increased use of previously employed workers in part-time, temporary or contract work.
- The second strategy, which was supported with government incentives, was to reorient production from the domestic to the export market.

Therefore, instead of systematically planned restructuring of the industry to meet the demands of domestic realities, *inter alia* a large unemployed workforce with low skill levels, the industry was forced to restructure in a reactive, disorganised manner. The result was therefore unsurprising: large-scale job losses and the contraction of a labour-intensive industry which could have been a generator of jobs.

4.1 Contraction and externalisation

Flexibilisation strategies pursued in the clothing industry include the reorganisation of social relations of production through processes of externalisation, such as casualisation. Casualisation involves employing temporary, contract or part-time workers, when seasonal demand requires an increase in production. Frequently, these workers were previously employed in a full-time capacity with concomitant social insurance. Another strategy is 'outsourcing', which the low-capital, light industrial nature of clothing manufacturing lends itself to. 'Outsourcing' is a phenomenon observed across the world to varying degrees in the industry throughout the 19th and 20th centuries. Reorganisation of production became necessary from the 'stagflation' years of the 1970s onwards to meet the demands of post-Fordist niche marketing. Post-Fordist production encompassed 'a system of batch production of differentiated, higher-value products' driven by design and marketing (Gibbon 2002: 11). In clothing production, niche marketing necessitated shorter lead times and smaller production runs, which demand smaller, more flexible production units. This process was dubbed 'flexible specialisation', where the rigidities of assembly-line mass production are corrected through the creation of a 'community of producers' to whom production is subcontracted (Sabel and Piore 1984 in Green 2003: 38). However, the South African clothing industry was slow to adjust.

The South African clothing industry has historically been conservative, opting for survival more than the maximisation of profits (Altman 1993: 33). The industry has been criticised as being too inflexible in its production methods; unresponsive to the changing global environment; unwilling to invest in capital goods, as reflected in the low levels of such investment; and unable to improve efficiencies. The management structure of the industry is regarded as top heavy and expensive, while managers and owners contribute little along the lines of innovation and renewal, and fail to grasp 'South Africa's market access arrangements' (DTI 2005; Barnes 2005: 7). Labour relations are sub-optimal, as employers continue to regard workers as another 'input into the production process' (DTI 2005). One reason for the low levels of capital investment in the industry, and the resulting problem of aging technology is that, because a clothing business requires relatively little start-up capital, such companies have frequently been family-owned in South Africa. The owners are therefore more prone to be risk averse because the business rests on family capital (Interview 1; Altman 1993: 26). To exacerbate this, the industry is not attracting 'new blood' because of perceptions that clothing manufacturing in South Africa is a 'sunset industry', rendering it an unattractive option for young professionals and engineers and depleting the sector of management and industrial expertise (Interview 7).

Respondents also pointed out that the signals from government about the future of the have been confusing and have strengthened perceptions that government also regards the industry as a 'sunset industry', or that the industry is being sacrificed for the political objective of belonging to the WTO (Interview 1). This further explains the low levels of new capital flows into the sector. These factors add to a lack of competitiveness as the industry requires the latest in machinery and information technology to ensure responsiveness to retail sales.

The industry, with its focus on surviving rather than growing, has always selected static flexibility over dynamic flexibility (Altman 1993: 33). Static flexibility places an emphasis on labour cost flexibility, which was historically achieved through geographical decentralisation to low-wage rural areas. During the 1990s, manufacturers turned to casualisation and informalisation to meet the challenges of global exposure. While the industrial strategy proposed in the Altman report (1993: 49-65) suggested a flexibilisation of production through reorganising the production line to enable short-cycle manufacturing and 'quick response relationships', companies opted for the externalisation of the labour function. In South Africa it has entailed the same actions as elsewhere: factories are replaced by networks of informal producers in coordinated clusters which are connected with the formal economy through subcontracting (Castells and Portes 1989: 29-30).

The subcontractors in the South African clothing network, or Cut, Make and Trims (CMTs), are frequently small, household-based clothing manufacturers. CMTs are the product of two phenomena associated with the increased competition in the clothing market: firstly, manufacturers downsizing to 'core', value-adding functions such as design and marketing; and, secondly, the closures of manufacturers unable to cope with the concomitant price pressures. In the first case, retrenched workers are set up with equipment in the household by erstwhile employers, thus creating CMTs (Interview 3; Van der Westhuizen, 2005: 345). In the second case, retrenched workers would start CMTs as a survival strategy to 'put food on the table' (Van der Westhuizen, 2005: 347; Interview 3).

CMTs provide the flexibility that the large factories deem 'too expensive' (Interview 2), due to set structures and factory floor organisation. CMTs can easily replace one 'style' with another because of flexible production lines. At large factories it would be too costly, in terms of production time, to switch 'styles' mid-production (Interview 1). The CMTs fulfil this function most strikingly in cases where a large manufacturer receives urgent additional orders from a retailer in response to good sales of particular garments (Interview 3).

In both the Western Cape and KwaZulu Natal, manufacturers reorganised themselves to fulfil the function of intermediary between the CMTs and the retailer. Sometimes this happens in the process of downsizing a manufacturing company. In some cases, manufacturers retain limited manufacturing capacity while parcelling out work to CMTs when their own capacity is exceeded.

CMTs can be divided into three categories. In KwaZulu Natal, metropolitan CMTs employ between five and 150 workers each, going up to 300 workers in a few cases; in the Western Cape, metropolitan CMTs employ between three and 150 workers each; and in the non-metropolitan areas of the former homeland Qwa Qwa, CMTs employ up to 200 workers (Interviews 3; 9; 12; Van der Westhuizen, 2005: 342). The weekly income at a medium-sized CMT with up to 100 workers in metropolitan Cape Town is R30 000; the annual turnover of a medium-sized CMT in metropolitan KwaZulu Natal is R600 000 from January to June and R1,4 million from July to December, while a large CMT with 110 workers has a turnover of R1,8 million from January to June, and R3,2 million from July to December (Interviews 3; 9). These figures reflect the unsettling effect of seasonality on clothing firms, which is one of the impacts absorbed by CMTs. Medium and large CMTs operate from rooms built onto houses. The third type of CMT is the survivalist operations with between one and five workers, which struggle to complete orders on time and therefore lose payments and suffer cancellations. These workers manufacture clothing from lounges and garages, and in 2002 paid workers R250 each per week in peak season, provided orders were completed (Van der Westhuizen 2005: 300-349).

The primary characteristic of the CMT is its invisibility to regulators, as these operations are situated in households or on residential premises and are of a short-lived, up-and-go nature. Therefore non-compliance with BC agreements and non-registration with the BC are rife. Some 877 CMTs employing 24 000 workers were to have writs of execution issued against them for failing to comply with BC agreements, including registration and conditions of employment (*Mail&Guardian* 19/9/2005). Apart from illegal arbitrary variations in wages (from as little as R50 per week to R450 per week in both the non-metropolitan and metropolitan areas in 2005), CMT employers under-register the number of workers in their employ to reduce levy costs. Some 700 small operators may be prosecuted for not paying the minimum wage as agreed in the clothing BC (*Business Report*, 23/8/05). In KwaZulu Natal, the CMT Employers' Organisation has 162 members who employ a total of 8 500 workers, but estimates the number of CMTs in the province at between 500 and 600, representing another 17 000 workers (Interview 9). Therefore, between 338 and 438 CMTs in KwaZulu Natal are not registered with the National Bargaining Council, the reason being avoidance of the levies associated with registration (Interviews 9; 12). These levies include provident fund and health care levies. A registered business also has to pay UIF for each worker, the SETA levy, and allow workers paid leave; paid public holidays; and 10 days paid sick leave. According to CMT employers, they cannot afford these costs because payment for production is too low (Interviews 3; 12), and prices have been suppressed, especially since 2003 (Interview 9).

Competition in the sector is of the 'race to the bottom' variety, with CMTs engaged in a 'price war' with each other, with factories in the non-metropolitan areas, and with imports (Interview 3). As the value chain is buyer driven without much space for the manufacturer to manoeuvre, CMTs are forced to accept the prices offered. As an example of the small cut that a CMT may receive of the final price: for a woman's shirt retailing at R249, a KwaZulu Natal CMT would receive R18,50 (Interview 9). It is emphasised that CMTs 'supply the labour' in the clothing manufacturing process (Interviews 3; 9), without acknowledgement of the costs of overheads such as rental, telephone, electricity, needles, thread, sewing machines rental and maintenance, and the transport of apparel. Large manufacturers are opposed to CMTs being allowed exemptions (Interview 11), as CMTs do not purchase fabric (which is the most expensive input at 60 percent of the price of a garment), and usually do not cut the fabric.

CMTs in the informal economy avoid paying costs associated with labour, including provident fund, medical aid, and skills training, and do not grant paid sick leave or holidays. Therefore, the social costs are absorbed by the worker who, because of the adjustments in the industry, cannot find employment in the regulated, formal economy and therefore is forced to work in unprotected conditions.

The primary problem associated with the rise of CMTs relates to the real nature of these operations. Instead of the romanticised notion of ‘flexible specialisation’, CMTs are cut-throat operations which cannot afford the necessary investment to become competitive in the long run. CMTs are undercapitalised, which means that no capital is made available for technology or skills upgrades. The older generation of machinists who gained their skills through training in protected factory environments during the 1970s and 1980s are fast fading away, and with them the skills that make the South African clothing work force competitive in quality, upper-end apparel markets (Interview 7). Whether the industry’s future lies in niche markets or mass production, CMTs in their current state cannot on the whole produce competitively for either of these markets. Their invisibility renders CMT owners unaccountable to workers and regulators. Their underground, ‘up-and-go’ status ensures that even in cases where sufficient profits are made such capital will in all probability not find its way to further productive investment. Moreover, the invisibility of CMT workers ensures little bargaining power, causing these workers to be subjected to unhealthy working conditions, including long hours; inconsistent or no payment for work rendered; and no social insurance. CMT workers absorb the costs of the seasonality of clothing production, earning less or no money.

4.1.1 Retailers and intermediaries

Apart from the manufacturers, large and small, the other actors that can be identified since the mid-1990s are the retailers and intermediaries/design houses. As the clothing value chain is regarded as a buyer-driven chain, the retailers are the most important actors in the clothing value chain. Power is located at the end of the pipeline as the retailers determine the orders and the prices, causing surpluses not to be distributed through the pipeline but concentrated on the retail end (Altman 1993: ii; 15). The market in South Africa is dominated by a handful of large companies on which manufacturers have been dependent, and which have shown large increases of between 20-30 percent in sales between 2004 and 2005 (www.dti.gov.za/news, 23/7/04; *Business Day*, 13/7/05). The largest of the retailers, Edcon, improved its headline earnings with 76 percent between 2004 and 2005 (www.edcon.co.za), in a context of lower interest rates and a consequent boom in retailing since 2003. One respondent pointed out that South Africa needs more smaller players in the retail sector to spread the opportunities (Interview 1).

The rise of branded marketers and retail chains in the global economy has been associated with the rise of 'arm's length global production networks' (Gereffi 1994 in Gibbon 2002: 5), a process mirrored in South Africa with the explosion in CMTs, as described above. Consequently, retailers oppose protectionism and government subsidisation of manufacturers, while espousing competitiveness in clothing manufacturing because of its benefits for the consumer (Interview 6; *Business Day* 13/7/2005). The retail sector rejects the call of trade unions to source 75 percent of its produce locally because it does not regard 'saving' the clothing industry as its duty. However, retailers insist that they are strong supporters of local manufacturers, having 'grown' the local industry (*Business Day* 13/7/2005). Importing is regarded as 'a headache', which is why the large retailer Truworths imports only what cannot be produced locally (Interview 6).

Regarding the intermediary: the intermediary is frequently an individual previously employed at a manufacturing or retailing company and is therefore someone with pre-existing networks who acts as go-between between retailers and producers. Some have design capacity (Van der Westhuizen, 2005: 345-6) and most handle the cutting of garments themselves. They engage with the retailer, either presenting designs or receiving orders from the retailer. They frequently supply the patterns and manufacture the sample garment. All recruit CMTs from their network, spreading orders among several CMTs to reduce the risk of non-delivery.

4.1.2 From manufacturer to importer

Some manufacturers, such as Seardel and House of Monatic, continue to manufacture apparel but augment their production with imports from Asia. Seardel stated in its 2004 interim report that it sources overseas clothing product 'innovatively' as one strategy to counter the influence of the imports influx on their market (www.seardel.co.za). House of Monatic imports the goods that it cannot manufacture (Interview 7). Between 10 and 25 percent of the Cape Clothing Association's members, ranging from small to large manufacturers, also import (Interview 2). Asian manufacturers in South Africa have followed the same route, as a site visit to Newcastle showed: several erstwhile clothing factories had been recreated into 'factory shops' where imported apparel is sold.

5. Becoming exporters

The South African clothing industry is comparatively unusual, as it supplies both the domestic and foreign markets. In the wake of South Africa's policy decision to join the global regime on clothing and thereby expose the local market to foreign competition, some manufacturers sought to reorient themselves to produce for the export market. In the clothing and textile sectors combined, 30 percent were supplying foreign markets in 2005, compared with 10 percent in 1994 (*Business Report*, 2/2/05). The clothing industry on its own had less exporters by the second half of 2005, at a figure of about 150 out of a total of 2000 clothing manufacturers registered with the Sector Training Authority (SETA) (Interview 13). A number of clothing manufacturers had been exporting apparel to the US and EU markets for a substantial period of time. On the back of a weaker rand, some large KwaZulu Natal CMTs (with around 300 workers) exported jeans to the US, ceasing when the rand turned (Interview 9).

Both experienced and new clothing exporters found the strong rand militating against their international ambitions from 2003 onwards, while the influx of cheap imports rendered production for the domestic market unsustainable. In 1999 clothing exports surged with 38 percent; only to fall by a similar percentage since mid-2003 (Interview 4). The largest clothing manufacturer in Southern Africa, Seardel, announced in August 2005 that its headline earnings per share would decrease by 30 percent from the previous year (*Business Report*, 23/8/2005). Its clothing exports dropped by 53,5 percent from 2003 to 2004 as a result of the stronger rand, accounting for 9,2 percent of total revenue in 2004 as opposed to 19,9 percent in 2003 (Seardel Interim Report 2004). Only a 'small percentage' remains of those who in 2001-2003 had been exporting on the back of a weaker rand (Interview 2).

Table 7: March-Quarter 2005 Export-Import performance for clothing, textiles and leather

	Exports	**Imports**
Growth: over March-Quarter 2004	-28.54	2.13
Growth: over March-Quarter 1999	-5.27	13.76
Share in manufacturing in March-Quarter 2005	2.13	5.34
Share in manufacturing in March-Quarter 1999	3.94	3.85

Source: *SA Manufacturing Review*. DTI, 2005

Overall export performance has been below expectation (Kaplan 2003: 25), especially when South Africa is compared with other AGOA participants. As can be seen below, South African exports have fallen substantially since 2003, while exports from other AGOA signatories have continuously been rising. While the year-to-date figures for 2004 and 2005 are lower for AGOA exports overall—possibly reflecting the end of the Multi-Fibre Arrangement—South Africa's figure for 2005 is almost 50 percent less than that for 2004.

Table 8: South African apparel exports and total apparel exports to the US market under AGOA

	2001	**2002**	**2003**	**2004**	**7/2004 Year-to-date**	**7/2005 Year-to-date**
South Africa	$194.887m	$200.019m	$232.318m	$141.466m	$80.714m	$44.370m
Total AGOA exports	$954,107m	$1.108.455m	$1.504.499m	$1.751.712m	$927.719m	$833.900m

Source: US Department of Commerce, www.agoa.info

Exploring the reasons for the disappointing export performance brings one to the first broad observation that differences between the economic environments in South Africa and its trading partners influence exporters more than producers for the domestic market. These differentials include lower inflation and lower overhead costs, such as electricity, transport in trading partners, while municipal rates in South Africa have been escalating (Interviews 7; 10).

Moving to reasons more specific to this juncture in time, the statistical evidence shows, first, the impact of the weaker rand in boosting exports, and then the impact of the stronger rand in reducing exports. Manufacturers interviewed in this study were adamant that competing in the international market is impossible without a weaker currency and government support. Those manufacturers that managed to retain their export market in the face of a strong currency, were able to because of one of three factors: long-standing relationships forged over several years (House of Monatic; Seardel; Allwear; Tern Sportswear); or a strongly interconnected relationship with an overseas customer where fabric supply to the manufacturer is part of the deal (Lolita Clothing); or being vertically integrated with a textile manufacturer (Standard Textile Company and Tern Sportswear). This raises two issues: the destabilising effect of government indecision on business planning, and the demand for a ready and reliable supply of textiles.

Access to textiles is a highly limiting factor cited by a number of respondents (Interviews 1; 4; 10). Competitiveness in the world market demands ready access to a reliable supply of a variety of quality textiles. The capriciousness of consumer demand, driven as it is by marketing, makes this even more important. However, textile supply in Sub-Saharan Africa is known as sub-quality, unreliable and suffering from insufficient volumes, long time lags and limited variety. In South Africa, the chronic underinvestment in the textile industry has led to a 1998 estimation that R3 billion to R10 billion over 5-10 years may be necessary to modernise and add capacity in spinning, weaving, finishing, dyeing and printing (USITC 2005: K-42).

The reality of poor textile supply also explains South Africa's disappointing uptake of AGOA preferences. The AGOA triple-transformation rule—not only fabric but also yarn should be sourced from either the US or signatory states—has prejudiced South Africa and Mauritius which do not enjoy lesser developed status under AGOA like Lesotho and Kenya. This rule of origin would be less of an obstacle for a country with a high level of vertical integration of its clothing industry (Gibbon 2002: 4). In the interviews, exporters argued strongly that the government should engage the US to change the highly constraining rules of origin in AGOA. This is after the Mauritius EPZ Association made a submission in 2004 to the US House of Representatives, asking for a special dispensation to access third country textiles, a request which was granted. Namibia and Botswana received a similar concession in 2002. Lastly: AGOA is a unilateral endeavour from the US, put in place through legislation and subject to being revoked or not renewed. Thus it exacerbates the conditions of uncertainty currently prevailing in the industry.

5.2 Government support limited to exporters

Reorientation towards export markets was partly enabled by the government's Duty Credit Certificate Scheme (DCCS), an incentive programme launched in 1993 and aimed at boosting manufacturers' export production through providing customs duty rebates on imported inputs to such manufacturers. Originally, it contained conditions aimed at ensuring training and the improvement of productivity (Interview 13). The DCCS operated similarly to the NP's Structural Adjustment Programme of 1989, and was meant as a temporary measure, intended to end in March 2005. However, an assurance was gained from the outgoing director general of trade and industry in October 2004 that the scheme would be extended (Interview 11). The scheme is based on a similar 'structural adjustment programme' for the automotive industry, called the Motor Industry Development Programme. Nonetheless, it has come to be regarded as non-compliant with WTO rules, according to which such support measures are disallowed subsidies. Ironically, the purpose of the scheme was to enable clothing manufacturers to operate independently from government subsidies (www.Mbenzi.co.za 2002). However it came to be used as a cost input by uncompetitive manufacturers (Interview 5; 13). Manufacturers reportedly 'sold' their certificates to retailers who then used the certificates to import apparel (*Business Report*, 2/2/2005), which is clearly counterproductive. Similar practices occurred under the SAP, also leading to imports being boosted (Altman 1993: vi-vii). The DTI also found that companies able to compete as exporters were 'up to speed' with training and measures to improve productivity (Interview 13).

The DCCS became politically sensitive. While exporters claim in the interviews conducted that their activities are doomed without such assistance, the Department of

Trade and Industry insists that the scheme be substantially modified. The Western Cape government has stated that while the scheme should be reviewed it should still be retained as an integral part of South Africa's trade policy (Western Cape Provincial Development Council 2004: 24). The amendment of the DCCS to bring it in line with WTO rules were finally supported by government, manufacturers and SACTWU alike by the middle of 2005. It was to be replaced with an Interim Clothing Industry Development Scheme while a new scheme would be devised as part of the government's Customised Sector Plan (CSP). However, by end October 2005 the interim plan had not been instituted, despite another assurance from the DTI (DTI 2005). The uncertainty encumbered exporters' business planning, as orders in the international markets work on six-month cycles (Interviews 5; 11). Exporters had to decide by the second half of 2005 whether to agree to orders for 2006 while not having information on whether the minister for trade and industry would approve an interim scheme, or what such a scheme would entail. The uncertainty exacerbated the threat of losing long-standing relationships and market space, which would take a long time to re-establish (Interview 10).

A second, lesser known scheme carried over from the pre-1994 era is the so-called '470.03' rebate provisions for export manufacturing. Companies importing yarn, fibre or fabric to be converted into apparel for export purposes, can do so duty-free. Exporters utilising the 470.03 may not use the DCCS. Such companies had previously been estimated at 55 to 60 percent of the total number of exporters, and are mostly foreign-owned (Taiwanese) companies producing for the US market from KwaZulu Natal's non-metropolitan areas (Kaplan 2003: 29, 31). However, it seems that the DCCS had overtaken the 470.03 by 2005, as it was then estimated that 50 to 60 percent of exporters utilised the DCCS, representing some 100 companies (Interview 13).

Other government initiatives include the Competitiveness Fund, which was hampered by late implementation; and low interest loans for capital upgrade, which was primarily aimed at the textile sector (Interview 13). Some investigations were also launched at provincial level to produce solutions for the troubles besetting the industry. Government, the industry and SACTWU also agreed on country of origin labelling, which became law in 2005. However, respondents from the industry again criticised the DTI for taking too long to agree to this step. Respondents also expressed concern over Alec Erwin's successor as minister, Mandisi Mpahlwa, not interacting with the industry as much as Erwin did.

The clothing and textile sectors were collectively earmarked by 2002 as part of the President's Growth Strategy plans, and the Department of Trade and Industry's Trade and Investment South Africa (TISA) division focussed on the combined sectors as part of a group of eight with the 'greatest' growth potential. Within TISA, a business unit is responsible for the identification and removal of blockages to the development of priority sectors in support of the DTI's Integrated Manufacturing Strategy and government's microeconomic reform strategy. Interventions are limited to legislation, regulations and strategic direction (www.dti.gov.za). Both the department of trade and industry and science and technology have identified the clothing industry as a priority sector to be supported for the purpose of cost-effective job creation (Peninsula Technikon, 2004: 8, 9). A customised sector programme (CSP) was developed and agreed upon by mid-2005 by the industry, government and SACTWU but a subsequent revision provoked controversy as the industry felt excluded by government and SACTWU. The agreed-upon, pre-revision CSP contained the following actions:

- The government to engage with multilateral forums to ensure that South Africa could respond as a developing country to dumping;
- Capacity at customs to be improved to eliminate under-invoicing and illegal imports;
- A partnership to be established between Southern African Customs Union (SACU) members to ensure consistency in policy;
- The maintenance of tariffs at extant levels;
- The monitoring of the temporary DCCS replacement, the Interim Clothing and Textiles Scheme and its eventual replacement;
- The exploration of export opportunities to the rest of Africa (Barnes 2005: 12-13).

The subsequent revisions rendered the CSP less 'biased' towards business, and included an emphasis on black economic empowerment, while excising mention of the interim scheme to replace the DCCS. An acrimonious lack of consensus continued to haunt the CSP during October 2005. Since then, the three key components of the industry – textile mills, clothing manufacturers, and the five big clothing retailers – have forged a ground-breaking business alliance. This alliance seeks to increase competitiveness and facilitate cooperation along the value chain, starting with the retailer, and moving through to the clothing manufacturer and textile mills. However, a major challenge remains the fraught relationship with labour, particularly over the high, persistent and growing degree of non-compliance with minimum wage rules (*Financial Mail*, 23 June 2006).

Thus, the potential for concerted action is drastically undermined by the divisions and high levels of suspicion among role players, whether it is between the government, SACTWU and the industry, or within the industry between large and small manufacturers. The clothing sector is an industry under immense pressure, causing fractures which further contribute to the lack of concerted action to address the growing woes. An illustration is how haphazard restructuring has led to the birth of CMTs and conflict among large and small manufacturers battling for a piece of a rapidly shrinking pie. CMT owners accuse the large manufacturers of abusing the BC to protect vested interests. The coercion of CMTs to abide by BC agreements is aimed at undermining smaller operations. The aim is to concentrate the industry in a few large hands, according to CMT representatives (Interviews 9; 12). The large manufacturers argue that for CMTs not to abide by BC agreements would give them an unfair advantage, as the large manufacturers have more overheads to cover, and supply the fabric which is the most expensive input in clothing manufacturing (Interview 11).

A perception also exists that the government has a pro-union bias because of its political alliance with COSATU, which is why its excludes the employers from important talks. This perception was strengthened by the emergence of the Alec Erwin/Ebrahim Patel plan to ‘save the industry’ (*Business Day*, 13/7/2005). The government and SACTWU also have a similar approach to the clothing and textile industries, in that they conflate clothing and textiles and deny the competing differences between the two industries. The fragmentation in the industry is a serious obstacle to its recovery.

Government policy influences the environment and the kind of clothing industry found in South Africa today, and government's stance on policy intervention becomes a factor in itself. The accelerated implementation of the WTO ATC sparked consequences which the government appears unable to deal with. As one role player remarked: 'They don't know what to do, so now they are doing nothing.' This perception was strengthened by the confusion surrounding the renewal of the DCCS. While manufacturers accept that the DCCS has to be amended because of it being in conflict with WTO rules, the lack of a decision by government has further contributed to the destabilisation of the industry.

6. The social fall-out of clothing trade liberalisation

Many clothing workers in developing countries would not have an income in the formal sector were it not for the clothing industry (Nordas 2003: 30-31). Some trade theorists posit that workers retrenched from uncompetitive industries will experience a short period of frictional unemployment before undergoing training and accessing new employment opportunities. However, developing countries frequently suffer low investment levels which result in sub-optimal job creation, as has been seen in South Africa with its capital formation level of only 16 percent of GDP. Therefore, restructuring has been associated with growing unemployment, and re-employment levels in the clothing industry have been low, as can be seen in the table below (ESSET 2003: 10). Several respondents in this study emphasised the labour intensive nature of the clothing industry and its social function in absorbing relatively low-skilled labour which is otherwise currently not being absorbed in the South African economy (Interview 1; 4; 10). Page (2004: 2) notes that ameliorating the negative consequences of trade policy through social policy and administrative targeting is complex, which accords more importance to the analysis of first round effects of changes in the trade regime. Whether such considerations have played a role in the policy decision to liberalise clothing trade is unclear.

Table 9: Re-employment rates for workers retrenched between Sept 1997 and Sept 2000

	No of workers	**Percent re-employed**
Re-employed	13 163	30,9%
Not re-employed	29 383	69,1%
Total	42 546	100%

Source: ESSET 2003: 28

When identifying those more exposed to trade-related shocks, vulnerability by livelihood group, socio-cultural identity and geographic location should be investigated (Page 2004: 6). Clothing workers fall into the livelihood groups ‘urban industrial workers’ and ‘rural industrial workers’, categories characterised by low entry barriers (e.g. skills), low wages and high levels of drudgery (Page 2004: 6). Some 86 percent of the workers in the South African clothing industry are women, which fits the world-wide trend. Women are regarded as particularly ‘suitable’ workers for the clothing industry because of their perceived capacity for long periods of physical immobility, patience, dexterity and for their ‘docility’ (Benería and Roldán, 1987: 44–9 in Van der Westhuizen 2003: 21). Labour flexibility is associated with the international increase of female labour, and is a gender, race and class construct, as black and working class women predominate in unregulated, low-wage, low-skill, low-status jobs (Van der Westhuizen 2005: 338). In South Africa, clothing workers are geographically and racially differentiated, with black women predominating in the industry in the rural areas of KwaZulu Natal and coloured women predominating in the industry in the urban areas of the Western Cape. Therefore, poor women of colour absorb the social costs of liberalisation, as shown in the case of the clothing industry in South Africa over the past 15 years.

Livelihood strategies for retrenched clothing workers are limited by the dearth of economic opportunities in communities which are already under stress and under-resourced. First, prior to employment loss these workers were low wage earners who increasingly found themselves to be the sole breadwinners as jobs in other sectors were lost, which has meant that after these workers’ employment loss such households have been pushed into poverty. Second, these workers cannot find alternative employment due to limited economic diversification and the low rate of job creation and, hence, labour absorption in South Africa. The limited employment opportunities in Mitchell’s Plain outside Cape Town, for example, cause clothing workers to arrange employment for family members at the clothing factories where they are employed, with the result that a factory closure can cause a household to lose all its breadwinners in one foul swoop (Van der Westhuizen and Deedat 2003).

Moreover, women’s employment loss can be devastating in poor communities as the effects are felt beyond the individual worker who loses her job. Studies in developing countries have shown women to be essential for the maintenance of livelihoods in poor families (Momsen 2001: 1, 2; Page 2004: 8). In South Africa, the lack of economic opportunities for the poor majority means that livelihood options are reduced to begging for food from neighbours, creating a snowball effect in which whole communities have to absorb the impact of job losses in the clothing sector (Van der Westhuizen and Deedat 2003). Studies have shown differential effects on family members, with women and children bearing the brunt of employment loss. Unequal power relations in the home ensure that the employed male partner's standard of living is frequently not affected by the female partner's job loss, as the women and the children bear the consequences of her job loss (ESSET 2003: 14, 36). Respondents in this study indicated that clothing workers in metropolitan areas support at least four dependants, while those in non-metropolitan areas support at least six dependants. In Newcastle unemployment stands at 60 percent, which explains the higher number of dependents per worker. Other studies have found higher numbers of dependants of clothing workers in urban areas, as can be seen in the table below. The rate of absenteeism in the clothing industry, which is notoriously high (7 percent), is ascribed to the social problems with which these women have to cope, including being the sole breadwinner, alcoholism, drug abuse, domestic violence, gang violence and women's continuing role as the caregiver within the household.

Studies published reveal an average profile of the retrenched clothing worker, which can be seen in the table below:

Table 10: Profile of retrenched clothing workers

Average age	39
Education attained	Grade 9
Average period out of employment	10 months
Period at last employer	10 years
Number of dependants	Three to eight
Number of children	Two to four
Household income (2003)	R33 749 per annum
Average personal income	R0
Average reduction in household income after retrenchment	31%

Sources: ESSET 2003; Van der Westhuizen and Deedat 2003; Van der Westhuizen 2005

A study published in 2003 found that retrenchment led to a ‘significant and sustained decline in household income, severely constraining the ability of households to maintain expenditure on healthcare, education and food’ (ESSET 2003: 13). In all, 68% of households reported the reduction of income spent on food as a coping mechanism since job loss, as budgets left little room for reallocation of other expenses. In 34% of household someone went without food because of lack of money; in 25% of households a child went without food because of lack of money. Some 76% of households reported being affected by the loss of health insurance. Loss of health insurance had a destructive multiplier effect, as the workers’ family members were frequently reliant on the workers’ sick fund for access to health care. Some 60% of interviewees were supported by another employed person in the household, and 27% were supported by people outside the household (ESSET 2003: 37, 39, 40). While urban and rural workers frequently access the available social security support mechanism—the child support grant—social security as provided by government is inadequate to buffer the shock, leading to respondents in the study reporting reduced access to healthcare and a decrease in food consumption. Poor nutrition, heath and education undermine families’ attempts to prevent a further slide into poverty (ESSET 2003: 13).

In another study (Van der Westhuizen and Deedat 2003) more than half of the respondents were the sole breadwinners in their homes before retrenchment. Respondents reported children being denied access to education because the parent was unable to pay school fees. Confirming the findings in the ESSET study, unemployed clothing workers were forced to make trade-offs between different needs, having to choose between purchasing food, paying for transport to look for a job, or pay-as-you-go electricity. Respondents frequently found themselves in a spiral of debt, as they borrow money to cover basic needs. Another coping strategy is the pooling of resources, as retrenched workers move in with employed family members, or send their children to live with employed family members. These strategies illuminate the pressure that families are placed under, and the resultant social fragmentation (Van der Westhuizen and Deedat 2003: 18, 21, 25). Finally, opportunities for re-employment are frequently limited to CMTs, with the concomitant problems of non-payment, underpayment, inconsistent payment, lack of social insurance, long hours and unhealthy working conditions.

8. Policy options and strategies

The survival of the South African clothing industry hangs in the balance, which should be of concern, given its labour-intensiveness and potential for job creation. While liberalisation has for the moment been halted as government, the industry and labour focus on rejuvenation strategies, further international pressure looms (Interview 13). World Trade Organisation negotiations on Non-Agricultural Market Access (NAMA) include eliminating tariff peaks in order to level tariff structures internationally, which may affect apparel in particular, given that it is one of the categories of goods with the highest tariffs in South Africa. This pressure is set to increase further, as the US and EU have indicated their willingness to altogether scrap their tariffs on apparel by 2015.

Short-term options to protect the industry include activating safeguards in terms of China's accession protocol to the WTO until 2008, while other limited safeguard measures are available until 2013. The plan by ex-minister of trade and industry Alec Erwin and SACTWU general secretary Ebrahim Patel to 'save the industry' included using WTO safeguard regulations to stem Chinese dumping. However, China has adopted a resistant approach in bilateral trade negotiations with South Africa. It was reported to have rejected South Africa's proposal to apply the principle of asymmetry to liberalisation processes between the two states, and a Chinese trade negotiator indicated that further job losses should be expected in the South African clothing industry after the free trade agreement has been concluded (*Sunday Times* 1/8/2005; 9/10/2005). Instituting safeguard measures against China would not fit government's foreign policy approach to China, as the DTI stated in its October 2005 submission to parliament that South Africa has ambitions to cultivate an economic 'partnership' with China (DTI 2005). In June 2006, the South African and Chinese governments signed a memorandum of understanding (MOU) on trade, which includes an undertaking by China to voluntarily restrict exports of clothing and textile products to South Africa until the end of 2008. This agreement involves import limitations on 31 product categories and 100 products, although there are questions about how enforceable this will be (particularly from the Chinese side). It is estimated that the agreement could cut imports from China by a third (*Financial Mail*, 30 June 2006).

Black Economic Empowerment (BEE) has been included in the revised CSP, and may be the way to attract new capital into the industry. The BEE approach also acknowledges the essential social function fulfilled by the clothing industry as a labour-intensive industry, as House of Monatic's takeover of Rex Trueform's Salt River factory in 2005 illustrates. House of Monatic is a subsidiary of BEE company Brimstone Investment Corporation, and Brimstone acted partly in the interest of 'job security for our community', according to its CEO Fred Robertson (*Cape Business News* 1/7/2005). Brimstone was planning a 'mechanism' to accommodate clothing entrepreneurs, which may refer to new entrants. This holds the possibility of building economies of scale. One respondent in the study insisted that the clothing industry is viable, provided government institutes BEE measures to activate the necessary support for newcomers (Interview 1). This may also address the persistence of apartheid-era labour relations. As the DTI has remarked, employers continue to regard workers as another 'input into the production process', and should rather approach them as partners in business (DTI 2005). BEE deals in which workers gain ownership in clothing companies will address this problem.

Turning to production, the Department of Trade and Industry and SACTWU regard production for international niche markets in value-added apparel as the future for the industry, while large producers maintain that mass production for the international market is within the reach of the industry, provided certain changes were effected. The 'niche market' argument is supported by the DTI and by SACTWU, and flows from thinking reflected in the Altman report. It centres on design and marketing of niche fashion items for the international market, produced by flexibly organised factories that can accommodate frequent style variation and small orders. The DTI regards the industry as suffering from a 'lack of creativity, entrepreneurship, vision and leadership', and an inability to adapt to changing global dynamics (DTI 2005). The industry is yet to find its competitive niche, according to the DTI. The minister of finance, Trevor Manuel, has similarly said the industry needs to innovate, rather than copy (*Business Day* 26/11/2004). In the Patel/Erwin document, it is proposed that South Africa could enter in the design and production space between what industrialised countries have shed and what developing countries are as yet unable to produce (*Business Day* 13/7/2005). The emphasis on fashion items, and the development of fashion districts in Johannesburg and Cape Town, form part of this line of thinking. One should take note here that competition from China also poses a hazard in this regard. China has started to move from basic mass-produced garments to the mass production of fashion garments.

From the industry side it is argued that the sector will contract with another 60 percent if this option is followed. It is argued that South African manufacturers should study the retail market in the US, target smaller retailers and embark on a concerted contact and relationship-building campaign to gain a slice of those markets. Respondents in the study levelled criticism at previous trade promotion trips which were poorly organised in terms of meeting the correct people and utilising time efficiently, which have led to despondency from the industry.

Efficiencies is possible, because small retail orders from the US are substantial by South African standards, i.e. long runs of one style, for example for 200 000 units. Lolita Clothing has been increasing its production under AGOA because of three factors: a strong relationship built with retailer in the US; ready supply of textiles as part of agreement with retailer, thereby alleviating the pressure of the 'rule of origin' demand in AGOA; and the DCCS (Interview 5). Tern Sportswear, the largest exporter at 1,5 million garments per month, receives US orders of between 150 000 units and 1 million units. Tern's CEO, Alan Jarvis, attributes its continuing export performance to, among others, large volumes (e-mail correspondence).

Manufacturers identify the following advantages for South Africa as exporter:

- Language compatibility with major target markets;
- Proximity to US market by ship;
- Infrastructure and communications far advanced in comparison to the rest of the continent;
- High labour standards can be utilised as marketing tool, given the improved consumer consciousness of ethical trade in the EU and US markets;

- ❖ While the skills of machinists may be in the process of being lost, there are enough machinists to provide South Africa with labour able to produce value-added fashion items;
- ❖ South Africa's design capacity is internationally competitive;
- ❖ Attraction of South Africa as tourist-friendly country to buyers and quality inspectors of US and EU companies;
- ❖ South African manufacturers' ability to provide full package services, which includes all functions from design to sourcing fabric to assembling to finishing, packaging and shipping.

While a compelling argument is made for mass production, it does not exclude production for niche markets. Some respondents argued that the changes in the South Africa clothing industry mirror those in southern Europe where the industry is also contracting (Interview 10). CMTs could play an important role here, as flexible production units which can cope with quick turn-around times and short runs. However, CMTs have to be regulated to avoid the abuses detailed above, and should receive government support. In particular, CMTs require business skills, seed capital, and access to credit (Interview 9).

Another option is regional integration. No country in the Southern African Development Community is competitive at every production stage of the textile and clothing supply chain. The production and value-adding steps in this supply chain require 'different resource investments in capital, skills and capacity building…and different markets have different competitive requirements for price, response time, product quality, the variety of products, and order delivery size' (Chemonics International 2004: 3). SADC is a net exporter of cotton of about 145 000 tons per annum which, if utilised in the sub-region, would go a long way in supplying fabric for AGOA exports (Chemonics International 2004: 6). Zambia, as a cotton producer with good spinning capacity and the potential for growth provided the necessary investments are made (Mtonga and Chikoti 2002: 3), has argued strongly for vertical integration on a regional scale. However, that would require massively upgraded textile mills.

Taking regional integration to another level, some industry players in South Africa believe that Africa could in the medium term become the next low-cost world producer of clothing, as Asian countries diversify away from the industry. In Japan, Taiwan, Korea, Hong Kong, and Singapore clothing manufacturing served as a stepping stone industry toward export-oriented economic development. Sub-Saharan Africa could accept that it cannot presently compete with China when it comes to the production of textiles. Instead, through adopting a regional approach, Sub-Saharan Africa could be next large producer of apparel for the global market. Textiles could be sourced from China to overcome the obstacle of textile shortage, while investments should be poured into developing a regional textile production capacity. This is, however, a medium to long-term vision, and as such requires concerted regional industrial policy.

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