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THE DEPARTMENT
OF TRADE AND INDUSTRY
SOUTH AFRICA



**DEPARTMENT OF TRADE AND INDUSTRY
POLICY SUPPORT PROGRAMME**

**INDUSTRIAL SECTORS POLICY SUPPORT PROJECT
CODE A.1.008**

**D7
FINAL REPORT – CLOTHING SECTOR**

JUNE 2002

SUBMITTED BY

**Industrial Restructuring Project
School of Development Studies
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DTI Policy Support Programme Website: www.tips.org.za/research/dtipsp

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Foreword

The Industrial Restructuring Project (IRP) was initiated at the beginning of 1996 as the KwaZulu-Natal Industrial Restructuring Project (KZN IRP). The project initially focused exclusively on KwaZulu-Natal, but is now aimed at supporting industrial policy in South Africa at the national, provincial and local levels. It is facilitated by international experts and is based at the School of Development Studies, University of Natal Durban. The project has two important features. Firstly, it focuses on critical issues that are impacting on the competitiveness of manufacturing sectors that are under threat from increased international competition and the liberalisation of the South African trade regime. Secondly, it is action-oriented in design. The findings that have been generated have, for example, been presented to numerous industry stakeholders, including government, business associations and trade unions. The project consequently has the support of various regional and national stakeholders.

This particular report/working paper has arisen out of both new research and the cumulative knowledge that has been generated from previous studies. These cover a number of IRP reports, working papers, journal articles and conference papers. Some of the themes covered include South Africa's manufacturing competitiveness, the automotive industry, the clothing and textiles sectors, footwear, middle-management capacity, human resource development, institutional support for industrial restructuring, and business services for manufacturing competitiveness. Enquiries regarding IRP material should be addressed to: The Librarian, Centre for Social and Development Studies, University of Natal, Durban, 4041. Tel: 031 2601031; Fax: 031 2602359; email: masmith@nu.ac.za.

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Acknowledgements

The **European Union** through its **Department of Trade and Industry Policy Support Programme** provided the principal funding for the writing of this research report. The financial support received from the European Union is sincerely appreciated and hereby acknowledged.

The authors would like to thank Peter Gibbon for his helpful comments and suggestions. We have greatly benefited from the South African Clothing Export Council's support, particularly from insights provided by its Executive Director, Jack Kipling. We also acknowledge the assistance provided by Hassim Randeree, the President of Clofed, Martin Viljoen, Executive Director of the South African Textile Industry Export Council, and Elaine Smith, based at the DCCS DTI Directorate. In addition, we are grateful to Gerhard Kuhn (IDC), Dirk Van Seventer (TIPS), Krystof Wojciechowicz (DTI), and Jane Kennan (IDS) for responding to our data queries. Finally, this report would not have been written without the support of the 29 firms that participated in this study.

At the School, we would like to extend a special thanks to our colleagues at the Industrial Restructuring Project, and to Sean Gannon who set up the interviews.

The views expressed herein are those of the authors and responsibility for the content lies with them.

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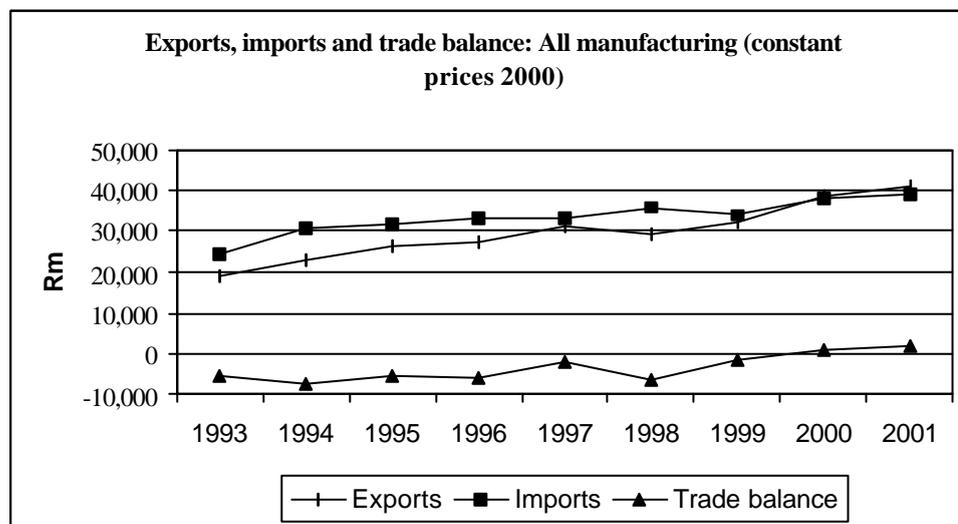
LIST OF ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
AQL	Acceptable Quality Level
CAD	Computer Aided Design
Clofed	Clothing Federation of South Africa
CMT	Cut, Make and Trim
DCs	Developed Countries
DCCs	Duty Credit Certificates – obtained under the DCCS
DCCS	The Duty Credit Certificate Scheme
DTI	The South African Department of Trade and Industry
ECCISA	The Export Council for the Clothing Industry in South Africa
EMIA	Export Marketing and Investment Assistance Scheme
EOS	Economies of Scale
EU	European Union (European Community in the WTO terminology)
GSD	General Sewing Data (system)
HS	Harmonised Commodity Description and Coding System (nomenclature)
HTS	Harmonised Tariff Schedule (of the US)
IDC	Industrial Development Corporation of South Africa
ISO	International Organisation for Standardisation (accreditation)
ITC	International Trade Center
KZN	Kwa-Zulu Natal Province
LDCs	The Less Developed Countries
MS	Member States of the European Union (15)
n.a.	Not available or not applicable
NCMA	The Natal Clothing Manufacturers' Association
NIEs	Newly Industrialised Economies (as generally defined)
NPI	National Productivity Institute
QA	Quality Assurance
QC	Quality Control
Rm	Million of Rand (similarly \$m is for Million of US\$)
SA	South Africa
SABS	The South African Bureau of Standards
SACU	Southern African Customs Union
SADC	Southern African Development Community
SATIEC	The South African Textile Industry Export Council
SDL	Service Development Levy
SETA	Sector Education and Training Authority
SIC	Standard Industrial Classification
SMMEs	Small, Medium and Micro Enterprises
TDCA	Trade and Development Cooperation Agreement (the bilateral free trade area deal between South Africa and the European Union)
T&D	Trade and Development (Act)
TIPS	Trade and Industrial Policy Secretariat
UNCTAD	United Nations Conference on Trade and Development
USITC	United States International Trade Commission
VC	Value Chain
WC	The Western Cape Province
WTO	World Trade Organisation

PREFACE BY RAPHE KAPLINSKY & MIKE MORRIS

The past two decades have seen a growing homogenisation of economic policy as the Washington Consensus has swept through the global economy. South Africa has not been immune to this shift in the policy agenda, particularly in the post apartheid era, manifested primarily through a new trade regime, with the gradual reduction in import tariffs,¹ and a reduction in the exceptionally large tariff dispersion.

There have been a number of important and related consequences to this changing trade regime. The increasing exposure of domestic firms to international competition (particularly in the industrial sector), has forced producers to face new and more intense forms of competition. “World Class Manufacturing” has forced itself onto the agenda and sets the standards for industrial restructuring. As a consequence of this restructuring, productivity has grown, albeit with a substantial fall in employment.² But, as domestic demand remained muted and as production competence grew, so South Africa’s manufacturing trade balance moved into the black on the back of rapid growth in manufactured exports. Significantly, for the first time in decades, exports exceed imports in 2001 (Figure 1), providing evidence of the growing exposure of South African producers to global standards of competitiveness, as well as to growing production competence. If sustained, this positive trade balance has the possibility of easing the foreign exchange gap constraining South Africa’s growth performance.



From the policy perspective, the key challenge is to provide both a general policy framework and a range of specific inputs which consolidate this growth in competitive capabilities. This fourth phase

¹ Between 1994 and 1996 the weighted average of import tariffs halved from 14 to 7 percent, and then stabilised at 5 percent after 1998.

² Using the DTI database, as a rough indicator of productivity growth, manufacturing sales per worker rose (in real terms) by 38 percent (1993 – 2001). Using TIPS SA Standardised Industry Input Structure data value added per worker has increased significantly by 33.4% over the period. During the same period, employment fell by 11 percent. Capital productivity (value added per fixed capital stock) according to the same source decreased by 3.3% over the period. There is no equivalent useful data to measure total factor productivity changes.

of the Industrial Restructuring Research Project aims to assist the building of sectoral policy implementation capacity within DTI by providing insights into those factors promoting international competitiveness (and exporting) in manufacturing. We focus on four value chains – two consumer goods products (clothing, furniture) and two intermediate goods products (auto components and leather). Loosely, they respectively group into buyer driven value chains and producer driven value chains.

The specific focus of this research programme is *to better understand the dynamics of exporting firms*. By focusing on the most successful exporting firms in each of the four value chains, (and in nominated sub-sectors), the study hopes to determine:

- ❑ what the characteristics are of successful exporting firms and the value chains in which they participate;
- ❑ whether successful South African exporters are locked into virtuous or vicious circles of global specialisation;
- ❑ to what extent exporting firms are able to change their positions in their value chains by *upgrading* their operations through a greater input of knowledge-intensive activities.

The virtues of Exporting

Based on the successful experience of both first- and second-tier newly industrialising economies, a new orthodoxy has grown on the virtue of exporting (see, for example, the World Bank's 1993 study of East Asian economic success). This posits benefits arising both for the economy as a whole, and for the corporate sector.

From the *economy-wide perspective*, it is argued that exporting provides the capacity to specialise in areas of comparative advantage. The previous import-substituting regime meant that economies were insufficiently focused on what they could do best with resources being put into activities which were unlikely to add to real GDP over time (or to do so at high opportunity cost). A second virtue of growing exports is a positive trade balance which provides the resources to promote rapid overall economic growth. And, thirdly, growing foreign demand (especially for labour-intensive products which are the comparative advantage of low-income economies) creates employment. This latter point is especially attractive for South Africa where the unemployment rate is so high that no conceivable increase in domestic demand would have much impact on reducing the rate of unemployment.

From the *firms-perspective*, growing exports offers a number of advantages. First, it allows the firm to specialise in those activities where it clearly holds a comparative advantage. Allied to this, the large volumes which can be sold on global markets makes it possible for the firm to reap economies of scale, not just in production but also possibly in design, marketing and logistics. Further, when exporting is accompanied by a competitive exchange rate, it may provide greater profits than when products are sold in the domestic market. And, finally, exposure to more demanding customers forces the firm to upgrade its products and processes and is thus a transmission belt for enhanced learning.

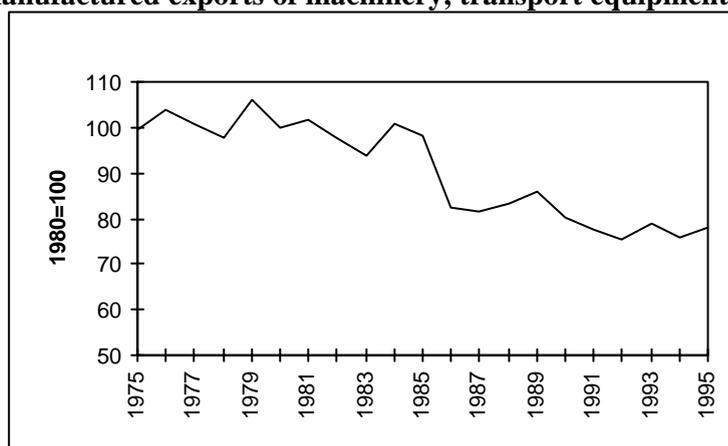
For all these reasons there is a growing orthodoxy on the benefits to be reaped from greater exporting.

Exporting and the conferring of benefits

But does exporting always confer benefits to producers? It is widely known that primary commodity prices as a whole have been characterised by falling terms of trade; as well as extreme price volatility. For this reason economic policy in many countries has concentrated on encouraging a transition from the production and export of primary products to the production and export of manufactures.

And yet, in recent decades this policy objective has become increasingly questionable. For it is no longer true that manufactured exports benefit from rising terms of trade. In particular, whilst the manufactured exports of the high income developed market economies have indeed continued to rise, those from developing countries have begun to fall. As can be seen from Figure 2, in the decade after the mid 1980s (when China becomes an increasingly active participant in global trade), the terms of trade of developing country manufactured exports fell consistently, and by more than 20 percent. This arises directly as a result of the competitive pressures which resulted from China's growing presence in manufacturing exports.

Figure 2: Price of developing country manufactured exports relative to developed market economy manufactured exports of machinery, transport equipment and services



Source: Wood 1997.

Beyond this aggregate picture, the scale of price decline was not limited to a global environment unrelated to the activities of South African firms. As Box 1 shows, many of the products produced and exported by South African manufacturers have shown an alarming fall in price. In the furniture sector, the only thing which has kept South African firms solvent has been the falling exchange rate (Box 2).

Exporting *per se* may not necessarily be a good thing; it all depends on the nature of what is being exported. In the worst case, when exports experience significant and sustained declining terms of trade, **immiserising** growth may occur. In other words, there is an increase in the scale of economic activity – more resources are used – but this results in a decline in absolute living standards. A less severe, but still troubling outcome is when the resultant growth rate is positive, but at sub-optimal levels. In other words, had the resources being utilised to increase exports been used in a different manner, then the outcome would have been more beneficial to income growth.

Box 1: Falling prices in South African manufactured export sectors

Global manufactured export prices of products traded by apparel firms

- ❑ The global price of chinos (in US\$) fell by 25 percent between 1997 and 2000
- ❑ During 2000, the price paid by importers of men's dress suits into the UK fell from £ 60 to £ 53
- ❑ Poplin shirts imported from the Far East fell in price from \$2.30 to \$2.00 in the 18 months ending in May 2001.

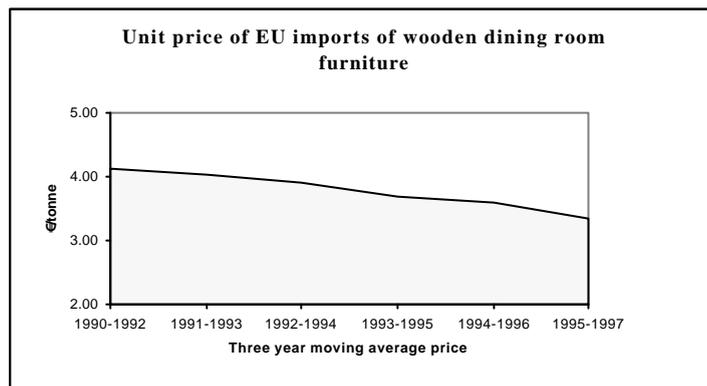
South African manufactured unit export prices

- ❑ The unit price of tanned sheep leather fell from \$32.19/kg in 1995 to \$6.58/kg in 2000
- ❑ The unit price of car leather seats fell from \$60.19/kg in 1995 to \$28.72 in 2000
- ❑ The unit price of leather shoes fell from \$11.29/pair in 1995 to \$9.56/pair in 2000 and of non-leather shoes from \$4.49/pair in 1995 to \$3.02/pair in 2000

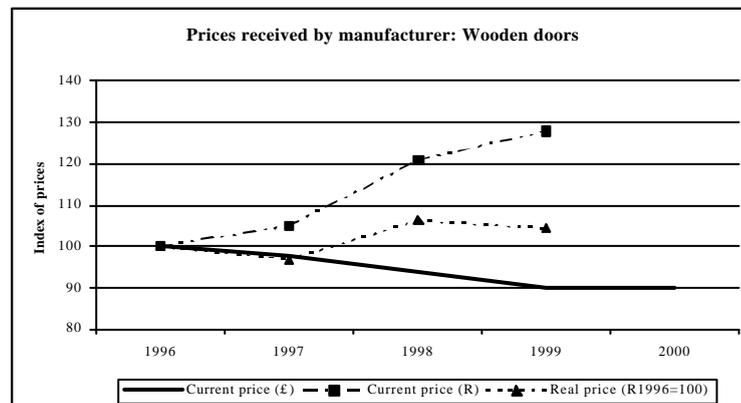
(Source: Kaplinsky, Morris and Readman (2001).)

Box 2: Falling global prices in the wooden furniture sector are extremely dangerous when producers are unable to upgrade

Growing competition in the wood furniture sector is having a major impact on the wood furniture industry. At an aggregate level, global prices are falling, as can be seen in the case of EU imports during the 1990s.



For some developing country producers who are locked into the commodity segments of this market (pine dining room furniture), the fall in prices can be very significant. For example, the Sterling prices of bunk beds and kitchen furniture received by two South African exporters of kitchen doors fell significantly, by more than 20% in four years. As can be seen, the only factor saving this manufacturer of doors was the falling exchange rate, which devalued by more than the rate of inflation in this sector. Although this may have saved the wooden furniture manufacturer, the upshot of devaluation for the economy as a whole is a fall in the international purchasing power of domestic value added.



Kaplinsky and Morris (2001)

The blunt policy prescription arising from this is that it is not so much a matter of whether South African manufacturers should be induced to export, but what they export. If they are locked into the production and export of products exhibiting a sustained and significant decline in prices (without a concomitant decline in production costs), then the outcome will be deleterious.

So, what determines whether firms are locked into these harmful export niches? The answer is the extent of competition which exists in each of these market segments. Unless firms find some way of escaping these competitive pressures – which, as we have seen, from the perspective of developing countries have been severely heightened by China's entry into global markets – they will not prosper. How do they avoid these competitive markets? By developing the capacity to upgrade. This is now increasingly recognised as the challenge facing industrial policy throughout the global economy, influencing not just national strategies, but corporate strategies as well.

A value chain perspective on upgrading

How would we know if firms had managed to upgrade their activities? Two schools of thought have addressed this issue in recent years. The first has focused on core competences (Hamel and Prahalad, 1994). The thinking here is that firms need to examine their capabilities to determine those of its attributes which:

- ❑ provide value to the final customer
- ❑ are relatively unique in the sense that few competitors possess them
- ❑ are difficult to copy, that is where there are barriers to entry.

The capacity to innovate therefore arises from concentration in these competences and the concomitant outsourcing of those functions which do not meet these three criteria. A useful supplement to this line of thinking is that in a dynamic world, core competences can easily become core-rigidities (Leonard-Barton, 1995), and part of the task of upgrading is to relinquish areas of past expertise.

Closely related is a school of thought focusing on dynamic capabilities (Teece and Pisano, 1994). It argues that corporate profitability in the long run cannot be sustained by control over the market (for example, through using quasi-monopolistic practices), but through the development of dynamic capabilities which arise as a result of its:

- ❑ internal *processes* which facilitate learning, including the capacity to reconfigure what the firm has done in the past
- ❑ *position*, that is its access to specific competences either within its own activities, or those which are drawn from the regional or national system of innovation
- ❑ *path*, that is, its trajectory, because change is always path-dependent.

Both of these related concepts provide an important backdrop for understanding the phenomenon of upgrading. They are especially helpful in understanding the factors both driving and facilitating improvements in product and processes which arise from the activities of the firm itself. But they are also weak because they stop at the level of the firm, and fail to capture upgrading processes which are systemic in nature and which involves groups of firms linked together in value chains. This is

particularly damaging for the core competences approach which explicitly neglects the chain through its normative conclusion that upgrading almost always involves outsourcing.

Consequently, we need to view the upgrading challenge in a wider perspective, capturing the central idea that it may involve changes in the nature and mix of activities, both within each link in the chain, and in the distribution of intra-chain activities. This relates both to the achievement of new product and process development, and in the functional reconfiguration of who does what in the chain as a whole. It is thus possible to identify four trajectories which firms can adopt in pursuing the objective of upgrading, namely:

- **Process upgrading:** increasing the efficiency of internal processes such that these are significantly better than those of rivals, both within individual links in the chain (for example, increased inventory turns, lower scrap), and between the links in the chain (for example, more frequent, smaller and on-time deliveries)
- **Product upgrading:** introducing new products or improving old products faster than rivals. This involves changing new product development processes both within individual links in the value chain and in the relationship between different chain links
- **Functional upgrading:** increasing value added by changing the mix of activities conducted within the firm (for example, taking responsibility for, or outsourcing accounting, logistics and quality functions) or moving the locus of activities to different links in the value chain (for example from manufacturing to design)
- **Chain upgrading:** moving to a new value chain (for example, Taiwanese firms moved from the manufacture of transistor radios to calculators, to TVs, to computer monitors, to laptops and now to WAP phones)

General methodological issues

The four value chain/sectoral studies have adopted a broad common methodological approach combining macro and micro data, utilising quantitative and qualitative sources. This general methodology has been adapted in each of the sectoral studies to cover the specificity of conditions in each of the separate sectors, as well as the need to disaggregate each sector into the various sub-sectors which exhibit the greatest exporting propensity. Furthermore each study differs with respect to the number of exporting sub-sectors, as well as the number of firms interviewed.

The macro data covers two data sets. The first provides a birds-eye, sectoral view of production, value added, employment and factor productivities in each of the broad sectors in which the specific researched value chains operate. This provides a broad sectoral background in which to view the behaviour of the researched chains. This data is drawn from a variety of data-bases, including those held by the DTI, the IDC and TIPS.

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The second set of macro data focuses on South African export performance in each of the researched chains, but at a high level of disaggregation. Specifically, it focuses on the nature of export performance in the three major buying markets, Europe, the USA and Japan. Three sets of detailed analysis have been undertaken:

- The growth of South African exports in each of these markets over the past decade
- The share of South African producers in each of these markets
- The performance of South African exports in relation to unit prices.

Unlike the sectoral data, where we have drawn on established data bases, we have undertaken detailed original analysis to produce this data, involving extensive analysis of import trends in each of these three major consuming markets.

In this respect the macro analysis is particularly useful for gaining a comparative perspective on export performance in regard to efficiency and upgrading trends in each of the sectors. The link as to whether exporting may be leading these sectors into an upgrading path or immiserising growth is investigated through broad unit price and market share movement. The following table provides a framework for understanding these relationships.

Figure 2: A framework for understanding the analysis of South Africa's export performance

Unit Price	Market Share	Possible Interpretation
-	-	Good indication that sector is moving into more quality products for which customers are willing to pay more, and they are successfully managing to increase their shares in this higher value market
-	-	Unlikely that upgrading is occurring. More likely explanation is that our sector is unable to produce the product competitively and is thus likely to be on a downward path in terms of market share
-	-	Possibility that process upgrading may have occurred which has resulted in production costs reducing so that the product is able to be sold at a lower unit price while still reaping a profit, and this price reduction has led to an increase in the market share
-	-	The sector is likely to be on a 'race to the bottom' where unit prices are being bidden down by strong competition, profit is negligible and despite this market share is still being lost because other firms are offering even lower prices

However, useful as this macro analysis is, its primary function is to provide the framework for asking more detailed questions of process and trajectory, and this is the subject matter of the micro-level studies. They raise a number of issues and potential hypotheses which are able to be investigated more fully through the firm level micro analysis.

The micro data analysis was based on firm level interviews with the most significant exporters in the most important exporting sub-sectors. In each case we aimed to interview the five leading exporters

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in each chain within each of the main exporting sub-sectors. The actual number of firms interviewed differs in each study depending on the characteristics of the disaggregation into various sub-sectors. Our rationale for this sampling procedure is that we are aiming to understand the upgrading benefits (if any) accruing to major exporting firms as a consequence of their export activity.

The micro level data collected from the firms was both quantitative and qualitative. Each firm was visited and key personnel were interviewed using a structured qualitative interview schedule. In addition a quantitative questionnaire was left behind for the firm to fill in and fax back to the researchers. Numerous follow up calls were made to attempt to elicit a reasonable response rate.

The firm level interviews and questionnaire were designed to allow the researchers to investigate some of the issues thrown up by the macro data analysis. The intention was to elicit responses in regard to exporting trends, whether learning from exporting was taking place, what the efficiency and skill levels were, how they were changing in response to export demands, how firms were responding to raised technical demands from foreign customers, and finally whether process, product and functional upgrading was occurring.

The micro data collection was also designed to lay the basis for understanding the various value chains operating in these sectors, and identify the driving forces governing these value chains. From the perspective of exporting firms it was important to identify the provision of access within these chains, how standards are set, how conformance to standards occurred, what room for manoeuvre exists with respect to changing roles and function, and finally whether exporting firms were locked into value chains which were locked into immiserising trajectories.

In addition the firm level interviews were intended to yield rich qualitative information a host of issues acting as 'enablers' and 'blockers' for exporting firms, and hence feed into any policy recommendations for the DTI in its role of export facilitation.

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1 INTRODUCTION

The clothing sector has played an important development role in a series of Asian countries. The basis for this role lies with the low training and low capital investments requirements associated with clothing production. These translate into low barriers to entry and exit from production. Clothing production and exports from the less developed countries (henceforth LDCs) have expanded over time. The LDCs' share in world clothing exports increased from 37.6% in 1965 to 65.2% in 1997. [Coughlin *et al.* (2001:4, Table 1)].³ The importance of clothing exports relative to textiles for the developing countries can be seen through the share of the sector in exports. Africa, Latin America and less prosperous Asia have a share of manufacture exports in clothing of 10% or more. Having said that, the regional export pattern hides important variations across countries and Africa is a small exporting region, accounting for less than 5% of clothing world export (WTO, 2001). A notable trend over the 1990s is that the range of suppliers has expanded to include China and countries that neighbour the major importing economies, i.e. the US and the European Union (EU). [See for instance Mortimore (1999), ILO (2000:9 ff) and WTO (2001)]

In contrast to an average of 19% of Africa's manufacturing exports accounted for by clothing, South Africa's (henceforth SA) textile and clothing sector only accounts for about 4% of manufacturing exports. [WTO (1998)⁴] According to IDC (1998), 1.32% and 0.35% of SA's exports were in textiles and in clothing respectively (with sectors defined according to the Standard Industrial Classification (SIC) nomenclature version 5). Clothing accounted for 1% and 1.1% of total South African manufacturing exports and imports respectively over the 1993-2001 period according to Department of Trade and Industry (DTI) data.⁵ When set internationally, SA displays little in common with the general reliance of Africa on the performance of the sector. Yet, the contribution of clothing to South African manufacturing employment is notable. In 1998, SA ranked 17 according to the ILO (2000:19). SA was ahead of Tunisia and India in terms of the number of (formal) employees in the sector. In a high (formal) unemployment country such as SA, any decline in formal sector employment especially in erstwhile Labour intensive sectors, is cause for concern.⁶

The mismatch between the size of the sector and S.A's clothing export performance is a major policy challenge. The fact that clothing trade has grown over the 1990s more rapidly than clothing production signals an increasing globalisation of the sector. Moreover, S.A's competitors are increasingly Asian countries. Whilst productivity differences matter in assessing the sustainability of relative export performances, the fact that Asian clothing exports to North America and to Western Europe increased annually by 5% and 4% respectively between 1990 and 2000 points to the strong position of these suppliers and the export challenges that lie ahead for South African exporters. The difficult international clothing export context is compounded by evidence that SA potentially has a

³ Textiles are also increasingly important to these economies. In 1997, 37.6% of world export originated from the LDCs. Textiles production is undertaken at more mature stages of development with the expansion of this sector corresponding to a strategy of upstream diversification. [ILO (2000)] Although textiles are expanding rapidly in the LDCs and contracting in the developed countries (DCs), production remains concentrated in the latter.

⁴ Figure for 1996. The contribution of the sector to manufacturing or to the economy varies depending on the statistical source consulted.

⁵ Clothing is defined as SIC 313, 314 and 315 aggregated in the DTI database. These are the manufacture of knitted and crocheted fabrics and articles (knitting mills), the manufacture of wearing apparel except fur apparel and the dressing and dyeing of fur sectors respectively. For purpose of comparison clothing is defined through Harmonised System (HS) codes 61 and 62 which differentiate clothing according to fabric type (knitted and crocheted falling into the first group and woven falling into the second). Groups defined under the referred SIC are more encompassing than trade product groups. For instance, SIC 313 contains HS 61 and 60 goods – the latter is the knitted and crocheted fabric group. SIC 314 incorporates HS 62, part of HS 65 and one HS 61 product, with HS 65 referring to headgear items. The text specifies which classification is used.

⁶ TIPS (2002a) estimates that more than a third of SA's population might be currently unemployed.

comparative disadvantage in the sector (although there is mixed evidence as to whether textiles or clothing fares comparatively better) [see Yeats (1998), Valetine & Krasnik (2000) and TIPS (2000:3)].

In spite of a context of intense international competition, S.A's clothing exports have expanded. However, an export expansion *per se* does not, in and of itself, shed light on the sustainability of the exports or of the returns generated. Assessing exporting qualitatively requires that criteria of performance of the sector and that the characteristics of exports be considered. Within a value chain (VC) perspective, the conditions under which positive changes occur connect to a platform for 'upgrading'. Upgrading relates to a positive process of changes within the industrial environment that enables exports to be sustained.⁷ Upgrading might be triggered as a response to upgrading being undertaken elsewhere. In the context of exporting, externally induced upgrading takes place through the establishment of links associated with access to import markets. Such framework is typical of the global clothing context in which the chain is buyer-driven (Gereffi, 1999a).

Upgrading takes place across four dimensions, i.e. product, process, functional and moving to new VCs upgrading platforms which separates the various changes. Process upgrading entails improvements in quality, costs and delivery (QCD). Product upgrading focuses on whether 'better' or/and 'different' goods are made. Functions also evolve. They are *deeper* when backward or forward linkages are strengthened or when firms shift into upstream or downstream segments with the aim of strengthening their main activities, and/or *broader* when the range of activities undertaken by the firms themselves widens. The last fundamental change is with firms moving into new value chains and/or become more embedded into the VC. The latter shifts are rare for clothing. [See Gibbon (2000), Sturgeon and Lester (2002) and Gereffi (1999b)] The changes affecting each of these platforms are both, internal and external (intra- and inter-firm), and are often interconnected.

Underpinning the VC literature is the notion that there is a sequential pattern to upgrading which is applicable to clothing, and that some of the producers initially involved in basic supply functions may ultimately become lead firms. [See Kaplinsky and Morris (2001)] An alternative perspective is that an upgrading trajectory emerges across the expansion of a particular platform for upgrading. Whether the export expansion is carried out sequentially can only be addressed through an analysis of the dynamics of sectoral platforms across exporting countries.⁸

This report seeks to present SA's export prospects in the clothing sector through the lens of the different dimensions of upgrading associated with exporting. As an upper middle income country, SA has the infrastructure (both physical and institutional) required for exports to expand, particularly compared to other African countries. Compared to its neighbours, SA is well endowed in sophisticated synthetic fibre production capacity. Moreover, on the basis of unit labour costs, SA would appear internationally competitive against some suppliers with labour cost per hour of the order of US\$1.⁹ Domestically, SA shares with other developed countries an established and

⁷ Upgrading takes place independently of exporting. The concept more generally applies when firms exploit and develop their core competencies so as to secure a competitive advantage that enables them to adapt to, as well as, resist adverse change. At another level, upgrading is a more complex concept. By overlapping evolving production and export characteristics and performance as well as changes in the direction of trade flows, upgrading sets a connection between sectoral and national development within a global perspective. [See Sturgeon and Lester (2002)]

⁸ Currently, the identification of upgrading is generally biased towards the East Asian experience for which the expansion of clothing and textiles trade and production is well documented.

⁹ The current wage rate for an experienced machinist is R192 per week in the decentralised area, and R441 per week in urban areas. Converted at the rate of R11 to the US\$ and a working week of 48.5 hours based on the

oligopolistic retail sector as well as a declining share of consumers' expenditure in apparel. SA has only comparatively recently formalised its integration into the international economy. Prior to 1995, firms had little incentives to undertake the technological investments required for the industry to be internationally competitive. Moreover, both the South African textile and clothing producers were focused on the domestic market. The fabric range tended to be "wide and shallow" with production capacity and products geared for the small domestic market.

The aforementioned factors constituted an important constraint to an export expansion drive. Another second major limitation lies with the fact that South African clothing producers are engaging in the international economy at a time when the opportunities available to penetrate the major importing markets have become limited. Powerful end-customers and intermediaries control access to the US and the EU consumers' market. Furthermore, China has become a major competitor to garment exporting economies, by virtue of the volume of its exports, and its productivity and labour cost advantages. That said, South African clothing exporters benefit from 'preferential' access to the EU and the US through the Trade and Development Cooperation Agreement (TDCA) and the African Growth and Opportunity Act (AGOA). The former is the bilateral free trade deal between SA and the European Union whereas the latter is a unilateral preferential access trade deal which grants duty (and quota) free access provided that certain conditions of transformation of textiles into garments are met.

The report aims to: (1) identify and evaluate the current exporting path that is being followed by the leading South African clothing exporting firms; (2) highlight and explain any evident upgrading or downgrading trends; (3) assess the sustainability of the current exporting trajectory; and (4) the prospects for expanding exports to the major importing countries. Given this background, the report focuses on both the nature of the South African clothing exporters' integration in the international economy, and the prospects for upgrading along three key dimensions: product, process and functional. This report is organised into three main sections. Section 2 sets out the methodology that was adopted for this study. Section 3 contains an analysis of various macro level indicators of performance. This section gives an overview of upgrading over the 1990s for the South African clothing sector. Some broad indicators of efficiency are presented (process upgrading) and trade data are analysed to indicate changes, and more specifically, whether the changes point to product and/or process upgrading. Section 4 turns attention to the information generated from the fieldwork, i.e. interviews with the large exporting clothing firms. The analysis focuses on assessing and discussing the prospects for product, process and functional upgrading. Section 5 concludes the report.

figure for Africa for 1998 from the ILO (2000), the rate would vary between 0.4\$ and 0.8\$ per hour. However taking a rate of R8 to the US\$ for the end of 2001, the hourly labour cost (narrowly defined) would increase to 0.5\$ to 1.14\$. According to the ILO (2000:41), 1998 wage rates in the clothing sector in China, India, Pakistan, Vietnam and Indonesia were below 0.45\$ per hour. The managing director of a clothing firm interviewed reported labour cost per hour for China of 0.18\$ to 0.35\$ compared to 0.22\$ to 0.30\$ for Malawi and Mozambique and 0.90\$ (rural) to 1.20\$ (urban) on a 42.5 hours week for SA. Whilst not competitive with some of the Far Eastern and SADC neighbouring countries, SA appears competitive against Romania, Morocco, Turkey etc. where labour cost was in 1998 in excess of \$1. [ILO (2000:41)] However labour productivities across exporting economies vary considerably.

2 METHODOLOGY

Data for this report has been generated through two main sources: basic statistical analysis of secondary data (trade and others), and primary data from face to face interviews with top management in leading South African clothing exporting firms.

We start by considering upgrading through an analysis of indicators of performance (Section 3). The analysis is underpinned by the caveat that trends vary substantially depending on the data source (and underlying methodology) used and the way in which the sector is defined. We investigate the performance of the clothing sector during the 1990s based on TIPS (2002a) and data from DTI. Although the analysis is primarily conducted around DTI data, data from the Industrial Development Corporation (IDC) and from TIPS' SA Standardised Industry database are occasionally referred to wherever appropriate.¹⁰ TIPS (2002a) is referred to as it contains an analysis of sub-sectoral performances (based on TIPS's SA Standardised Industry database). In addition, as TIPS (2002a) separates trends for the first and second half of the 1990s (the two periods are 1991-95 and 1996-00) and as DTI data are from 1993 to 2001, these provide different insights into the changes over the 1990s.¹¹ A contextual analysis of the sector's production performance precedes a discussion of SA's clothing trade performance. DTI trade data are used for the trade analysis with clothing defined according to the SIC nomenclature.

In a second sub-section, S.A's sub-sectoral export performances are examined relative to those of other exporters (Section 3.2). The issue at hand is not only whether exports have expanded but whether this expansion has translated into S.A's sub-sectoral market shares growing in import markets. Imports and shares are scrutinized to indicate whether foreign demand for clothing has shifted in favour of SA and, by implication, away from other sources of supply. This shift might be underlined by relative improvements of the characteristics of the exported good which make it comparatively more appealing to the importers. Yet, improvements need to be qualified by considering the important question of the type of returns generated by the expansion of the market share. Unit value of imports from SA are also accordingly considered. If both quantities and the prices received per unit exported increase to a given market then South African exporting firms might be undergoing positive adjustments or responding to the conditions necessary for an improved export performance. Increases in unit prices suggest that modified / improved goods are exported. Another context in which upgrading happens is one in which market share increases and unit price declines. Here, it can be assumed that reductions in production costs occur so that cheaper goods are exported. A downgrading path might typify market share declines and unit price either increases (exporters fail to produce the goods competitively), or decreases (strong competition is around cheaper goods against which SA cannot compete).

In order to isolate whether S.A's clothing exports might be on an upgrading or downgrading trajectory, values of imports from SA as well as from the top 5 suppliers by the US and the EU were gathered for the 1990s. The key competitors were those that emerged at the end of the 1990s (taking the average value of import from these countries for 1998-9 and considering extra-EU suppliers).

¹⁰ Values from the DTI database are at 2000 constant prices. Original quarterly DTI data were transformed into yearly averages (2001 figures are however for 9 months only). IDC data are for 1990 to 2000 and were given annually.

¹¹ TIPS (2002a) considers nine main economic sectors (i.e., transport, business service, electricity, trade, manufacturing, community services, construction, agriculture and mining), which are decomposed into 46 sectors including 28 manufacturing sectors. Sectors are defined at the 3 SIC digit level. The indicators provided are based on values at 1995 constant prices.

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The analysis carried out in this section bears on trade flows with the sub-sectors defined according to the HS nomenclature at the 4 digit level. Given that data had to be gathered for other researchers involved in this project, data for the EU, not for specific EU markets, were collected. Trade performances were considered through a separation of the trends prior to and after 1994/95. To allow comparisons, data in € were converted into US\$ using the period average rates for the relevant years from the IMF *International Financial Statistics*. Unit prices of goods imported from SA (available in \$/kg and €/kg), from the main competitors and from extra-EU are considered for the EU market only. Whereas unit prices are available for the US, the level at which these are provided and differences in units (square meter equivalent at HTS 10 digit level) prevent aggregation back to the 4 HS digit level.

There are several caveats that need to be underlined when making the assumption that positive export developments occur through increases in the market share and in the unit price of goods imported from SA. First, values of a unit of exports rather than values of a unit of imports would have been preferable so as to eliminate freight, insurance and transport costs differences across exporters (export values are typically provided free on board). However, import data allow the trends for S.A's competitors to be observed. Second, the data as set out here do not account for exogenous determinants of performance. For SA, a key dimension that prevents a clear cut identification of the direction of the returns generated by exporting lies with exchange rate changes. These distort the identification of upgrading in the sense that they affect the identification of whether exporters actually receive more over time for a unit of good exported in domestic currency. Since the data considered next are in US\$, one would ideally need to set out how domestic unit prices have changed. The depreciation of the Rand affects assessments of an upgrading performance in the case of unit price decreases defined in US\$ terms. Decrease in unit price in a foreign currency might not be in excess of the rate at which the Rand depreciates so that exporters gain. As will be shown no South African key clothing export sub-sector appears affected by this issue.¹²

Although the above was the standardised methodology adopted for all the reports, a difficulty specific to clothing was to determine on which clothing sub-sectors to focus. South African export data from TIPS were analysed.¹³ The researchers focused on isolating five core sub-sectors that dominate the composition of S.A's exports. Two clothing sub-sectors were identified in each fabric type (woven and non-woven) and one additional group was included as it is the knitted/crocheted counterpart of the dominant woven export sub-sector. Once the sub-sectors were selected, the TIPS data were used to analyse the trends for markets of destination.

Section 4 gives an account of upgrading based on information collected through fieldwork. Fieldwork was necessary to assess determinants of performance which cannot be captured through macro-level analyses. For instance, such analyses fail to inform on structural or organisational changes, changes in the characteristics of a particular garment produced, changes to the product range, and the ways in which firms adapt to international competition. More specifically, macro data cannot isolate features pertaining to leading exporting firms only, which is the focus of this study.

Time and financial constraints determined a target of 20 to 25 South African exporting clothing firms to interview. Firm selection was complex since several criteria are available to establish a framework for the selection of firms. A first benchmark relates to the characteristics of the good produced. Garments can be considered from the perspective of the fabric type (the woven or non-woven

¹² In other words, it will be shown that exporters are getting more in Rand per unit of garment exported. There is a third issue, i.e. different exporters face trade restrictions to a differing extent. However, whilst barriers to trade affect (increase) the unit prices received for imports when not associated with upgrading, the trends identified for SA remain valid.

¹³ Following communication with TIPS, it should be stressed that their latest HS trade database gives trade for SA, not SACU.

distinction which serves as a criterion for product good separation according to the HS and partially, SIC nomenclature) or the type of consumers to which the good is destined (i.e. men's and women's wear breakdown or by considering end-customers as a proxy for a more refined consumer breakdown).¹⁴ A second set of criteria relates to a typology based on the characteristics of the exporting firms (factors such as technologically advanced or know-how intensity that form a platform for adding value), size (number of employees, turnover etc.) or export orientation (percentage of turnover exported). In the absence of a database which details the characteristics of South African (exporting) clothing firms, the first set of criteria was chosen. Whilst a framework for sampling is readily available on fabric type and broad consumer groups (loosely, as with the HS nomenclature), there were problems with this method. Firms advertise themselves or are listed according to a mixture of criteria. Generally whilst the men's or women's wear distinction dominates, firms can also present themselves differently. As there was insufficient information to establish a set of exporting firms solely on the basis of the fabric type breakdown, and as information was more readily available across the type of goods produced a mixed approach was adopted. Women's and men's wear exporters were identified. A knitted group was also identified. Given the strong position of Denim production in Southern Africa, these firms were considered for the woven segment. A miscellaneous group was included to account for other clothing segments, namely school wear, foundation wear and hosiery.¹⁵ In this typology, 'large' exporting firms were defined on the basis of the amount of revenues generated from exporting. It should be noted that 'large' firms are defined relatively, and that some large exporters in small clothing sub-sectors might be substantially smaller than large exporters in other sub-sectors.¹⁶ How this list of firms was gathered is set out next.

An initial list of clothing exporting firms in SA was drawn from information from a series of sources. The most comprehensive of which is the Clothing Federation of South Africa's *Handbook* for 2000/1 (Clofed, 2000). The handbook classifies Clofed's member companies and firms according to garment type.¹⁷ A key problem with the Handbook stems from the fact that no information is available as to whether a firm is a large or small exporter. Whilst the number of sewing machines which is specified can be taken as a first proxy for output and export (when the firm is listed as an exporter), a first follow up showed that the status of some of the 'large' firms according to Clofed (2000) was not always correct.¹⁸ Also, not all exporting firms in SA are Clofed members. Some are members of the Export Council for the Clothing Industry in South Africa (ECCISA) only, and other large firms do not belong to any industry organisation, at least not in SA. (Informant 2 but informant 5 reports that only 5% of Clofed members are not ECCISA member). A first drafted list was progressively refined by triangulation, i.e. information from other sources.¹⁹ Additional information was gathered following a preliminary visit to firms in December 2001 and interviews with key informants.²⁰ The first set of visits undertaken served two purposes. It first confirmed rapid changes of firms' involvement with exports and that follow up had to be generated through discussion during fieldwork in terms of the identification and confirmation of the large exporting firms. Second, it appeared that

¹⁴ Children's wear, whilst a small apparel segment, can also be classified according to gender.

¹⁵ Foundation wear refers to a corset or other supporting undergarment.

¹⁶ The identification of firms within well-defined product group (i.e suits) was easy because there are few firms involved in some core product segment. It is more difficult to identify the large women's wear exporting firms.

¹⁷ Whilst, the classification does not follow the HS principle of a first breakdown according to fabric type and whilst one given name might appear more than once depending on the product range, it specifies for each firm whether it exports, the number of sewing machines available and the brands produced.

¹⁸ Firms either had stopped exporting, or firms which were not listed as exporters had become exporters.

¹⁹ Pursuit Magazine and other web-based sources and journals (i.e. Dispatch On Line or the daily Business Report). Some sites provide information on a regional basis and only provide contact details. Others give a short company profile. Details on clothing producers are also occasionally available from exhibition web-sites. Finally, some information on a small set of South African clothing firms is available from the South African Textile Industry Export Council website. The name and position of the respondent was generally found through web search.

²⁰ The December visit was with Peter Gibbon – See Gibbon (2002). Prior to the main fieldwork, the list was sent to the Clothing Export Council for feedback.

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the most accurate source of information was that generated by key informants. The initial list was further refined following discussion with respondents and key informants during fieldwork undertaken between February and April 2002.^{21, 22} From a total of 31 firms initially identified, 29 were approached which were initially taken as 'large' exporting firm in terms of the revenues generated by exporting relatively to the clothing sub-sectors in which these are classified.²³ There were some anomalies in this process as four of the 29 firms interviewed appeared to be small exporters based on the proportion of turnover exported.²⁴ Of the small firms, one was in the past, an exporter of a particular garment. It had stopped exported that garment and had actively engaged in surveying potential export markets. This firm was in the process of taking a decision on how (and whether) to engage in export. Another firm stopped exporting following the withdrawal of the license to produce a brand as a result of the restructuring activities associated with the brand owner in SA. A third firm was seeking to expand its exports and had recently secured a relatively important export contract. Two additional cases of a small proportion exported occurred for a clothing manufacturer attached to a large retailing group and for a Denim wear exporter. In these cases the issue was that the division contacted had 'little' export involvement, not the group. The information gathered from the smaller exporters is integrated in this report.

Table 1 categorises the firms interviewed according to product breakdown. There are overlaps and the fieldwork revealed discrepancies around the major product type exported. However, the findings remain unaltered by the discrepancies.

Table 1: Classification of the exporting clothing firms interviewed

Men's wear	8
Women's wear	6
Jeanswear / Denim	4
Knit (miscellaneous)	4
Other	7

Note: "Other" contains 3 school wear, 1 hosiery, 3 foundation wear and 1 sock producer. Some of the firms in "other" are textiles if the knit to shape perspective is taken and socks fall into the hosiery group. There is some arbitrariness in the distinction however.

The respondents initially selected were the managing directors. When unavailable, other knowledgeable respondents were specified by top management. The 'other' respondents comprises export managers and other managers (sales, marketing and financial).²⁵ Eight key informants were consulted during fieldwork. Two buying houses were consulted on specific issues, the President and First Vice President of Clofed, the Executive Director of the South African Textile Industry Export Council (SATIEC), the Executive Director of the Natal Clothing Manufacturers' Association (NCMA), the Deputy Director of the Duty Credit Certificate Scheme (DCCS) at DTI, and the executive director of the ECCISA.²⁶

²¹ Opinions related to "other exporting competing firms" as well as to informal views expressed around the list of firms.

²² Hereafter the firms that participated in this research will be referred to as 'the firms'. Moreover, it should be taken for granted that all evidence cited in this report was derived from the interview notes.

²³ Only one firm refused an interview and one appointment was cancelled which could not be rescheduled.

²⁴ Their proportion of turnover exported was small (less than 10%). In the three small exporting cases, firms were seeking to initiate an export drive.

²⁵ Of the respondents interviewed, 56.2% were managing directors, 15.6% were export managers and 25% other managers (marketing production, sales and financial director). In one case the main respondent was not available and the position of the substitute respondent was not specified (3%). In total we communicated with 32 firm level respondents, at times with more than one respondent attending the interview.

²⁶ Firms are not always willing to identify themselves as a key exporter in a particular market or product group. The DTI faces similar difficulties. However, the Duty Credit Certificate (DCC) Directorate is seeking to

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Information was gathered in the form of personal interviews of, on average, one hour duration. The focus of the semi-structured interviews was on obtaining a core of qualitative information around key characteristics of exporting performance common to all the firms interviewed, whilst allowing for personal viewpoints and firm-specific problems to be discussed. A small set of open questions was included to generate a discussion around the ways in which export contracts occurred, the key intermediaries involved, and the challenges, learning and constraints associated with exporting. Specific areas for upgrading were suggested. Finally, the discussion centred on areas of government support and an assessment of the portfolio of supply-side support measures available to the industry (directly available from the DTI or indirectly available such as those through the IDC). The set of preliminary questions was adjusted so as to confirm a trend. Specific problem areas identified by the firms were discussed during the interviews. These range from issues in dealing with intermediaries, external competition, production capacity and pipeline problems. As issues arose, their importance was recurrently checked to identify whether these are shared by the industry or specific to some firms. Moreover, an attempt to obtain more quantitative information through a structured questionnaire had limited success. Only five questionnaires were returned.²⁷ Where appropriate, responses from these questionnaires are referred to in the text.

establish a database on firms that apply for duty credit certificates. Firms applying for DCCs are however one of two groups of exporting firms. Future research on the sector needs to take into account of the market intelligence dimension of some of the information which firms are willing to share. The view expressed by one firm that “the South African industry is very incestuous, everyone knows everyone else” [Firm 19] illustrates both, the closed, established and small scale dimension of clothing production in SA. Firms are accordingly careful not to disclose information from which competitors could gather their relative strengths and weaknesses.

²⁷ The questionnaire was not adequate for one of the exporting firm (a 470.03 firm as will be explained subsequently) but two tables were filled during the interview. Another manufacturer felt that the questionnaire would have been misleading as important management changes occurred within the firm.

3 MACRO LEVEL DATA ANALYSIS

This section presents some key trends in the performance of S.A's clothing sector. The objective of the analysis is to highlight salient upgrading characteristics over the 1990s as evidenced from the macro-data analysis. The general changes undergone by the sector, its strengths and weaknesses, its recent performance and its economic importance are set out relative to the manufacturing sector as a whole. This analysis is carried out in the first sub-section, which also sets out the trade performance of the sector for the 1990s. A second sub-section focuses on investigating upgrading/downgrading trends through trade data, and places emphasis on changes in market shares and unit prices for exports. These are considered at the sub-sectoral level. A third sub-section concludes.

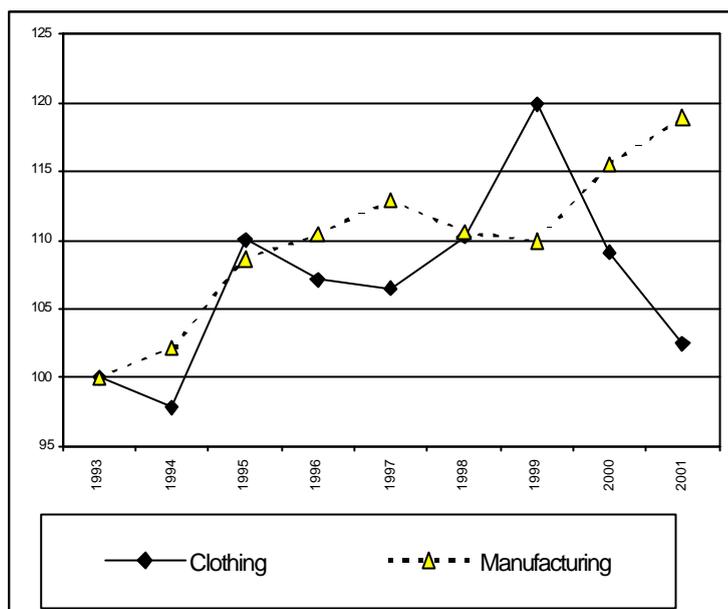
3.1 The economic performance of the South African clothing sector

Figure 1 which shows the trend of the value added at factor costs points to a small increase of value added between 1993 and 1999. This increase was affected by a drop in value added from 1999 so that value added in the clothing sector was, by 2001, close to its 1993 level.²⁸ Over the period clothing value added grew by 0.75% per annum compared to an annual increase for manufacturing of 0.83%. Between 1990 and 1995 the figures were 0.01% and 3.12% for manufacturing and clothing respectively. After 1995, this shifted to an increase of 1.5% for manufacturing and a decline of 0.9% for clothing. This change suggests a context that is specific to the sector. Yet, clothing contributed between 1993 and 2001 to 2.9% of manufacturing value added. In contrast to a recent decline in value added, clothing production declined steadily in the second half of the decade (see

Appendix Figure 1, page 65). By 1998, production (at 2000 constant prices) fell below the 1993 value of production. This trend is atypical of SA's manufacturing, and as total manufacturing production generally increased, the share of clothing in total manufacturing production declined. The share dropped from 3.3% in 1993, to about 2.2% in 2001.

²⁸ For purpose of comparison, TIPS (2002a) data point to a slow growth in manufacturing value added over the 1990s (value added grew by 1.1% and by 0.5% before and after 1995). Clothing value added grew for the second half of the 1990s but at half the rate that prevailed in the first period (4.8% and 2.2% change per annum). There was a decline in value added in textiles for the second half of the decade which accelerated compared to the first half of the decade (from -2.8% to -5.5%). In spite of the changes, the contribution of textiles and clothing to the economy (defined here along the 46 economic sub-sectors) was little altered.

Figure 1: Value added indices (1993=100)



Notes: Based on value added data at factor costs with current prices converted into data at 2000 constant prices. Manufacturing is defined as all sectors under the SIC 3 heading.

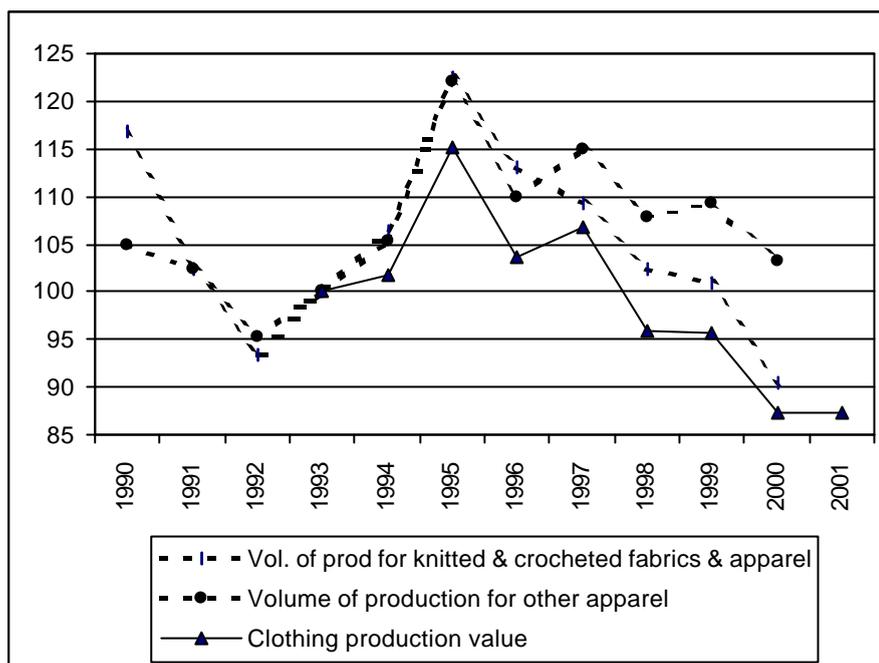
Source: Value added and deflators from TIPS's SA Standardised Industry Input Structure.

The decline in the value of production from 1995 coincides with a decline in the volume of production (see Figure 2). The combination of firm closures and a temporary increase in value added described earlier suggest a brief period of positive restructuring. More recently, the pattern is more problematic as production declines are not accompanied by some form of restructuring of the factors of production to yield marginally higher returns on production. The firms that have remained face important challenges to cope with the adverse context of declining domestic demand. However, when trends are disaggregated, the decline is more pronounced in the knitted and crocheted segment than in other apparel items. With the caveat that DTI data include SIC 315 (dressing and dyeing of fur which is a small sector of activities), the observation that real production value declines are more pronounced than declines in volumes of production can tentatively be taken to indicate a reduction of the real value per unit of clothing produced in SA (see Appendix Table 1, page 65).

Production declines appear linked to a net process of firm closures. This process accelerated in the second half of the decade, although there are important regional variations to this pattern (see Appendix Table 2, page 65). Gauteng and Kwa-Zulu Natal (KZN) were disproportionately affected by the change in the first and second period respectively. Almost half of S.A's clothing firms are located in the Western Cape (WC).²⁹ The remainder are concentrated in Gauteng (26%) and KZN (23%). The reduction in the number of firms has been accompanied by an increase in the average firm size. Although only indicative in the absence of information on the distribution according to size, this increase has been particularly pronounced towards the end of the 1990s.

²⁹ Note that the breakdown is incomplete as information is not available for other provinces.

Figure 2: Clothing production indices (1993=100)



Sources: Production volume indices from IDC database. Production value indices based on DTI data.

Whilst employment in manufacturing declined in SA, the decline was markedly lower in clothing than in other economic sectors. According to DTI data, manufacturing as well as clothing employment peaked in 1996 and declined afterwards (Appendix Table 4, page 67). Between 1996 and 2001, clothing employment declined by 2.4% per annum compared to 2.8% for manufacturing.³⁰ There were fluctuations across the years however and clothing employment increased in 1998. Declines in employment slowed down during the late 1990s.

Given the difficulty of the South African manufacturing sector to create and sustain employment, the overall decline in clothing employment is less dramatic than typically conceived.³¹ The extent to which clothing outperformed manufacturing in its capacity to maintain employment from 1993 can be seen in Figure 3. The fact that the clothing sector accounts for about as much as 10% of South African manufacturing employment reflects the context of a small South African employment base.³² The increase in firm size would have contributed to the notable increase of the share of clothing in manufacturing employment. In terms of employment intensities (employment per output), clothing ranked 4 in TIPS's (2002a) list of 46 economic sectors. The relative importance of clothing to South African employment can be further noted through the fact that employment intensities declined for manufacturing but not clothing. Clothing employment intensity is substantially in excess of that of the manufacturing sector.³³

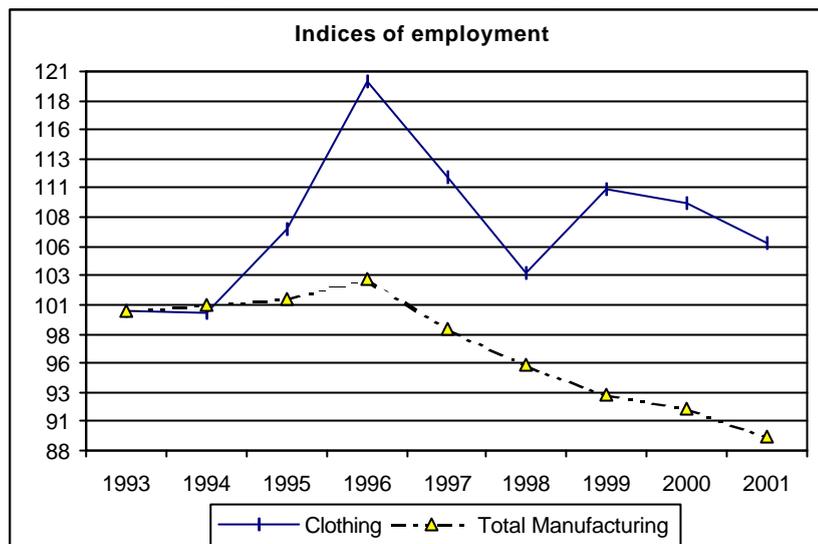
³⁰ TIPS (2002a) identifies a decline in manufacturing employment (demand for labour) in SA throughout the 1990s. The decline is however more pronounced after 1995.

³¹ According to TIPS (2002a), clothing ranks 17 out of 46 economic sub-sectors *vis à vis* demand for labour, and only 13 economic sub-sectors increased their demand for labour over the second half of the 1990s.

³² In contrast to the importance of clothing for manufacturing employment, the sector makes a small contribution to SA's total economic employment (2.4% and 2.6% of industrial employment in the first and second half of the 1990s, according to TIPS (2002a)).

³³ 2.7 times according to TIPS (2002a) but five times according to the DTI data. In contrast to manufacturing, clothing has a small share of skilled workers in the total workforce (18% compared to 39% - including 'semi-

Figure 3: Clothing and total manufacturing indices of employment



Note: DTI employment figures are similar to those of IDC.

Source: DTI database.

A distinct performance emerges around changes to capital stocks. According to TIPS SA Standardised Industry Input Structure data, the increase of the manufacturing fixed capital stock of 3.6% per year contrast with a 1% per year decline between 1990 and 2001 of the fixed capital stock in clothing at 2000 constant prices. The pace at which the capital stock declined in clothing was reduced in the second half of the period (the -1.6% annual decline was reduced to a -0.2% decline). The share of clothing in the South African industrial capital stock was small and marginally declining.³⁴ In parallel, the rate of investment increased in clothing in the second half of the decade compared to the first half.³⁵ DTI clothing capital expenditure data (see Appendix Figure 2, page 66) points to important fluctuations over time. Capital expenditure at 2000 prices is small amounting to about 0.7% of total manufacturing capital expenditure between 1993 and 2000.

Set against the manufacturing performance, the clothing sector displays difficulties in expanding production, value added and fixed capital stock. There is moreover no clear-cut pattern of a long term investment trend when capital expenditure is considered. Yet, the changes which have taken place from 1995 have led to some of the characteristics of an average clothing firm (location and size) to differ. The discussion needs to take this change into account. As the number of firms in the industry declined less rapidly than the fixed capital stock, the capital stock of an average firm in fact increased between 1990 and 1999. Whilst there is a developing platform for the presence of economies of scale at the firm level around firms with a larger number of employees and capital, there is in fact a mixed performance of productivity.

skilled' - average between 1995 and 2001). The proportion of skilled workers was generally stable during the 1990s. The remuneration per worker increased over the 1990s but not consistently (see Appendix Table 5, page 68. Between 1999 and 2001, it fell below manufacturing.

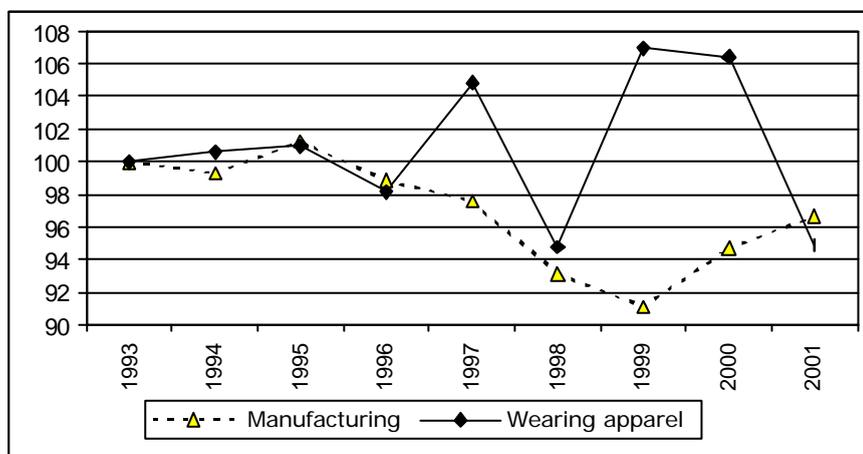
³⁴ Clothing's share of SA's economic fixed capital stock is 0.1% (TIPS, 2002a). Own calculations based on TIPS SA Standardised Industry data converted at 2000 constant prices gives an average share of 0.55% in manufacturing between 1990 and 2001.

³⁵ The pattern of capital expenditure depicted in Appendix Figure 2 page 66 suggests cyclical investment decisions; fluctuations are pronounced compared to the total manufacturing capital expenditure trend for the period.

Improvements in manufacturing productivity have mainly been achieved through Labour productivity although other factors (business cycles and improved efficiency) also played a positive role (TIPS, 2002a). As capital productivity declined, there is no clear-cut answer here as to whether overall manufacturing productivity improved or deteriorated. Yet, multifactor productivity, which relates output to expenditure on factors of production (Labour and capital), increased from 1993 (see Appendix Figure 4, page 68). This signals overall efficiency improvements. In contrast to manufacturing, capital productivity fluctuated widely in clothing from 1996. Whilst one can observe a general pattern of expanding capital productivity in clothing, the manufacturing performance suggests general difficulties between 1993 and 1999. Whilst the decline in manufacturing capital productivity is small there was no catching up with the 1993 level by 2001.

One key finding of TIPS (2002a) for clothing is that multifactor productivity grew. TIPS SA Standardised Industry Analysis data point to an increase from 1996 and a catching up with (even above) manufacturing (Appendix Figure 4). Moreover, it grew more rapidly in the second half of the 1990s compared to the first half of the decade. With stable capacity utilization (averaging 85% compared to 80% for manufacturing) in the clothing sector over the 1990s, factors of production in the sector might have been re-organised yielding increased efficiency gains. In contrast to both capital and multifactor productivity, Labour productivity has not systematically grown. There are 3 periods of changes between 1993 and 2001. Between 1993 and 1996, Labour productivity declined. The drop that followed the subsequent increase between 1996 and 1999 was such that Labour productivity fell below the 1993 levels in 2000. In contrast, total manufacturing Labour productivity grew consistently. Generally, the gap between the performance of the sector and that of manufacturing has widened.

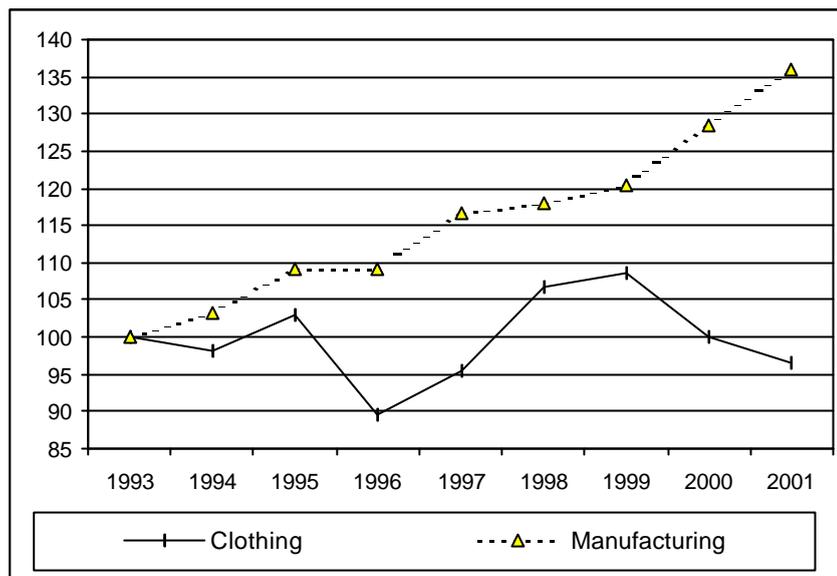
Figure 4: Capital productivity indices (1993=100)



Note: Capital productivity is the ratio of the sector's value added at factor cost to fixed capital stock. Both series are at 2000 constant prices. It is not possible to establish whether output responds to changes in capital stock with a lag.

Source: TIPS, SA Standardised Industry Database.

Figure 5: Labour productivity indices (1993=100)



Note: Labour productivity is defined as value added per worker. The above trend can be compared with that reported in Appendix Figure 3, page 67 which describes production per employee. Data are at 2000 constant prices.

Sources: Number of employees are from DTI database. Value added and deflators from TIPS' SA Standardised Industry Database.

There is evidence that SA would not be in a position to compete against some of the Far Eastern and even neighbouring Sub-Saharan African (SSA) suppliers once productivity is set against Labour costs. For instance in the case of a casual man's shirt, the South African unit cost of assembly is over twice that of China and over three times that of Lesotho and India. In the example provided below, South Africa would have to produce 720.85 pieces per operator per month to compete on a unit cost basis with China instead of the current 327 pieces.

Table 2: Productivity and Labour cost comparison for men's casual shirt

	Pieces per operator day	Monthly salary (US\$)	Unit Cost of assembly (US\$)
South Africa	15	248	0.75
China EPZ	20	150	0.34
India	16	72.5	0.21
Swaziland	15	105.4	0.32
Lesotho	18	87	0.22
Mauritius	18	108	0.27

Note: Unit cost of assembly is based on the assumption of a 21.8 days worked per month.

Source: Coughlin *et al.* (2001:45).

Although as noted by Coughlin *et al.* (2001), the need for SA to close its productivity gap relative to other exporting economies might currently be dampened by the preferential US and EU trade deals, there is an issue around the South African clothing sector's potential for upgrading. On the basis of the Labour productivity, issues centered around managing the workforce become important. Thus

whilst growth of multifactor productivity indicates that factors of production have been re-organised efficiently, there might be shop-floor problems in terms of the interaction between workers, between workers and management or in terms of how workers are organized for production purposes. The latter might happen if product characteristics or organization of production changes without yielding increases in production, thus suggesting intra-firm problems.

The comparatively recent changing domestic context and global repositioning of the South African economy make it difficult to attribute an origin to the changes that characterize the sector. However, the Labour intensive nature of the clothing sector means that the sector typically responds rapidly to policy changes and to changes in the incentive structure. With this set out in the background, the following summarises the key trends of production-related indicators over the 1990s:

- The South African clothing sector is small but employs a disproportionately large number of people. Between 1993 and 2001, clothing accounted for 2.9% of S.A's manufacturing production, 2.8% of total manufacturing sales and 0.7% of manufacturing capital expenditure. However, the clothing sector absorbs over 10% of manufacturing employment. The sector is Labour intensive and in light of a manufacturing base that is shedding labour, this employment intensity has increased. As such, developments that encompass the workforce (training or changes in organisation structure) will impact relatively strongly on the performance of the sector. The increasing gap between clothing and manufacturing labour productivity during the 1990s is one significant area where improvements have not systematically occurred. Clothing labour productivity increased between 1993 and 2001 but this increase was small and erratic. In light of the productivity gap between SA and some Far Eastern and neighboring SADC suppliers there are further long run issues around the sustainability of the sector's production and possibly, maintenance of employment at its current levels.
- Some positive trends emerge for the clothing sector which pertain to multifactor productivity improvements (and potential efficiency gains) and, marginally to a growth in capital productivity and value added. Also, in spite of a large number of firm closures, employment has been shed in the sector at a lower rate than in other manufacturing sectors. This feature combined with a pace of capital stock decline that is below that of firm closures points to an increase in the 'average' firm size. There appears to be a platform for an expansion of production whilst securing economies of scale. Given the decline in sales and the fact that clothing sales per worker have, from 1996 been below their 1993 level, room for an expansion of clothing production revolves around a growth in exports. As no information is available to identify the ways in which exporting firms differ from other firms it is not clear as to how important the nuances of performance are across these two groups and across sub-sectors.

Relative to the changes of performance of the other industrial sectors, TIPS (2002a) indicates that clothing is an average performing sector. This is confirmed in the above analysis where the sector is set relative to the manufacturing performance.

Clothing is a small export sector in SA. Between 1993 and 2001, clothing exports amounted, on average, to 1% of total manufacturing exports. Trade is generally small in the sector as the share of the sector in total manufacturing imports averaged 1.1%.³⁶ The issue of a small and declining platform of production means that SA's clothing exports are marginal. However, as will be shown in this section, the South African clothing sector is at least displaying an increasing export orientation. It is important to bear in mind, in the discussion that follows, that as SA has only recently benefited from preferential trade deals (2000/2001), recent trade changes cannot be properly accounted for.³⁷

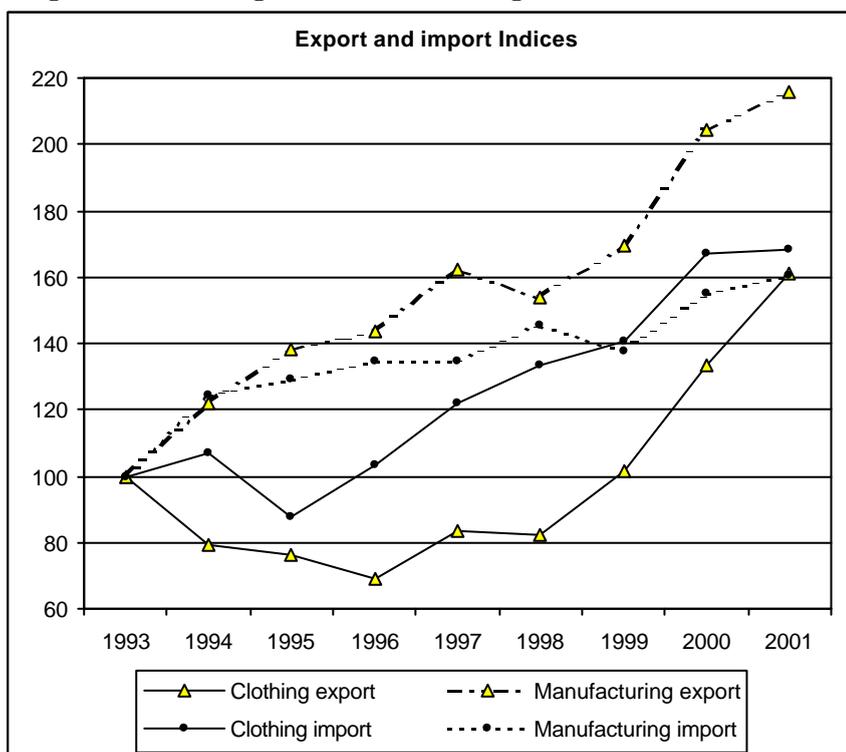
³⁶ Textiles dominate S.A's textile and clothing exports. In particular, SA is an important exporter of raw wool.

³⁷ Taking note of important discrepancies of trade values across data sources (see page 69).

According to DTI data, the manufacturing sector in SA showed an increasing export orientation between 1993 and 2001. Whilst imports have grown, exports have grown more rapidly. Thus, whilst SA displays fluctuations in its trade balances, a general pattern of reduction of the trade deficit emerged between 1994 and 1997. SA reached a trade surplus of R861m (\$124m) in 2000. In contrast, clothing had (at 2000 constant values) a deficit from 1994. There was a small trade surplus in 1993 to the value of R8.7m at 2000 constant prices (\$13.6m using current trade values converted into US\$) which subsequently deteriorated. The deficit increased between 1993 and 1998 when it reached R142m at constant prices (\$17m at current values). It was then reduced to R8.7m (\$0.8m at current values) in 2001 (see Appendix Figure 5, page 69).

The clothing deficit coincides with a decline in exports. It is only from 1999 that clothing exports reached their 1993 level (see Figure 6 below). As for clothing imports, the pattern between 1993 and 1995 was one of relative decline, and as export declined, increasing domestic clothing sales were catered for by domestic production. Imports increased rapidly afterwards, and from 1997 onward, the pace of growth of clothing imports loosely coincided with that of manufacturing imports.

Figure 6: Clothing and manufacturing trade indices (1993=100)



Source: Calculated from DTI data at 2000 constant prices.

The trends depicted in Figure 6 also appear in the export intensities and import penetration ratios (Table 3). The relatively limited export orientation of clothing can be observed by comparing the sector with the manufacturing export ratio. Between 1993 and 2001, the manufacturing export intensity ratio was 2 to 4 times higher than that of clothing. Since SA's manufacturing export intensity increased throughout the period but that of clothing only increased from 1996, the contribution of clothing to total manufacturing exports has been generally static. There is, however, a recent process of catching up with the import penetration ratio. Notably, the import penetration ratio of clothing was below that of manufacturing.

Table 3: Export intensities and import penetration ratios (%)

	Export intensity		Import penetration ratio	
	Clothing	Total Manufacturing	Clothing	Total Manufacturing
1993	10.3	21.4	10.1	26.0
1994	8.0	26.1	10.3	31.7
1995	6.8	26.1	7.6	29.8
1996	6.9	26.7	9.7	30.5
1997	8.1	29.0	11.1	30.3
1998	8.9	30.4	13.3	34.7
1999	11.0	31.2	14.2	32.3
2000	15.8	34.6	18.6	34.1
2001	19.1	35.0	19.3	34.0
Period average	10.3	29.3	12.4	31.6

Source: Own calculations based on DTI data at 2000 constant prices.

The DTI trade data suggests that clothing exports have taken off prior to the major trade deals with which SA is involved. Although there are discrepancies across the data sources, this is a pattern commonly observed. What underlines the changes is that South African clothing firms are increasingly becoming export orientated. However, there is a difficult trade context that is signalled through the mismatch between the export and the import performance as import penetration ratios have increased and are still in excess of the export intensity ratios. Reassuringly, the position of SA clothing exporters has strengthened as indicated by the fact that the gap is narrowing. Possibly, products that are closer to the requirements of the domestic consumers might be produced. The expansion of exports suggests generally some success in SA's export trajectory fuelled by external demand. Whether the expansion is towards a particular market or spread across a series of market is set out next.

3.2 Upgrading at the sub-sectoral level

The analysis carried out in the previous sub-section points to internal changes and to a process of export expansion. Adjustments appeared progressively towards the end of the 1990s, from 1997/1998 onward. The context of the export expansion has moreover been one of barriers to trade reduction and rationalisation.³⁸ Yet, it should be stressed that the export 'take off' is from a small export base and as such, might simply reflect expanding successful orders for the foreign markets rather than a positive strategy of exporting that is followed by the firms. This sub-section details SA's trade performance. A general presentation of S.A's clothing exports at the sub-sectoral level precedes a qualitative assessment of export trends.

In particular, this sub-section is concerned with S.A's clothing export performance so as to suggest whether a process of export upgrading or downgrading characterises exports by the sector. The methodology followed was that set out earlier.

³⁸ Whether these matter depends on the customs' effectiveness in accurately monitoring imports and exports. There are disagreements in this regard which are emphasised through reports of illegal imports of textiles and clothing goods from neighbouring countries into the South African market. In contrast, measures are still in place which provide some amount of protection against international competition. Kuhn and Jansen (1997) give an assessment of the importance of SA tariffs on the effective rate of protection and illustrate how some of the early sector specific production and export support measures reduced the anti-export protection bias.

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- A first point to note about S.A's clothing exports is that they are dominated by a small set of clothing sub-sectors (see Appendix Table 8, page 72 for details). These are men's and women's outerwear excluding shirts and overcoats, men's shirts, women's blouses, T-shirts and pullovers. Yet, one sub-sector dominates SA exports in the second half of the 1990s, viz. men's wear excluding overcoats and shirts (HS 6203) in the woven segment. This sector accounts for about 29% of SA's clothing exports. Combined with exports of such goods in the knitted segment, men's outerwear excluding overcoats and shirts amount to almost a third of S.A's exports. A second point to note is that exports of the core woven sub-sectors have grown but less rapidly than exports in the core knitted sub-sectors. In particular HS 6203 has grown by only 0.3% per year between 1995 and 2001. From 1995, exports from the core knitted sub-sectors have grown at a pace in excess of that for HS 61 generally (compare the figures of

- Appendix Table 7 with those of those of the last column of Appendix Table 8 page 72).³⁹

S.A's clothing exports are primarily destined to the US and the EU. (Appendix Table 6, page 71 provides detailed comments of the changes over the 1990s.) Approximately 44% and 36% of SA clothing exports were to the US and EU respectively, between 1995 and 2001 with another 13% absorbed by African countries. The dominance of the US as a market of destination is recent. A switch generally happened after 1998 when the proportion exported to the EU was on par with that to the US. The shift has been around knitted goods but the overall distribution across markets hides the fact that SA had already established an export base in the US for some woven goods prior to that date (particularly for women's shirts, HS 6106 as noted in part 2 of Appendix Table 8, page 72). Within the EU, the major market is the UK. From 1995, over 60% of SA exports to the EU went to the UK. This share increased to 80% in 2000.

Although an export expansion characterises the export performance of the major sub-sectors, this has been from a small starting base. With the highest ranking of 29 in the US market in T-shirts, SA accounts only for 0.34% of US imports of T-shirts in 2000. In men's wear excluding shirts and overcoats (HS 6103 and HS 6203 combined), SA accounted for 0.38% of US imports in 2000.

Table 4 reports the share for the five core sub-sectors of US and extra-EU imports from SA. SA's exports to these markets are marginal and although the position of SA improved from 1998 in the US it deteriorated in the EU from 1995.

Table 4: Share of US and extra-EU imports from SA in core products

	US (%)	Extra-EU (%)
1995	0.15	0.33
1996	0.13	0.28
1997	0.12	0.30
1998	0.16	0.26
1999	0.21	0.24
2000	0.25	n.a.

Note: the share is for the 5 core sub-sectors as set out in part 2 of Appendix Table 8, page 72. The calculations are based on values in US\$.

Sources: Eurostat (various years) and USITC (2001).

³⁹ Note that exports in some of the non-listed sub-sectors have expanded sharply. However sharp changes are misleading when they take place from a small export base (i.e. babies' garments or HS 6103, suits etc. of knitted/crocheted type). Export changes might reflect what is happening with orders towards a small set of supplying firms. However, HS 6103 has been considered as a counterpart to HS 6203 as exporting firms involved in woven men's outerwear producers and exporters might switch to knitted/crocheted fabrics.

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A closer look at S.A's sub-sectoral shows that the export performance varies depending on the major market of destination considered. SA has, in the EU and in the US, the strongest export position in HS 6103 and HS 6203 and in HS 6106 and HS 6103.⁴⁰ The increase in imports from SA's in HS 6103 for the US is recent (1999 to 2000). A common sector of 'importance' in both markets is HS 6203. In 1999 \$27m and in 2000 \$28m of products within HS 6203 were imported by the EU and the US respectively from SA.

The pattern of S.A's clothing export has changed. Before 1998, export flows to the US and to a series of other markets fluctuated. Such pattern, indicative of an *ad hoc* export behaviour became attenuated afterwards. On the one hand, there is increasing room for a strengthening of the relations between South African exporters and agents (end-customers and others) around the US market. This, possibly tantamount to changing dynamics at the inter-firm level does not signal for some overall upgrading in the sense that there might be a parallel loosening of links established with European agents (end-customers and others). Yet, the reduced share of imports from SA in the EU might not point to declining imports from SA but that imports might not have grown rapidly enough to generate an aggregate increase of the share of goods imported from SA. This is what has happened to SA with the EU as explained next.

Whilst S.A's exports are small, exporters were able to substantially and rapidly improve their position over *some* key-sub-sectors in the EU and over *all* the core sub-sectors in the US. As can be seen from Table 5 below which reports SA performance defined in terms of the rank of the core clothing sub-sectors, there has been a systematic improvement of the relative position of SA in the US. In contrast, S.A's position deteriorated in three sub-sectors in the EU, the women's knitted tops, the woven outerwear (excluding overcoats and tops) and in the T-shirt segments. In contrast, SA's position in men's wear improved. The ranking however hides a strong and increasing concentration of extra-EU and US imports across a small set of partners in some of the sub-sectors.⁴¹ With the EU, China and Turkey appear consistently among the top five suppliers. A similar pattern emerges in the US with Mexico, the Dominican Republic and China.

Table 5. Change in S.A's rank at the sub-sectoral level in extra-EU and US imports

		HS 6103	HS 6106	HS 6109	HS 6203	HS 6204
		Men's/boys' suits etc., knitted or crocheted	Women's/girls' blouses etc., knitted or crocheted	T-shirts, singlets or other vests, knitted or crocheted	Men's/boys' suits etc., not knitted or crocheted	Women's/girls' suits etc., not knitted or crocheted
EU	1990	61	32	33	41	37
	1999	29	41	49	34	49
US	1991	69	58	105	89	105
	2000	30	32	29	35	58

Sources: Eurostat (various years) & USITC (2001).

⁴⁰ 0.45% and 0.47% of extra-EU imports of HS 6103 and HS 6203 are from SA. Imports from SA in HS 6106 and HS 6103 amounted to 0.53% and 0.49% of US imports in 2000. 0.36% of HS 6203 imports by the US in this segment are from SA.

⁴¹ Comparing the 1999/00 share with the average share for the period for which data are available in Appendix Table 10, page 73. The fact that SA exports have not grown as rapidly as export from other suppliers explains the change in ranks.

When proportions of goods externally imported from SA by the EU are considered at the sub-sectoral level, fluctuations over the years in terms of performance appear, in particular for some of the knitted/crocheted exports. There is in contrast a clear-cut pattern in the US where S.A's market share has markedly increased. Table 7, on page 30 outlines the broad features of penetration into the EU and into the US (sub-sectoral average figures are reported in Appendix 4) with period averages considered (basically pre- and post-1995).

SA seems to be in a strong position in the knitted/crocheted segment. In the EU, SA was able to secure unit prices for some of its exports substantially in excess to that received by other extra-EU suppliers. The mark-up is particularly high for men's wear of the knitted/crocheted type. Moreover, not only have unit-prices grown, extra-EU imports from SA have increased notably. This suggests that SA produces quality goods in that segment for which end-customers are notionally prepared to pay higher prices. The distance between S.A's unit prices and that received by other suppliers further points to some amount of export specialisation into segments with higher prices possibly emphasizing 'better' quality. Moreover, this specialisation emerged in the second half of the decade. Prior to 1995 values for a unit of imports were lower and displaying a mixed trend (even in some cases declining). Yet, there is competition from other suppliers which has caused the rank to fall in two sub-sectors.

In terms of amount imported from SA, it is in the core woven segments that SA performance matters. SA has also performed well in the woven segment in that unit prices have increased. Yet a distinct pattern is at hand when extra-EU and SA unit prices are compared. Unit prices for SA are below those available to an average non-EU supplier. Thus, whilst unit value increases in woven goods suggest upgrading, garments exported by SA appear to be distinct from those exported by other suppliers. Shift in quality appear which takes the form of a 'catching up' towards the quality available from an extra-EU supplier. This shift is taking place within a 'lower end' product segment. Moreover, extra-EU imports in HS 6203 from SA have declined by 0.7% per year (in € the equivalent of a 5.6% per annum decline with values converted in US\$).

A dual pattern of export performance is apparent for SA depending on whether knitted/crocheted or woven goods are considered. On the one hand, SA exports higher value added goods than other suppliers in the knitted/crocheted segment. Possibly, SA exports woollen garments whereas exports by the competitors are in the more basic knitted group. Although SA might be set here against the wrong competitors, upgrading is nevertheless indicated by two trends (the expansion in exports and rising unit prices). Specialisation is signalled by the fact that extra-EU import values are markedly lower. The process of upgrading in the woven segment is more difficult to account for. Again, different fabric inputs (i.e. a synthetic/natural fibres division) might account for the ability to secure different prices and different end-customers. Alternatively top suppliers might be exporting to the EU different goods and/or exporting to different markets. Although one can assume price arbitrage across the various EU markets, differences in consumer preferences and in retail across Member States (MS) might result in different products being exported to different MS. The outcome would be one of differing prices being secured for competitor's exports. The point however, is that as the UK is one of the MS with the highest extra-EU import orientation, it can be assumed that the top suppliers are representative of the trend for the UK so that the extra-EU competitors are likely to be competitors to SA.

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Table 6: Summary of upgrading: sub-sectoral changes experienced by SA in the EU

HS	Comment
6103	SA is upgrading in an increasingly competitive (potentially cost driven) context.
6106	SA is upgrading in an increasingly competitive (potentially cost driven) context.
For the above two HS codes, SA appears to be operating in niche markets	
6109	SA is upgrading. Competition is notably with Mauritius where upgrading also occurred.
6203	SA faces some problems in that whilst unit prices have increased, market share has declined. There are signs of competitive pressures in this sector. SA's product characteristics might not be in line with the characteristics of extra-EU imports from the top 5 suppliers as extra-EU values for a unit of imports in this product segment has declined. China is upgrading.
6204	SA is upgrading.

Note: Based on columns 4 and 5 of Table 7.

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Table 7: Summary of unit value of imports in the EU and trends in exports in the US

HS	Price range in EU in 1999	Extra-EU average price (1999)	Value of a unit of import SA vs. Extra-EU	Trend of extra-EU imports from SA (1990-94 vs. 1995-99)	Trend of US imports from SA (1991-95 vs. 1996-00)	Extra-EU change in imports	Change in imports by the US from the world
6103	7 to 17\$/kg	11\$/kg	Unit value of SA is from 1990 in excess of extra-EU average unit value of import. In 1999 SA unit value was 1.8 times that of extra-EU unit value. Value of an extra-EU unit of import declined.	Decline in the pace at which imports from SA is increasing but growth of imports in excess to that of the top 5 extra-EU suppliers.	Rapid increase in excess of world - less fast increase in second period	Increased throughout the period. Decline of pace of increase of imports over the second period.	Increased throughout the period. Increase in imports over the second period slightly in excess to that of the first period.
6106	7 to 23\$/kg	16\$/kg	From 1996/97 unit value of import from SA in excess of extra-EU. The gap is increasing. By the end of the period SA was receiving almost twice as much as an average extra-EU supplier. Prior to 1995, the value of a unit of imports from SA was declining. The value of an extra-EU unit of imports declined.	Initial decline of import reverses in the second half of the 1990s when SA was in a strong position. Competition is mainly with Bulgaria on quantity, but not unit price.	Rapid increase in excess of world, although with a slower increase in the second period. Imports from HK slowed down and HK lost market share.	Increased throughout the period. Increased in the extra-EU imports over the second period in excess to that of the first period.	Increased throughout the period. The increase in imports over the second period is more than half that of the first period. Thus displaying signs of slowing down.
6109	7 to 17\$/kg	14\$/kg	From 1995/96 SA received 1.3 to 1.4 times more for its exports than an average EU supplier. Competition is with Mauritius which is receiving almost what SA is receiving	Growth is above that for extra-EU as well as above the top 5 extra-EU suppliers. There was a decline in imports from SA in the first period.	Rapid increase in excess of world with a slower increase in the second period.	There was an increase throughout the period. The increase in the extra-EU imports over the second period was in excess of the first period	Increased throughout the period. The pace of the increase of import growth over the second period declined slightly, thus exhibiting signs of slowing down.
6203	14 to 23\$/kg excl. Morocco*	16\$/kg	SA is slightly below the extra-EU average and showing similar fluctuations over time. Unit prices increased throughout the period, whereas there was a small decline in the extra-EU average value per unit of imports.	Declined and below extra-EU import growth. Imports from top 5 suppliers have expanded over the period.	Expansion but less impressive than that observed for other sub-sectors. Nonetheless, in excess of world but below Mexico	Increased throughout the period. Increased in the extra-EU imports over the second period which was in excess to that of the first period.	Increased throughout the period. Increased in imports over the second period, which was in excess to that of the first period
6204	20 to 32\$/kg	23\$/kg	SA was below extra-EU by as much as half extra-EU unit value in 1995/96. Thereafter some catching up was evident. In the first period unit value of imports declined.	Expansion but imports from SA have grown at a rate lower than that for extra-EU. Period averages suggest an expansion but a lower pace than that of 4 of the 5 top suppliers.	Increase in excess of world and all exporters, however with a less rapid increase in the second period	Increased throughout the period. Increased extra-EU imports over the second period in excess to that of the first period.	Increased throughout the period. Increased in imports over the second period in excess to that of the first period.

Notes: 1) Price range figures have been rounded up. The figures are for the top five extra-EU suppliers. Values in € have been converted into US\$. Unit value performance varies depending on whether the data considered are in €/kg or in US\$/kg. Performances differ also when 2 year moving averages are considered. However the pattern for the trend remains unaltered. 2) *: Extra-EU unit value fell abruptly to US\$7/kg in 1999.

As unit-prices of imports for the US are not available, the pattern of export to the US is less informative than that observed for the EU for the discussion of upgrading. The trend observed is one in which market shares have expanded rapidly. This expansion is in excess of that of all other competitors with the exception of Mexico in men's wear. (This can be seen by comparing the first with the second period growth rate of imports reported in Appendix 3). It is likely that the apparent competition with Mexico in HS 6203 is limited in that Mexico exports goods with a higher fashion content. This is likely given the proximity to the US and consequent lead-time advantages. According to the USITC data, US imports from Mexico have typically grown more rapidly than imports from the rest of the world.

3.3 Conclusion

Relative to other economic sectors, the South African clothing sector is an average performer. Moreover the contribution of clothing to SA manufacturing economic performance has remained small except in employment. A mixed pattern of process upgrading emerges from efficiency indicators set out in the analysis of the macro data although when adjusted for the number of firms in the industry the average firm size (defined in terms of the number of employees and the stock of capital available) seems to have increased. Moreover, general efficiency gains seem to be a broad characteristic of the sector. In contrast, one area of difficulty lies with clothing labour productivity lagging behind that for manufacturing which suggests that adjustments are towards an overall re-organisation of production not entirely routed in a more efficient use of the workforce. Value added also fell at the end of the 1990s. These point to the setting up of a small platform of process upgrading over the second half of the 1990s. However, in parallel to minor production related improvements, clothing exports have taken off in the late 1990s.

SA core exports are concentrated in sub-sectors for which the EU and the US are increasing their imports. In spite of the shortcoming that unit prices are not available for the US, the major market of destination for SA, there are tentative signs of product upgrading in the EU. The nature of the upgrading however appears to differ depending on whether knitted/crocheted or woven apparel is considered. In the former group, SA appears to operate in niche markets, exporting products with higher value added than its competitors. Also, confirming that some form of adjustment within this segment is taking place is the fact that there were marked improvements in the returns to exporting after 1995. Although South African exporters are taking up some of the opportunities available to them in terms of an expansion of exports of knitted/crocheted core products, SA exports little in this segment. In woven, upgrading appears to take the form of a catching up with the value of an extra-EU unit of import. A problem appeared around the performance of SA in its largest export group (HS 6203). In this segment SA's exports fell in the EU although extra-EU imports from SA fluctuate over the years. There are possibly competitive pressures in this particular product group from a series of sources. US imports from SA have grown consistently in excess of imports from the world.

SA has shifted its exports away from the EU in favour of the US. It is not possible from the trade data to comment on whether what is a hand is the outcome of a small set of large South African firms increasingly established overseas or whether the shift is across a series of South African clothing exporting firms. The trade data do not allow an assessment of the dynamics generated from exporting for the firms either and thus fail to capture the detailed characteristics of the export expansion. In particular, some forms of upgrading (such as functional) cannot be suggested from macro data. Fieldwork was undertaken to inform about the changes experienced by the exporting firms, the results of which are set out in the next section.

4 MICRO LEVEL ANALYSIS

In the second part of the empirical analysis, attention shifts to the fieldwork findings. The analysis of these findings complements the trade data discussed in the preceding Section. A first sub-section provides a profile of the subset of exporting firms interviewed. The second sub-section details the changes associated with exports across the various upgrading platforms. A third sub-section summarises the changes and concludes.

4.1 Key characteristics of the firms interviewed

Given the absence of indicators specific to the exporting firms and the lack of details about the characteristics of an average firm in the industry (age etc.), it is not possible to discuss whether the subset of firms interviewed is representative of South African clothing exporting firms. That said, we begin by describing the key features of the firms interviewed, *viz.* location, age, number of employees, export orientation, the type of garments produced, and the markets of destination.

The firms interviewed are primarily located in the Western Cape (WC) (51.7%) and Kwa-Zulu Natal (KZN) (35.5%), but also includes firms from Gauteng and the Eastern Cape (EC) provinces (6.9% in each case). Set against the breakdown reported in Appendix Table 2, page 65, it would appear that KZN clothing firms have a marginally greater export orientation than firms in the WC. The average exporting firm interviewed was established 45 years ago ($n = 27$). The firms were established between 1909 and 1999 (see Appendix Table 12, page 77). In terms of the distribution of data by date of establishment, one set of firms was established 20 to 30 years ago and another at least 50 years ago. The sample contains few recently established exporting firms (only 2 firms were established after 1991).⁴²

As noted in Section 3.1, the 'average' firm size in the clothing sector increased to over 200 employees in 2001 (see Appendix Table 2 page 65). The average firm size of our subset of firms exceeds this figure. The number of employees of our subset of firms varies from 330 to 4000, with an average of 1187 employees. The distribution contains a large group of 600 to 700 employees and another group of firms that has more than 1200 employees (see Appendix Table 14, page 77).

Two points can be noted with reference to firm size. First, there seems to be some variation in firm size in terms of geographic distribution. For example, firms located in Gauteng were larger with an average of 1850 employees. This is followed by KZN where the firms interviewed had, on average, 1506 employees (1194 employees if the larger firm is excluded) compared to 1250 for the EC. The WC firms were smaller with an average of 870 employees. Second, firm size appears to be related to value-added since the smaller firms are generally the ones which are involved with producing the higher value added garments.

The domestic market remains an important market for the firms. On average 43.65% of the firms' turnover was exported. There is a mixed pattern with firm distributed across a small, medium and high export orientation (a trimodal distribution - see Appendix Table 13, page 77). It is important to note that across our subset we found no correlation between number of employees and the proportion of turnover exported.⁴³

⁴² Exporting appears to predate, for some firms, the opening up of the domestic market. For the ten firms who stated when export started, these have been exporting for 10 years on average.

⁴³ Correlation coefficient = 0.13 with $n = 23$. We have two relatively large firms in our subset that have a 'limited' export orientation (less than 10% of turnover is exported). The coefficient reduces when these are eliminated.

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Although some of the above traits simply confirm the fact that we have successfully selected large exporting clothing firms, there are nuances in terms of the export orientation of the firms selected which are unlikely to be representative of South African clothing exporting firms. In particular, there are duty free fabric import incentives that are available to firms on condition that the fabrics are transformed into full package garments which are exported. Little information is available on these pure 'export platform' firms and we only have one such firm in our sample.

The fieldwork confirmed the difficulties of relating specific goods produced by firms to either HS or SIC categories (Appendix Table 11, page 76 lists the set of goods produced by each firms on the basis of information supplied by the firms). Whilst the firms appear to be predominantly involved with woven garments, there were nuances over the original breakdown.⁴⁴ Five, seven and two firms respectively produced men's, women's and children's wear only. Seven firms produced for both men and women, and two produced goods for women and children. Finally, five firms produced for all types. Although the array of goods produced does not allow firms to be adequately sorted according to HS classification, one feature nevertheless emerges which is that the production of trousers dominates the array of goods produced. 15 of the firms interviewed produced and exported trousers.

The exporting firms produce a wide range of garments. One group of exporters specialised in niche product. Specialisation appears in terms of value added being secured through:

- the type of fabrics incorporated (e.g. worsted wool);
- a know how advantage (i.e. tailoring of suits and jackets require specific skills);
- the technology available in the firm. The technological advantage in our subset of firms appears through important investments in specialised machines or through managing the available technology. In the latter category, one firm established a comparatively high value added niche production around wrinkle-free trousers. Here the firm incurred high learning costs of dealing with the technique which constitutes a significant barrier to entry.

Another set of firms is engaged in exports of basic lower cost garments for which labour costs are important. These firms were located in the decentralised areas. In a subjective classification of firms according to type, firms involved with the production of more basic items are larger (in number of employees) than more specialised firms (**Table 8**).

Table 8: Typology of firm surveyed according to product type

Firm type	Aver. No. of emp.	% of subset
Basic garments (low fashion content and value added)	1675	39.3
More fashion-oriented garments	1050	14.3
Value added achieved through technology	660	10.7
Specialised garments (brands, fabrics, know-how)	820	35.7
n.a.	1	

In spite of the differences in product types, the majority of firms produced garments with a low/static fashion content.⁴⁵ This point, supported by one informant is exemplified by the dominance of

⁴⁴ 58.6% of the firms appear to be engaged with woven garments (including worsted), 27.6% with garments of knitted fabrics type and 13.8% with both types (n = 29). The problem is that some of the fabric types might have been for the domestic rather than for the export market.

⁴⁵ The term low fashion does not apply to suits. For these goods fashion changes are static relatively, that is when compared to other garments (i.e. women's wear).

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trousers. One explanation for this lies in long lead times (on average 4 months). Overall lead time figures put forward by the firms varied from a minimum of 4 weeks to 6 months but most stated a lead time of 4 months. According to one firm, this compares to 3 to 4 weeks average for the Far East. [Firm 19]

Table 9: Lead time

Lead time	% of subset
More than 4 months	29.5
About 4 months	35.3
3 to 4 months	17.6
Less than 3 months	17.6
n.a.	12 cases

Note: Firms have reported lead times of up to 6 months. A minimum of one month was reported.

The majority of firms exported to more than one market. Of the 14 firms (53.8% with n=26) in this category, nine indicated the UK, four had the US and one the UAE, as their most important market of destination. In eight cases, firms were exporting to the US only. These firms seem to have been more recently established (

Table 10). There is no apparent trend in terms of date of establishment and market of destination. An additional four firms were exporting to the UK only. We have 18 cases of involvement with the US market and 17 cases of involvement with the UK market. The UK market dominates only marginally as there are 13 occurrences of exports to the UK only or to the UK as the first market of destination compared to 12 such cases for the US.

Table 10: Distribution of market of destination and average age (n = 29)

Market of destination	Frequency	Proportion (%)	Established (years)	No. of employees
US only	8	30.8	19*	1669
US is the first market of destination	4	15.4	50.5	1362.5
UK only	4	15.4	53	701
UK is the first market of destination	9	34.6	53	944
Other market is first market of destination	1	3.8	71	600
n.a.	3		4*	3

Notes: *: information is missing for one firm. When the US is the first market, the UK is the second market except in one instance when it is France. When the UK is the first market, the US is typically the second market. Few firms were however also exporting to France, Germany, Australia and Japan.

A point to note relates to a pattern between production by location and markets of destination in which WC firms were primarily involved with the UK market only whilst the two Gauteng-based firms were engaged with the US market only. A mixed pattern emerges in terms of the export markets being supplied by firms in KZN and WC.

This section set out some key features of the firms interviewed. Generally, the exporting firms are important employers, they export mainly to the EU and the US, and the garments exported have a comparatively low/static fashion content. This is in line with SA's export structure being dominated by the more stable, less fashion oriented men's wear segment. The next section considers the various dynamics associated with exporting.

4.2 The state of upgrading in the South African firms

Concomitant to exporting is a series of intra- and inter-firm changes. Such changes impact on processes, product characteristics and/or on functions. Changes that are triggered externally tend to involve deeper involvement with various chain actors (input suppliers, logistical agents and intermediaries). In addition, firms might shift towards new VCs but this has not been observed for the firms interviewed. This section uses the information gathered towards the firms interviewed to detail the various components of each of the three upgrading platforms. The objectives of this section are first, to draw a general picture of the current state of upgrading for the exporting firms and second, to identify the most dynamic platform for upgrading. The analysis that follows is organised around a discussion of product, process and functional upgrading. As will be shown, the South African clothing VC conforms to the global clothing VC briefly set out below.

Clothing VCs are buyer-driven chains (Gereffi, 1999a). The term refers to the fact that governance is in the hands of end-customers with rents accruing in the form of increases in their market share. Buyer driven value chains are supported by a network of intermediaries who control both the flows of goods and of information. The global clothing VC is characterised by a process of consolidation of power organised around an evolution of end-customers' functions. Shifts of functions coincide with the fact that profit margins increasingly lie with the ability of the end customers to pass risks onto the producers. At the level of the consumers, risk is managed through a greater proximity to consumers' demands which takes the form of a process of increased product differentiation (which moreover aims to yield greater revenues).⁴⁶ Upstream, risks are managed by shifting stock management costs onto the producers and by transferring the more tangible functions (and the costs associated with these functions) down the chain. With sales and design functions and accordingly product specifications (the "specs") still largely with end-customers, tasks related to managing and co-ordinating supply have been delegated to a series of intermediaries.⁴⁷ The feature of power lying with end customers derives from their capacity to shape the functions of the producers and to extract rents from intermediaries and producers. The hierarchy of producers and their location is shaped accordingly. Producers' performance relates to their ability to meet foreign quality requirements whilst offering cheaper goods and/or goods which have a shorter lead time. Competition amongst producers (and its corollary of the possibility of buyers to rapidly find alternative production sources) lies with the low set up cost of new production facilities.

4.2.1 Product Upgrading

This section describes the product upgrading platform. End-customers forward "specs" and product upgrading is triggered by the process of aligning the characteristics of the good produced with those required externally (a process described as 'meeting externally specified specs'). The fact that links between SA and the import market are heavily mediated suggests a great deal of intervention. However, for the purpose of product upgrading these principally take the form of quality control (QC). QC is contained within the practice of quality assurance (QA) functions. The latter entails assessing the state of the firm's process as well as the firm's progress over process changes. These

⁴⁶ Private and store brands attempt to separate "upper to mid" price point from "mid to lower" price point consumers. Discounters generally sell to low price point consumers. However, there is a range of price point within any one end-customer.

⁴⁷ However, there are signs that the more tangible design activities (pattern making etc.) are shifting out of the hands of end-customers however. [Gibbon (2000)]

assessments are carried out on the behalf of end-customers but can also be carried out on the behalf of the firm's top management. As such, the two dimensions overlap. However, QC contains the more immediate tasks of dealing with improvements of the characteristics of the garments produced. The characteristics associated with QC are detailed following a presentation of the network surrounding access to the importing markets. The discussion then turns to how textile constraints affect product development.

Figure 7, page 399 depicts the channels of communication and interventions identified from the firms. The figure is organised so as to distinguish, at the top, the export markets most frequently referred to by the firms. As links with the Far East clearly emerged from the fieldwork, this platform has been incorporated in the figure. Finally, the bottom layer represents actors based in SA. The dominant intermediaries based in SA primarily deal with the US. Other smaller intermediaries serve a series of markets.

As illustrated, the network to the UK is less dense than the US connection.⁴⁸ This is influenced by a series of factors: 1) a greater involvement with wholesalers/importers in the former market; 2) the fact that relations with UK/EU buyers are more amenable to negotiated agreements; and 3) agents in the UK tend to be small and often operate on an *ad hoc* basis.⁴⁹ In some sense, the difference across the two markets of destination coincides with the smaller size of the UK (and other European) market(s) and a more apparent proliferation of a series of intermediaries in that market. **Table** reports differences across the two principal end markets identified by the exporting firms that have implications for the functional, process and product platforms for export upgrading.

The table does not report all the differences noted in the course of fieldwork however. This is because some of trends put forward might have been gathered from secondary information rather than from dealings with both markets. Nevertheless, specific differences were noted by the suits and jackets manufacturers around fabrics (synthetic or synthetic melange for the UK/EU as opposed to natural fibres garments being supplied to the US). Yet, it might be that EU end-customers source natural fibre garments from other countries (i.e. Italy) so that the observations are not in line with differences in preferences in the end-markets *per se*. For suits and jackets producers, one important consideration is whether they supply tailored as opposed to engineered garments to the US market or a mixture of both. Tailored goods are for higher income consumers. The change might vary depending on US end-customers supplied although one producer stressed that the suits it produced for the US were "commodities".⁵⁰ One last point relates to the qualification that the concern with 'aesthetics' difference might reflect the fact that the UK was the market of destination for firms that had greater room of manoeuvre around design changes and/or innovation.

⁴⁸ In particular, Gibbon (2000) describes some general features of the clothing VC for Mauritius similar to those that are set out next. The description which follows also implicitly re-iterates Gibbon's question of whether one or two value chains are operating which characterise fundamental differences between EU and US end-customers and correspondingly differences in terms of the functions of the intermediaries involved with these two markets of destination.

⁴⁹ Also, exporters to the UK were less forthcoming in naming their end-customers.

⁵⁰ This and the fact that exports to the US are subject to QC suggest that suits and jackets might be becoming increasingly 'engineered'.

Table 11: Reported differences between the two major markets of destination for South African garments

	UK/EU	US
Product	Greater concern with aesthetics / appearance & tend to be more fashion-driven.	Measurement driven. Engineered garment.
Process	UK/EU buyers are reported to prefer dealing with neighbouring partners (Eastern Europe, Turkey and Morocco).	Orders are price sensitive. Prices are 'given' to the South African manufacturer.
Functions	Greater room for manoeuvre to adapt and to negotiate. Potential for partnerships	Lack of partnership / 'more controlled interaction' 'Footlose' behaviour of the buyers

As for the activities undertaken in East Asia (Hong Kong and to a lesser extent Taiwan, Korea and Singapore), these are important. The term "triangle manufacturing" describes the fact that the nucleus of global apparel trade is with these countries. Most global sourcing companies have an East Asian origin and/or ownership link with headquarters in Hong Kong.⁵¹ Besides contacts with their parent companies, they are also in close contact with US end-customers and with end-customers' buying offices in East Asia. The East Asian platform is also important given the contact Asian subsidiaries in SA have with their parent companies (four firms including three firms with Taiwanese investment).⁵² A sharp and complex pattern of interactions with East Asia emerged for the Asian-owned firms. Finance was dealt with through either Singapore and Taiwan and in the case of the South Asian owned firm, pattern grading was also supplied from East Asia. These firms' interactions with US end-customers were managed through East Asia with Asian owners exploiting an established and pre-existing network of contacts in Taiwan and Singapore and, to a lesser extent, Hong Kong for export orders. The network tapped into the established presence of end-customers' buying offices of retailers and branded marketers in these countries. QC (and QA) was engaged from East Asia but carried out by the global sourcing companies based in SA.

The top layer of

Figure 7 sets forth the type of end-customers and other buyers associated with the subset of firms. This layer cannot be considered in isolation of the various intermediaries involved. Firms exporting to the UK/EU reported a variety of export channels and buyer type. Some deal with importers/wholesalers overseas or based in SA. These were typical intermediaries in the school wear segment. One firm interviewed sold branded garments overseas to small boutiques and independents. Three firms mentioned contracts with mail order houses. Whilst interviewees mentioned the presence in the past of mail order houses such as La Redoute and enquiries from Quelle (respectively French and German owned), mail order houses were not always specified. Two exceptions were Littlewoods and Cotton Traders. For the latter exports are organised through a global sourcing company which has a presence in SA. Some contacts were with generally unspecified specialty retailers and department stores (Next and Laura Ashley in the first group and M&S in the UK and Galeries Lafayette in France in the second group).⁵³ One firm mentioned being involved with a discounter in the UK and another one with a specialty apparel retailer.

⁵¹ These are typically but not solely Hong Kong owned. In the diagram these are reported as involved with the management of the VC. Gibbon (2000) documents a blurring of functions with companies becoming active beyond sourcing (i.e. involved with retailing and production).

⁵² The figure oversimplifies the fact that one firm was a subsidiary of a South Asian parent company and another of a Mauritian firm. Their interactions between the South African producer and the Mauritian parent company are limited.

⁵³ One of two firms still supply Galeries Lafayette. One firm mentioned current attempts to secure contracts with Tesco, a UK chain department store.

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US end-customers are varied. The end-customers mentioned were mostly of branded marketers (i.e. Liz Clairborne, Wrangler, Camel), specialty retailers (i.e. JC. Penney, Jones of New York, ‘Old Navy’) and a US mail order house, J Crew.⁵⁴ There were mentions of sales to unspecified department stores (mentions were made of Department Stores on the East Coast and in the Southern States). Also some references were made of garment exports for Timberlands (a specialised retailer). A difference appeared between the US and the UK end markets with 21% of firms exporting large volumes to US discounters (namely Target, K-Mart, Walmart but also Cost Co).

Given that end-customers were not always named, it is not possible to assess which end-customer type South African garment firms primarily supply overseas so that the primary end-customers emphasised in the Figure are those who are mentioned more frequently. However, according to one key informant 3 “the bulk of trade is being done by major retailers at the moment ... [who] know strategically that they want to source from a country”. Moreover, it is not possible to assess the end-customer type when firms mentioned production for mail order houses since US specialty retailers often organise some of their sales through mail order catalogues. Yet, when firms mentioned end-customers, JC Penney accounted for about 17% of the end-customer described and ‘Old Navy’ for another 8.7% (n = 46). These end-customers have been secured through the presence of representatives of end customers’ buying offices and global sourcing companies based in SA (J Crew, JC Penney, Target and Old Navy for the US and Cotton Traders for the UK).

Although different end-customers are associated with different price-points, any given end-customer might sell brands at different price points. However, frequently, end-customers and buyers were at the “middle to lower middle” followed by “low” price point. More limited mentions were made of garment exported to “upper” price point end-customers (Table 11).

Table 11: Price point secured by South African garment exporters in the UK and the US

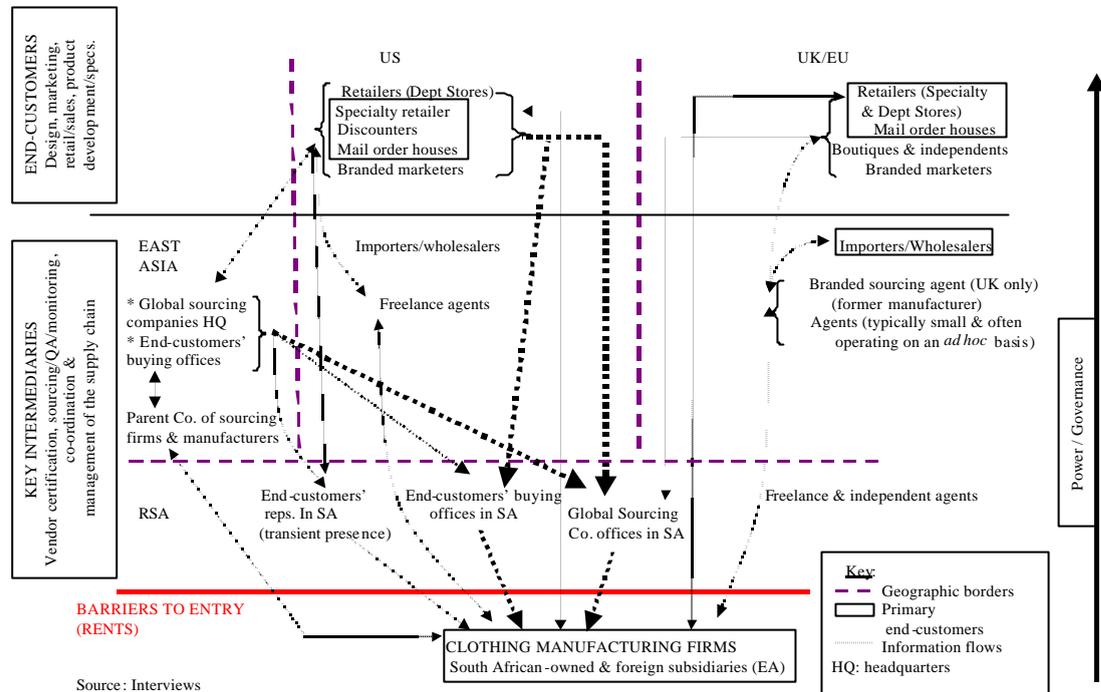
Price point range	%
Specialised high price point buyer	4.3
Higher to middle price point	8.7
Middle to lower middle price point	47.8
Lower to low price point	13.0
Low price point	26.1

Note: Based on mentioned end-customer(s) or end-customer type (i.e. wholesaler) overseas. Firms might have listed more than one (type of) end-customer.

Whilst higher value added producers appeared in mid to upper middle price points, some of the larger firms (in number of employees and located in the decentralised areas) produced for Old Navy and/or other discounters. According to one key informant, “the biggest growth to the US has been in products that are made in the decentralised areas.” [Informant 3] Firms located in these areas generally export basic garments with a higher labour content than those located in urban areas. They are thus operating at the more price-sensitive end of the market. [Informant 3]

⁵⁴ Old Navy is the lower end private label of The Gap Inc., a group which specialises in casual wear. Production for Chesterfield, Pineland, US Cottons and Century Place (listed as mail order houses) was also mentioned.

Figure 7: Network connecting South African clothing manufacturers and foreign end-customers



34.5% of firms had direct contact with foreign end-customers. (Direct channels are described in **Figure 7** by unbroken arrows.) Some firms expressed a preference for this route and those successful in such contacts felt that, in turn, retailers favour this method. At stake are tighter communication linkages between the two parties and opportunities to induce some form of leverage or engage in negotiations with the final buyers. The direct route was further associated with savings over the commission taken by other intermediaries. Yet, this route initially entailed numerous visits overseas and a high initial start up cost of a marketing approach designed to signal the ability of the firm to meet foreign requirements. Given that retailers also face a risk in engaging in production with a new supplier and the low likelihood of breaking into a network of already established suppliers, this is a rarer occurrence in the US. When markets of destination are considered, 36% of direct contacts were with the US (with the remaining 64% of direct contact with the UK). Direct contacts with the UK are more recurrent, possibly because there is a longer history of exports to end customers in that market. Alternatively, the need for intermediaries might reduce as firms establish a reputation based on trust. Reputation building is derived from already having successfully engaged in production for a known end-customer.⁵⁵ The theme of the importance of trust between end-customers and producers and the view that SA has an advantage in this regards over competing economies was stressed by the firms dealing with the UK market.⁵⁶

⁵⁵ There are two possibilities here. Either there were intermediaries but these were bypassed once trust-based relationships were established. Alternatively, conditions were favourable (reputation building was easier or the sales conditions easier) at the time at which export contracts were first established.

⁵⁶ See also Appendix Table 15, page 78 for the importance of cultural affinities as a determinant of export competitiveness. This perception is debatable in light of the current competitive pressures and changes to the sale structure overseas. However, the point remains that the firms felt that the export channels were functioning. Note that two firms have a long export history with the US.

There is a diversity of communication channels and “information” intermediaries between manufacturers and end-customers. The key types of information which reaches South African manufacturers relates to instructions about production characteristics (the “specs”) or to patterns for production. Intermediaries and/or end-customers are contacted when information is required (i.e. agreeing on a sample or payment). The role of intermediaries appeared more towards providing South African manufacturers with information about potential end-customers. A case in point is a manufacturing firm which was dealing with a UK branded sourcing agent, which was a former manufacturer. Also present in the importing markets and in SA are freelance and independent agents who provide information (about a firm, an end-customer or the industry) and sources of contacts. Social networks (i.e. the South African diaspora, family links, etc.) or company representatives based overseas also played a role in securing contacts overseas.

In addition, global sourcing companies with offices in SA (e.g. Linmark, Li & Fung, Hotsource, and Mast) are commissioned by end-customers (particularly the US) to assist firms to meet the production requirements and to monitor the flow of production so as to ensure timely delivery (under the process of QA). The parallel presence, albeit small and recent, of representatives of end-customers buying offices in SA (The Gap and Target) gives some support to the view that exports to the US have already exceeded a threshold beyond which the presence of these is economically rational.⁵⁷ The arrows are drawn thickly with US end-customers as 80% of the transactions of the global sourcing companies’ SA offices are carried out on the behalf of US end-customers. 12 firms explicitly stated that they had dealings with global sourcing companies and representatives of end-customers based in SA. For the UK market, end-customers’ representatives come for QC and QA purposes. (They at least ensure that various production and social compliance requirements are in place or met.) They have a transient presence as they engage with manufacturers primarily during firm visits. However, manufacturers undertake visits to their end-customers overseas.

The role of the global sourcing companies and of other end-customers’ representatives and agents rests predominantly with QC and QA functions. The arrows in

Figure 7 point downward to account for the fact that the dominant function of these intermediaries lies in specifying foreign requirements and monitoring that these are met. Again, this is an oversimplification in two respects. First, South African manufacturers are both approached by, as well as themselves approach the global sourcing companies and end-customer buying offices based in SA. Moreover, the producers themselves undertake visits to end-customers.⁵⁸ Whilst the process is complex, the search for a supplier is largely undertaken by the intermediaries, and thus, they act as major drivers in SA *vis-à-vis* the establishing of export contacts.

Representatives of end-customers and of the global sourcing companies in SA are involved with QC related tasks:

- Pre- delivery inspection and QC of garments produced by South African firms. These, undertaken on the behalf of foreign buyers are associated with QA functions.
- They also carry out QC of firms engaged in production for foreign brand licensors. In the case of one firm involved in producing for the domestic market under foreign (US) license, the licensor “engaged” the independent buying agent into QC tasks.

⁵⁷ Thresholds are put forward in Gibbon (2000) for Mauritius. There are nuances over the functions of the global sourcing companies. For instance Li & Fung (and to a far lesser extent Linmark) are global merchandisers whilst MAST is both a global merchandiser and a ‘global’ buying office for The Limited (considered in the US as a competitor to The Gap). However, their functions in SA are those of a global sourcing company. They are labelled as such accordingly in this report.

⁵⁸ Little insight was offered by the firms around the nature of the visits overseas.

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- Similarly, global sourcing companies (and end-customer representatives) are approached by foreign sellers who have already established contacts or selected a South African garment producing firm to carry out QC on their behalf.

The above stresses that the core function of the dominant intermediaries based in South Africa is one of monitoring of quality.

Whilst QC is undertaken internally, firms have noted that challenges have emerged with external QC. QC aims to ensure that firms develop some minimum capability around the characteristics of the garment destined for export. External QC is relevant to firms that manufacture according to specs (23 firms opposed to 4 firms not producing according to specs). Yet, there is some amount of ambiguity as to the scope and nature of the QC between the US and the EU/UK. The explanation might lie with the fact that there might be a process of “standardisation of the standards” [Firm 25]. What is described here is a case in which a set of end-market specific quality standards influences the standards specified in another end-market. Generally, US specifications are more technical (i.e. more explicit, more detailed and encompassing a large number of product criteria). The firms noted, however, that differences in customer expectations partially account for the difference in requirements.

QC appeared to be as ‘strictly’ applied to more basic as well as to higher value added garments. There were nuances around the depth of the involvement of and impact the intermediaries. One particular global sourcing company, which deals with higher value goods, was described as more interventionist (in QC and QA). All the four firms mentioned being involved with this agent noted the competence of those involved with inspection and the level of training of the staff and a greater impact of this agent’s interventions.

“We have learnt a great deal about complying with technical standards and specifications from sourcing agents such as [global sourcing company name].” [Firm 29]

“A [global sourcing company name] QC person will start you off on a production run of 150, and he will physically show you how to make the first 10 to his quality standards. He involves the line supervisor and the floor manager in the process.” [Firm 23]

“We did not believe that we could produce goods at this level of quality until [global sourcing company name] stepped in!” [Firm 11]

The specifications from this global sourcing company were detailed to the extent that in the case of one firm both, the chemical formulae for a dye and the price of the chemical mix externally supplied were challenged with the outcome being that a new, more effective and efficient supplier was instantly introduced to the firm. Those involved with that particular global sourcing company felt that having met the requirements for that company eased the process of meeting the requirements set by other end-customers. One firm reported the quality requirements associated with this global sourcing company are such that it had to send samples for over a year before an interest turned into an order. There is some amount of competition across global sourcing companies based in SA because of an overlap of their functions and because different commission rates are charged (informant 1). However, whilst there are variations in the extent of their interventions, these differ in the end-customers to which they have access.

There is a mixed pattern in terms of the spillovers associated with dealing with other intermediaries or end-customers. Dealing with one intermediary or producing for a specified end-customer generally does not reduce the scope for QC by another intermediary. This is possibly because production lines

are set up for specified end-customers. Exporting relationship between a producer and an end-customer which are in excess of a certain duration might led to QC “interventions” being reduced or deemed of marginal relevance. (Informant 2 noted a minimum of 2 years, but more frequently 5 years.) The intensity of QC does not appear to reduce with distinct garments produced for a given end-customer however.

The continued presence of global sourcing companies and end-customer representatives in SA, the increase in exports to the US under stringent QC, and the fact that the value of unit of goods imported by the EU from SA has increased all signal that quality improvements occur and thus that the platform for product upgrading is strengthened.

Product upgrading is largely limited to a process of QC related interventions. However firms are themselves engaged in an internal process of QC. Firms did not raise the issue of whether the process of meeting externally specified requirements has been accompanied by an increase in internal inspection (one firm gave a repair rate of 27%). As for reject rates these vary greatly although some key figures advanced were of 78% for the South African industry compared to an international benchmark reject rate of 3%.⁵⁹ Firms stressed important differences caused by different fabrics used, the technical specificities of the garments and whether there is room for excess number of items to be sent for a given order. However, exporting is not systematically associated with the ability by firms to induce product innovation. Decreasing scope for product modifications or changes in fact largely accompanies exporting. This is because changes induced by external QC are of an engineered nature. This entails quality that is defined according to a minimum rate of rejects. Global sourcing companies set a threshold minimum reject rate (a threshold of acceptable quality level (AQL)).⁶⁰ Firms’ room for manoeuvre is towards minor suggestions (reported in one case for production efficiency purposes) and minor product design changes although this might be distinct for firms involved with tailored goods. The shift to minor design adjustments explains that five firms consider ‘product development capacity’ as a moderate outcome from exporting (see **Table 15**, page 50, part 2). 62% of the exporting firms were able to maintain some of their design capabilities through their portfolio of brands for the domestic market. Although ‘new’ products can be generated and used overseas for marketing purposes, product design capabilities are largely associated with the domestic market.⁶¹ Even though the manufacturer design platform is small, manufacturers complained about the level of design currently with the retailers. In contrast four firms that exported to the EU under specs were in a position to initiate some design changes. These were firms exported fashion-orientation garments.

Finally, whilst there is the possibility of goods being positioned around quota premium variations in the US, and whereas, the trade advantages are a determinant of performance (see Appendix Table 15, page 78), few can drive production specifically towards garments for which the quota premium in the US is higher. There is a perceived relationship between the production of trousers and a trade advantage in that particular garment.⁶² Yet, this is information which firms have gathered from their buyers. Three firms were aware of a synthetic fibre advantage but two of these were order takers. One of these firms (firm 12) was seeking to leverage the AGOA advantage from a product specific perspective. Another firm approached the South African Board of Tariffs and Trade for a raw material not available in SA to be declared ‘not available in commercial quantities’ so that the finished garment could be exported to the US duty free.

⁵⁹ Yet for 61.9% of reject rates reported by the firms for exported goods were below 3% (n=21).

⁶⁰ AQL is based on a statistical distribution. Provided that a proportion of a sample can be rejected that is below a certain threshold, quality is fine.

⁶¹ Product portfolios are more specific for the UK and in the case in which a direct route to an end-customer is sought.

⁶² Thanks to Peter Gibbon for this point.

The above discussion concerns product changes. Although, as noted earlier, constraints are of the process type (lead, response and turnaround time), external constraints for the production and/or export expansion of new product arise with the domestic textile supply base (whose importance can be gathered by consulting **Table 12**). Availability problems were stressed by nine firms (31% - see

Appendix Table 16, page 78). The problem is around a relative shortage of fabrics of the right quality at the volume required. There are several reasons for this. First, following the currency depreciation clothing manufacturers face greater incentives to use local textiles for garments destined to domestic retailers. Second, rules of origin pressures with AGOA mean that firms exporting to markets other than the US have to compete with orders of fabrics destined to firms exporting to the US.⁶³ Third, textile quality has improved and quality textiles are exported. Even according to firm 2 to the consequence that “the textile mills produce commodities by the end!” [Firm 2]

Table 12: Proportion of textile sourced domestically for garments exported

% Sourced locally	Number of cases
100	10
[90 – 100[	3
[80 – 90[	3
[50 – 80[	2
Mostly local	11

Note: Mostly local refers to small imports of specialised fabrics from a series of countries. Firms did not give a percentage breakdown. Firms who gave proportions of fabric sourced locally for the domestic market reported between 0% to 100% (averaging 65% for n = 8).

The strong demand for local fabrics translates in orders being placed 3 to 6 months ahead for delivery supports that local capacity contributes to the long lead time associated with garment production. Moreover, three firms reported that contracts were lost because of a fabric-related problem. In one case the firm shifted the bulk of its garments’ export away from SA into Lesotho, partially as the result of fabric-related difficulties. Furthermore, garment producers face an increase in the price of local fabrics caused by an increase in the price of raw materials through inflation and the depreciation of the currency and international price increase.⁶⁴ The alternative of importing the fabrics from the US (as well as from the UK) was considered ‘prohibitive’.

The increase in raw materials, particularly wool has triggered some minor changes. In two cases firms were in a position to shift to melanges. Also, according to one key informant there are nuances in terms of the development of fabric. “Wool is not standing still in terms of competition from cotton.” Finally, as firms purchase components (accessories, trims, etc.) internationally manufacturers have to occasionally engage in their own QC and market intelligence in this regard.⁶⁵

Quality improvements embodied in the process of meeting externally specified “specs” is a core dimension to product upgrading. This is an intense process associated with the South African clothing firms responding to foreign end-customers. Yet, there might be nuances across the US and EU/UK requirements. Also, textile constraints might differ somewhat around the nature of the textile product required and the type of garment exported. Nevertheless, in spite of nuances across the type

⁶³ AGOA requires that exports meet some rules of origin requirements for duty free access to the US, namely the incorporation of domestic fabrics.

⁶⁴ At the extreme is a rapid increase in the price of wool of 42% between 21 November 2001 and 31 January 2002 caused by international shortages. One firm noted that since this was a global problem prices would increase internationally. As such, they would be able to pass this increase onto the end-customers. The issue was instead whether consumers would substitute cheaper alternatives.

⁶⁵ Lack of skills were sporadically mentioned as constraining product development but were around the training level of the workforce. There is one important exception to this which is the lack of tailoring skills for the suits and jackets exporters.

of garment exported and nuances around the scope for adding value, product upgrading is strongly externally driven and affects the majority of exporting clothing firms. In one case even a firm rejected an order for a mail order house as ‘specs’ were not given. The immediate outcome of the product platform is that with long lead times and the current orientation of textile mills and other textile suppliers, SA is upgrading in garments for which long lead time is required, that is generally garments with limited or static fashion content. Thus, whilst QC positively shapes the quality of the finished garments, SA might be building a reputation for being a quality supplier of these garments. In parallel, there is no systematic gain in seeking room for manoeuvre around product innovation.⁶⁶

4.2.2 *Process Upgrading*

“In the past SA firms were too narrowly focused on the domestic market. Whatever you do internationally opens your brain and you learn daily. Exposure to the international market is the fastest learning curve. They are out there competing for orders and at the same time the foreign buyers are setting tighter and tighter requirements.” [Informant 3]

This section, which details the characteristics of process upgrading is organised around three salient points. The first point is that QC is about quality improvements (one of the three dimensions of the process upgrading platform) and that process upgrading is externally supported. A second consideration deals with the issue of cost and profitability partially incorporating the focus towards increasing volume based orders. Attention then turns to efficiency changes. An important caveat is that firms provided limited detailed insights into process changes. Perception data are used in this sub-section.

The previous discussion emphasised that product improvements occurred through QC. The distinction between product upgrading and quality improvements in the clothing sector is arbitrary as QC is associated with ‘better’ (quality) garments being produced for the export markets. Also, because QC triggers changes at the production line level, positive process changes or process upgrading is inherently an outcome of QC. More specifically, the link between product and process upgrading relates to the fact that QC is a partial counterpart to QA. The distinction between the two concepts is thus blurred. One firm described QC in terms of the presence and tasks on the factory floor whereas QA entailed the function of monitoring intra-firm progress (i.e. flows of production and actual improvements), or of problem areas for the purpose management but particularly for that of the end-customers. The latter distinction, which comprises assessments of the limits of production and capabilities of firms is however arbitrary. The core intermediaries make suggestions on production processes within the firm.

The above signals that there is an inter-agent process upgrading path. Yet, a small number of firms pointed out that they engaged *independently* in a process of learning about their export markets prior to exporting. This learning was around establishing information around foreign market conditions and foreign demand characteristics. One firm described this as “doing one’s homework”. A process of establishing contacts overseas in anticipation to AGOA complemented a pro-active market intelligence gathering exercise (Firms 25, 12, 1 and 5). Whereas these firms can be seen as pioneers in our subset of firms, other firms interviewed were seeking to push their exports to the US further. Seven firms (24%) already exporting to that market were seeking to expand their exports. In contrast, four firms (13.8%) sought to expand their exports to the UK/EU, including three firms presently engaged with the US. In addition, four distinct firms (13.8%) sought to “re-engage” with the EU. Three of these four firms were seeking ‘easier’ export markets than the US.

⁶⁶ Mauritian firms that have followed the design route have failed to sustain their exports (see Gibbon, 2000).

The factors affecting the firm's export performance shed light on some of the difficulties at hand. As can be seen from Appendix Table 15, page 78, the capacity to deal with large volumes is a frequently mentioned criterion of export competitiveness. The capacity to meet the quality requirements and prices offered are however conceived concurrently with the ability to engage with large volumes of production. Although price and quality were ranked relatively as being of lower importance, the firms stressed that price and quality are a 'given', i.e. they are fundamental determinants of export competitiveness. [See also Coughlin *et al.* (2001)] Compliance has not been listed as a distinct determinant as whilst important, firms noted that the costs attached to meeting external social (environmental and labour) clauses are generally small, involving "lots of small changes". The changes mentioned were of the type of "lowering the lights", "re-designing fire door exits" and "meeting fire regulations" etc. However one firm mentioned the cost of stopping production for fire drills (these were set once a month). Generally compliance requirements are easily met and consultants are often contracted by management in the process (i.e. by ITS international auditors, private, the NPI and SABS).⁶⁷

The above has consequences for the cut make and trim firms (CMTs) in contact with the large exporting firms. Although the study did not focus on CMTs, some firms reported on their relationship with these. One impact noted of the drive to quality was that CMTs were at a disadvantage in this regard. One firm mentioned a 40% reject rate on a garment produced destined for export by its CMT. CMTs might have difficulties in meeting other process-related requirements as well. "Often they don't deliver the goods on time and/or their quality is poor." [Firm 2] CMT orders are also constrained by know-how and machinery limitations (in one and two cases respectively) although firms can outsource parts of their production for export to CMTs when specialised tasks (e.g. embroidery) are required. Other problems are likely to face the CMT in their relationship with the exporting firms. If CMTs were in a position to provide goods at the 'right' quality, they would have to be able meet the compliance associated with the export markets.

"Normally, we don't prefer to subcontract to CMT factories because you lose control over the process. In any event, the CMT factories have to be approved by the buyers."
[Firm 23]

In turn, there is the risk for the buyer to jump over the CMT contractor or for the CMT to jump over its contractor to try and secure the export order directly. Such occurrences were reported by firm 2 ("we have had bad experiences with outsourcing to CMTs – sometimes they try to take over our customers"). The CMTs mentioned by the firms appear to become involved in period of excess demand for production capacity, but turned to production for the local market.

"We only CMT domestic orders." [Firm 20]

"95% of this outsourcing remains with the local market. There are two reasons for this. First, traditional and specialised machinery is required which is not always available with the CMT and second, because of compliance issues." [Firm 1]

"We only CMT when there is pressure. But we try and avoid this. It is all about trust and partnership [with the end-customer]." [Firm 16]

Yet, the relationship between the exporter and the CMT is complex. One large exporting firm engaged in CMT activities on the behalf of another exporting firm for a particular garment.⁶⁸

⁶⁷ Some firms however, did feel that some of the demands made on them were not reasonable. One firm had difficulties in securing a contract on the basis that, although the trade union set the minimum wage it was at such a level that one end-customer withdrew, scared that its competitor "would hear about it". With foreign firms under pressure from special interest groups in the US and some EU countries, SA's labour law and regulations would ensure some advantage over some of its competitors. However, the interviewees did not feel that these compliance measures were likely to yield a competitive advantage.

⁶⁸ Presumably this happens at time when there are gaps in the firm's production capacity.

The emphasis on volume recurred in the discussions with the firms. This is not surprising, considering that the domestic market is substantially smaller than foreign markets (the domestic market “is also shrinking”), particularly when set against the size of orders for the US.

“In the greater scheme of things the production runs in SA are unbelievably insignificant.” [Firm 4]

“The issue of the South African retail sector is that 98% of SA efforts are in trying to sell in the smallest domestic market in the world. Anyway, whether you are exporting or not you are competing with the rest of the world.” [Firm 3]

“We produce small runs of [name of garment] (500-1000 units) for the domestic market, and 5 000 to 250 000 units for the export market.” [Firm 16]

Another firm gave orders for the foreign market which were 30 times those for the local market in volume. [Firm 23] There are differences however in terms of the size of the orders across foreign end-customers as well as a trade off between volume and price received for the finished garment.

“A smaller order of high value-added JC Penney garments is equivalent in value to the larger volumes of basic commodity garments for Wal-Mart.” [Firm 23]

A point generally emphasized is that production capacity has become a new ‘given’ criterion of performance.⁶⁹ This position further relates to the fact that managing production across a series of firms for a given order appears to be atypical of global sourcing companies⁷⁰

The issue for the firms is not, however, with volume *per se*, but with securing the gains generated by larger production runs. Greater production volumes associated with exporting prompts costs to be reduced and economies of scale (EOS) to emerge. Although not always set out specifically, this argument is spelled out from what firms report as the core objectives associated with exporting. For one group of firms, their export-related production objective is to secure repeated orders and/or to increase production length. For a second group of firms the objective is to maintain production near full capacity for as long as possible throughout the year. These underline objectives of per unit cost of production decline achieved through a more optimal use of the available factors of production (increased efficiency) and/or a reduction in overhead (fixed) costs. Both contribute to profit margin improvements (at constant offered prices), and are further sustained by a process of ‘rationalisation of the product line’.⁷¹ Views such as those reported below are typical.

“The export market is a volume driven business with small margins, but if you can get the production runs then you can make a profit.” [Firm 19]

“For optimum efficiency we need 3-6 month production runs of the same item.” [Firm 12]

“The export market is characterised by high volumes and less variety (shrinking styles) but money is generated more rapidly on exports than on the local market. The local

⁶⁹ There are reports in which the capacity to produce quality garments is perceived as being of greater importance than the capacity to produce large volumes. This might be emphasised by firms who believe that they were approached for an order on the basis of an already established domestic reputation. It might be the case that firms approached for a foreign order perform better domestically than other firms. Nevertheless, supplying for high-end South African retailer is occasionally equated with producing quality goods.

⁷⁰ One recent exception to this: “There was an order for 6 000 men’s tailored sport jackets – SA Fine produced the fabric, and one company made it. It was shipped to the US – the customer was JC Penney. The order sold out immediately. A new order for 60 000 jackets was required with a lead time of 10-12 weeks. There is no one company in SA which can produce 60 000 men’s tailored jackets because they are very labour-intensive.” [Informant 3]. This was confirmed by informant 2.

⁷¹ Firms might also seek economies of scope in their relationship with a smaller set of customers. However rationalisation of inter-firm relations was set under the light of managing risk and thus is discussed under functional upgrading.

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market, however, is characterised by short production runs and greater variety in styles. Each time you change the styles productivity falls. The reverse happens with exports for which the number of styles is less.” [Firm 13]

“To produce one style for the local market may take 4 days of production time, whereas to produce one style for the UK market may take a month, because of the bigger volume. Bigger volumes means that the line works longer on one product/style – this results in greater efficiencies and less production problems. Volume is an ‘educating factor’.” [Firm 24]

Costs and efficiency affect the profitability of the firms.⁷² Although the cost of a finished garment accounts for the cost of the various factors of production, the issue for producers is also one of managing the production process so that there is little discrepancy between the price at which the order is agreed upon and the cost of production at delivery (and shaping the extent to which gross and net profit margins differ).⁷³ Such discrepancies are according to one key informant important and production inefficiencies *cause* net profit margins to be small.

The extent to which the exporting firms are profitable needs to be further set against the background of the support available to them. As firms are rarely willing to discuss their profitability, and whilst this is an area which has to be inferred upon, the low returns secured by the sector generally can be seen through the difficulty these firms face in obtaining financial support. More specifically, profitability issues can be seen around the position taken by the firms towards the importance of the DCCS for their survival.

The DCCS, introduced in 1993, is one of two export supply side support measures available to exporters. The DCCS, currently applicable up to April 2005 is subject to revisions. All but three firms interviewed used the DCCS and one firm uses the rebate schedule that allows duty free imports of fabrics for the purpose of exporting the finished good.⁷⁴ The rebate is 470.03 of the Customs Schedule Number 4 (Customs and Excise Act, 1964).⁷⁵ As the schedule cannot be used in conjunction with Duty Credit Certificates (DCCs), the two instruments are distinct. The DCCS has two broad components. Its first component is with the financial ‘export’ incentives provided specifically to clothing and textile exporting firms through import certificates. These, obtained by clothing, household textiles, fabric and yarn exporters, allow beneficiary(ies) to import specified textile and clothing duty free. DCCs can be claimed for up to 35% of the value of exports with the

⁷² The General Sewing Data system (GSD) is used for garment costing (and other benchmarking purposes). It is a software package that takes into account some core parameters of production of the firm and sets the time required for a garment to be produced. As much as 80% of the South African firms might be equipped with the GSD program (informant 2).

⁷³ Intermediaries and global sourcing companies have a limited (according to one informant “no”) role in price negotiations. Following discussion with two informants and two firms, there appears to be no consensus as to the level of profit margin in the industry.

⁷⁴ The first key requirement was that the proportion exported in the sales turnover had to grow by at least 10% in real terms per year. This has recently been amended to apply to those companies whose export share is below 15%. The amendment effectively opens up of the scheme to more established exporters for whom a marginal export expansion would be difficult. It also reduces the risk associated with incorrect export growth forecasting. The scheme contains a series of components and the description given here is oversimplified.

⁷⁵ The rebates are subject to permits obtained from the DTI following recommendations from the Board on Tariffs and Trade. In our subset four DCCS firms mentioned having considered the rebate. (Communication with one key informant suggests that two of these firms in the past exported under the rebate.) They reported that there were too many difficulties associated with obtaining the permit. Moreover, as firms generally cannot supply to the local market under the rebate, it is exclusively used for exports. According to one key informant “80% of companies that benefit from DCCs have exported for at least 25 years.” [Informant 5]

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highest value for clothing and the lowest for yarn (8% to 12%).⁷⁶ [DTI (2001:Annexure A, figure for 2001/2002)].

Appendix Figure 7, page 76 illustrates the context within which DCCs are available to SA-based textiles and clothing exporters. Even allowing for the fact that credits are issued on a yearly basis and that manufacturers sell these at a discount when required so that the value in real terms of DCCs might be only a little in excess of 15%, the Scheme was widely perceived as an important contributor to the viability of clothing exporting firms.⁷⁷

There is a range of positions on the DCCS (see Table 14). Some of the positions reflect specific problems facing the firms and that are indirectly addressed by DCCS (occasionally in the context of the absence of suitable alternatives to the scheme). 13.8% of firms expressed reservations towards the fact that the DCCS creates uncertainty about the conditions of the domestic market, and that it perversely triggers textile exports and clothing imports. Three other firms that were the most critical of the DCCS stress that it impedes the drive for efficiency. In other words, they perceive that the scheme fails to build a foundation for the right process improvements to be put in place. This position needs to be qualified as those that are the most critical of the scheme sets it in a broader competitiveness perspective. For instance, one of the firm's which were sceptical of the impact of the DCCS noted the following:

“Price is not a factor of performance of the sector because the overheads are too high and this is not good for exports. There is no example of a consistent determinant of performance internationally. Anyway, even value added is not enough as a coping strategy. Look at what happened to Germany. There is no real means to stay ahead what one does is to try and find a niche customer and to try and meet the customers' demands. If it [performance] is price driven, someone else will come in. There is always somebody that will get you.” [Firm 3]

Another firm stated:

“In our sector some of our competitors have put forward prices to foreign buyers for similar goods for which we cannot believe that they are competitive. May be the explanation lies with the DCCS.” [Firm 29]

Implicit in the above views is that those firms which are more favorable to the DCCS tend to be price takers. The fact that the DCCS is generally perceived as being a strong contributor to the firm's and/or sector profit level is perhaps one reason why there is no discernible pattern between value added and increasing reservations towards the DCCS. 80% of firms report that they would face severe to short run problems following the phase out of the DCCS.

Table 13: Degree of vulnerability to the phasing out of the DCCS

Degree of vulnerability to the phasing out of the DCCS		%
1	Resilience to dismantling the DCCS: the firm would be unaffected.	16
2	DCCs strongly contribute to the profit level. Firm would be affected in the shorter run.	60

⁷⁶ 25% to 35% depending on whether the exporter is a small, medium or micro enterprise (SMME), a partnership of exporting firms, the CMT firms supplying a trading house or a firm/company. Some firms gave a value of DCCs of 18% (allowing for inflation and the discounted value of selling the certificates on the open market). The discount varies depending on the time at which the DCCs are sold. This is in contrast to a possible net profit margin of 3-5%. Whilst there is some amount of disagreement as to the margin figure set forth and uncertainty around forecasting export accurately, the point is that profit margins vary greatly (one firm even showed losses) across buyers and that the returns from securing DCCs are higher.

⁷⁷ The certificates can be sold (subject to the DTI being notified). Whilst the rebate schedule appeals to foreign MNCs, the absence of information around the extent to which the schedule is used and the fact that we only have one representative of such scheme in our subset of firms mean that the discussion of the profitability associated from exporting is biased.

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3	The impact would be severe (export division might have to close). Typically DCCs are the firms' profit.	24
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Notes: The determinants of the scale given in the first column are given in the second column. The degree of vulnerability increases from grade 1 to 3. Based on n=25.

Although the extent of the difficulty facing the firms might be exaggerated to the researchers because the firms made comments about the importance of the DCCS for the industry rather than for themselves, (so that a breakdown of 60%, 12% might be more accurate for grades 1 and 2), the authors believe that in fact the DCCS phase down would correctly severely impact on 24% of the DDCS beneficiaries in the light of some of the current difficulties facing some of the firms and the type of end-customers currently supplied.

Attitudes towards the DCCS unraveled specific problems, *viz.* working capital, cash flow and even export finance constraints (30.4% based on n = 23). DCCs partially address these problems by being traded to other firms in the group or sold to brokers at a discount. The problem is such that manufacturers have sought for the frequency at which DCCs are granted to be altered.⁷⁸

Table 14: Positions towards the DCCS

Types of reservations towards the DCCS	Frequency	% of firms
The DCC is not good for the sector	4	14.8
Subsidises inefficiency	2 mentions	
There are problems with the DCCS	14	51.85
Time taken for DCCs to be granted.	4 mentions	
Costs in managing DCCs requirements are high	3 mentions	
Subsidises inefficiency	2 mentions	
No reservation.	9	33.3

Note: Based on n=27, that is incorporating feedback from 2 non-DCCS beneficiaries.

Advantages of the DCCS	Frequency	% of firms favourable to the DCCS
Releases financial constraints	9	39.1
Contributes/contributed to the export drive	5	21.7

Note: As above but excluding the 4 firms who have strong reservations (n=23). Note that firms might have listed more than one advantage to the scheme.

Whilst it is not possible to accurately assess the extent to which the DCCS contributed to the profitability of the exporting firms, the above discussion suggests that firms might be facing strong profit and cost related pressures. Further pressures were noted around the fact that foreign buyers know about the DCCS and that this might cause the price offered for orders to be partially discounted. In a similar line, firms rarely reported that gains were achieved from the depreciation of the Rand. Some foreign buyers factored depreciation effects in their requests for discounts from manufacturers. This was reported in nine cases although one firm stressed that the depreciation indirectly caused inter-firm competition to increase:

“Our competitors often go to the foreign customers and offer them discounts whenever there is a currency depreciation.” [Firm 25]

The firms emphasized that the currency depreciation only generated short-term gains (33%) and that some of the effects were partially absorbed by increases in fabric and international transport costs.⁷⁹

⁷⁸ This might be successful and DCCs might be granted every three months as opposed to yearly.

⁷⁹ It is not possible to give a breakdown of the position of the firms towards the depreciation for two reasons. First, because all manufacturers that use woollen fabrics have faced important price increases. It will take some

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Although unit labour cost increases were mentioned by three firms (and concomitant garment prices raise increases), more emphasis was given to raw materials price increases. This might be on account of the fact that raw materials account for a comparatively large proportion of the costs of production.⁸⁰ Moreover textile firms were occasionally reported to be selling goods in US\$ (in three cases firms listed being given fabrics quotes in US\$ by *domestic* textile producers). The main reason for this seems to be because of the textile firms' increasing export opportunities. One firm stated:

“AGOA has switched power to the local textile mills. They have offices in New York. The fabric deal is struck in New York and is transacted in US\$. As a result producers lose advantage in any currency moves. The textile mills are now calling the shots and the textile price is determined in US\$.” [Firm 8]

Generally, price pressures emerged in the context of South African firms having little leverage over prices and prices appear to be supplier specific. For instance, in a case of a large order:

“There is no one company in SA which can produce 60 000 men's tailored jackets because they are very labour-intensive. The order was split between 4 companies, ...– 15 000 pieces each. The firms got different prices on the same order.” [Informant 3]

The firms were price takers with reference to their foreign end-customers, particularly in the US. Two firms reported that US buyers used Far East prices as a reference point when approaching South African producers. This was confirmed by informants 1 and 2. Few firms were willing to provide examples of prices offered for their goods on the grounds that products cannot be compared and/or that there were too many variations across end-customers. Tentatively, four firms mentioned declining prices in US\$ or £, seven firms noted that prices were stable in foreign currencies, and one firm reported an increase in the price of its goods in foreign currencies. Finally, two firms reported that the price was increased to keep pace with the rate of inflation so that it was stable domestically.

In contrast to the above reports of a difficult exporting context and price pressures, five firms reported that discounts were granted to foreign buyers because of improved competitiveness at the firm level. In other words, efficiency improvements have taken place with exporting. Other changes were also mentioned, some of which were not positive (Table 15, part 1).

Table 15. Process changes associated with exporting

Process changes	Frequency
Efficiency gains (including EOS gains & reduced overheads)	18
Productivity changes	11 (incl. 4 reports of this still being a problem area)
Reject rates changes	6 (incl. 2 cases of worsening)
Time speed changes (i.e. lead time)	5 improvements
Managerial-related changes	7
Other changes	5

time for them to assess the effect of the depreciation. Second, three firms stated explicitly that the DCCS was a more important determinant of their competitiveness than the depreciation. Very tentatively, 21% of the firms might see longer term effects from the depreciation. In contrast, 14.3% commented that the depreciation will have no benefit in the long run in that it has not triggered new or expanding orders.

⁸⁰ According to Clofed (2000:92) over 50% of the value of sales. This figure is for 1994 but informant 5 mentioned a similar level.

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Notes: “Other” relate to miscellaneous changes (handling improvements, exposure to international trends, increase in the number of employees). Firms occasionally mentioned more than one type of change.

Key changes induced by exporting	Average score
Improved economies of scale	8.50
Increased profitability	8.00
Increased productivity	7.50
Improved price competitiveness	7.50
Increased technology competence	7.25
Improved manufacturing processes	7.25
Improved product quality	6.67
Increased product development capacity	5.75
Enhanced labour skills	5.75
Enhanced management skills	5.00

Notes: The above is based on data obtained from the questionnaires (n=5). The scale ranged from 1 to 10, where 10 denotes ‘critically important’, 5 ‘moderately important’ and 1 ‘not important’.

Productivity improvements were commonly reported, but occurrences of productivity loss accompanying quality improvements were also noted. Explanations were provided for some of the problems. For instance, reject rates difference noted between the export and domestic markets were attributed to the introduction of new fabric types to handle for the export market.⁸¹ Variations around the initial structure of production lines and the type of garments produced for export might account for some of the responses. In contrast, the stress by firms of efficiency change is caused by an overall perception that exporting has caused general improvements but that particular areas have not improved sufficiently. The fact that firms reported on process changes generally but not specifically makes it difficult to comment on distinct aspects of the platform for process upgrading. The following statement illustrates how efficiency changes were set out:

“[Our] average ex factory unit prices have increased by 6%. This is in line with inflation. It has absorbed labour cost increases in the decentralised areas. ... [But] 25% of the increase in unit prices has been lost to inefficiency, increase in transport costs, and the cost of maintaining our marketing office” [Firm 2]

“For us exporting has led to a sharp learning curve. The biggest adjustment was our mindset – now we are globally minded. Since exporting, we have become more efficient, more creative, and more engineering minded.” [Firm 1]

Generally, a similar stand was taken towards labour productivity. Firms stressed that whilst training is positive and at least undertaken in-house, there is a separation of training for ‘education’ and from ‘multi-skill’ development purposes. Most frequently firms commented on the absence of a link between investments in training and overall productivity improvements. Little enhanced labour skills appear to explicitly accompany exporting (see **Table 15**, page 50, part 2).

Although the DCCS specifies that certificates are allocated on condition that a number of process related performance criteria are met, the firms reported that the DCCS conditionalities did not have a profound impact on process changes. Awarding of the DCCS depends on the firm meeting certain conditions which relate mainly to labour relations, workforce training and competitiveness

⁸¹ The firms reported that soft fabrics were generally more difficult to work with, hence reject rates were typically higher for this segment. Also, lower final reject rate on exported goods might be accompanied by a higher cost of internal inspection.

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improvements. For instance, the performance audit seeks to influence and encourage productivity improvements by forcing firms to engage consultants (who undertake site visits and consultations with the firm), and by benchmarking the performance of the DDCs beneficiaries over time and against an index of performance. In addition to a performance assessment, the basic amenities and facilities available to employee are checked, and a management practice audit and training and development reviews are undertaken. Four firms (13.8% of the subset but 16% of DCCS beneficiaries) indicated that interventions by consultants were helpful but indicated that by and large, the process was merely a formality. As for the training audit, key informant 6 noted that is “is only done to get the DCCs. There is little or no value for the company.”

Some of the shortcomings of the drive towards greater efficiency can also be gathered indirectly, for example from the firms’ position towards ISO 9000.⁸² Although ISO accreditation in clothing is supported by sectoral (i.e. clothing sector specific) agreements in the US and the UK, few of the firms interviewed appear to have ISO 9000 accreditation.⁸³ Three firms are considering ISO 9000 series accreditation in the near future. In one case, the objective was:

“To upgrade the whole company. This is because we found that export market standards were not good enough.” [Firm 10]

In another case, the motive behind ISO accreditation was to use it as a signaling device *vis à vis* the firms’ process commitments. In stark contrast, six firms reported that ISO 9000 accreditation would not help them to secure end-customers or that it is “not required by the foreign customers” (firm 24) or that “the QC people already do behave like ISO 9000 people” (firm 6), “because the quality requirements have already been met” (firm 8), and as “it is not suited to the nature of garment production” (firm 2). Four firms noted that they already implemented an AQL of 2.5 (possibly in excess to that required for QC by the global sourcing companies).⁸⁴ AQL was the key contributor to signaling the firm’s reputation as a quality producer. AQL differs from ISO in that the latter is an accreditation of management and of management commitments to world class manufacturing principles.

The production of specialised garments based on investment yield returns when exported, but are not related to the export trajectory of the firm. For instance:

“[This garment] requires a special chemical formula. This formula is not patented, but we have asked the textile mill from which we source not to divulge it to other garment producers and textile mills. That said, the barrier to entry ... is not the chemical formula but the investment in the oven and the steep learning curve – it takes 1-2 years to learn how to get the right quality, and the equipment is very expensive. There is a whole process that has to be mastered – the immersion method, the dipping of the garments in the chemicals and the drying process.’ [Firm 5]

Yet, although according to informant 4, 25% of the firms would be engaged in important export-

⁸² The ISO 9000 accreditation series deals with QA systems management. Not only does the accreditation ensure that product quality “aligns” with buyers requirements at the source, it also guides management and specifies training requirements. The ISO quality management system entails generic requirements (that are based around a world class manufacturing production model).

⁸³ For the two firms who explicitly stated ISO this was driven within a group strategy. As these were vertically integrated, the trend might be more typical of a trend in textiles rather than in clothing. No firm listed ISO of the 14,000 series. One firm had SABS accreditation.

⁸⁴ An AQL of 2.5 uses 14 rejects from 200 pieces, which are drawn from a total of 10,000 pieces. Linmark for instance, uses a standard AQL of 4 which allows more rejects but might work on a tighter AQL depending on the end-customers.

related investments, there were few reports of recent *export-triggered* investments decisions during fieldwork.

Thus whilst investments, combined with expertise and specialised machinery occasionally contributes to exports, the investments undertaken included the introduction of specialised machinery set up to meet specific product characteristic requirements (finishes and specific processes), to ease the handling of goods on the factory floor or to test fabric for colour continuity consistency. The new technologies introduced were expensive and relied on repeated and/or large volume orders. Firms also mentioned investing in the expansion and modernisation of the stock of sewing machines.⁸⁵ This is a process of catching up which coincides with a context of constraints generated by low returns and capital flow shortage. Whilst general cash flow constraints might have been partially released through an expansion of exporting, some investment decisions were markedly affected by the depreciation of the Rand. For example, computer aided design (CAD) purchases were considered by some firms too expensive an investment to undertake.⁸⁶ A final problem area emerged around the issue of the export prospects themselves. A first area of uncertainty is associated with a perception that the AGOA related export expansion might be short lived, and the fact that a finance shortage was affecting other areas of production and delivery. A second area of uncertainty facing clothing manufacturers rests with textile investment decisions. Manufacturers expressed doubt about the textile production capacity to sustain the clothing firms' export production expansion. Finally, five (17.24%) firms argued that in order for productivity gains to be reaped around the technology investment, organisational, management, workforce and process changes need to be put in place to support the technology investment.

Lead times did not appear to be a major problem area for the exporters. Generally, the relationship with shipping agents and customs officials was felt to be good, or functioning sufficiently adequately to warrant it not being considered a major problem area. One exception to this was with the firm exporting under schedule rebate. The firm stressed the issue of *inconsistent* customs behaviour in clearing imported goods, and regarded it as a major problem in terms of being able to meet delivery deadlines. The firms perceived remaining delivery problems to be at the firm, rather than inter-firm level. Five firms stressed that the inflexibility of the buyers around the delivery date caused some amount of difficulty. Three firms explicitly mentioned that garments had to be air-freighted (an option for top-end and lower weight garments). In case of delays, there were mentioned of deliveries returned, cancelled or (heavily) discounted once the delay was in excess of one week. It is likely that some amount of pressure is applied by SA-based global sourcing companies as their payment takes place once goods are shipped. Yet, foreign buyers were also occasionally reported to send the patterns and/or their approval of the sample late in the cycle. They thus contributed to some difficulties in meeting the production deadlines.⁸⁷

With the exception of the absence of a textile base to support clothing investment decisions, it was not possible to distil from discussions clear-cut barriers to productivity improvements. The above

⁸⁵ Firms reported that one of the areas of investment during the 1990s was around information technology improvements.

⁸⁶ In the majority of cases when CAD was available it was used intensively with a series of foreign buyers involved in pattern grading tasks and supplying the patterns. Yet, the relevance of CAD varies with labour intensity. In one decentralised area firm, CAD was shifted to the production of goods for the local market. This decision was based on price considerations where, in order to compete, the labour content of a more standardised long run and repeated order became more prevalent. This case illustrates that there are trade-offs associated with the uptake of new (or second-hand) technology.

⁸⁷ Note that there is no problem around the time for delivery. According to one firm, it only takes 1 day longer for goods to reach the US than to reach the UK. Two firms reported that airfreight was used in a crisis. Goods sent by plane could reach the foreign stores in a shorter time than it would take for goods to be displayed in the local stores, if they were dispatched the same day.

discussion infers from various aspects related to process upgrading that the process upgrading platform is at parts, weak. First, exporting is rarely explicitly related to sufficient (or to the right) productivity improvements. Second, profitability appears to be largely sustained through government support (the DCCS). Nevertheless, dynamics changes are taken place with exporting firms facing difficult price pressures, which they seek to meet by controlling or reducing costs, and increasingly competing with each other for orders. As for inter-firm changes, whilst the relationship between manufacturers and intermediaries is intense, it is unclear that QA itself has led, at least, to any systematic positive productivity change. There are occasional mismatches between what seems to be required and what has been achieved.⁸⁸ No substantial process upgrading has also appeared around meeting external compliance requirements as this is an area where no change appears to be required. Firms might currently be over-emphasising the importance of meeting short-term product upgrading needs and by doing so partially failing to address the context within which these particular requirements need to be defined. The above description undoubtedly oversimplifies the deeper engagement of some of the firms surveyed to address process difficulties. Some firms were actively seeking process upgrading by selecting their intermediary, by expanding their machinery park, by carefully surveying their export markets etc. Yet, the majority of firms interviewed did not conform to this pattern.

4.2.3 Functional Upgrading

It is difficult to identify changes in functions which are triggered by exporting dynamics. ‘Broadening’ of the VC, typically conceived as the firm taking on functions previously undertaken by others, needs to be placed in the context of a small South African production base still largely oriented towards the domestic market. For SA, there is a minor process of broadening of the VC towards new management tasks and market intelligence gathering activities. Also, at the inter-firm level some manufacturers have adopted strategic partnerships. More visible is the fact that some firms have taken a strategic pro-active stance towards managing the risk contained in exporting. In contrast, as argued before, there is little evidence of a strengthening of the branded and design activities for the export market. There was only one case which emerged from the interviews related to a ‘deepening’ of the VC. This section presents these various dimensions.

Seven of the firms dealing with the UK and the US appeared to have separate export divisions for each of the market. This separation (or “market specialisation”) forms part of a functional upgrading strategy as it is associated with a channelling of the expertise around a given market and responding to the specificities of the demands from the export market. In parallel, financial tasks and related information can be gathered and dealt with separately. The separation of managing exports as distinct from management of the domestic market is not linked to a separation of production across markets on the shop floor however.⁸⁹ The process of market intelligence development was stimulated through direct overseas visits to end-customers and intermediaries (and occasionally to machinery suppliers). The frequency of these varies however (ranging from “every five weeks” and “three to four times a

⁸⁸ One area of mismatch emerges around the response time associated with a query for an order. Whilst few of the firms noted this to be a particular problem area, one global sourcing company reported this to be an important shortcoming.

⁸⁹ This depends on the production line set up. In six cases, firms stated that it was separated and in five cases that it was not. Production might be separated according to end-customers specifications, allowing for difference in fabrics handling. In parallel to a separation of product according to end-customers, a platform for inspection and/or for training of the workforce as required might be facilitated in this process. In one case, production lines were structured so as to allow production flexibility. In contrast, workers might benefit from an integrated production and production might be speeded up by not being separated according to market of destination.

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year”). End-customers themselves encouraged visits overseas to impart information about foreign requirements. Intermediaries also contributed by sharing their experience of production characteristics in foreign countries. Functional changes are implicit in the exporting management cost:

“Exporting is not a short run venture; you have to stick to your commitments.” [Firm 2]

“Exports are very management intensive. One cannot add a department and then make the necessary appointments. One has to build an export team.” [Firm 4]

Two firms broadly set out functional changes anchored around the development of core competencies:

“The [export] culture is not only on the factory floor, the whole process – shipping etc. – has to be standardised.” [Firm 23]

“Change is towards getting rid of the things we are bad at. Core competencies need to be developed and these have to be used to guide the product type. Level 1: change in image (the way people see us). Level 2 Create a level of understanding in terms of the sophistication we can offer.” [Firm 22]

Only one concrete example of change emerged:

“There has been a change of behaviour towards making the person responsible for mistakes to explain to the customers why they have made a mistake. ... There is a process of incremental change. ... the staff is more prepared to sort things out ... [the response to a change of colour which used to take from 2/3 now takes 1 to 2 days.] ... in the past the staff would respond that it does not matter that these are only samples.” [Firm 3]

Although another distinctive firm in the subset was mentioned by one key informant in which

“management is very close to the workforce ... they are very close to what is happening on the shop floor ... this is where they see what is coming out of the factory.” [Informant 4]

Manufacturers seek to engage the interest of buyers by forwarding samples to global sourcing companies, representatives and end-customers to signal for quality. Some strategic inter-firm relationship developments have however been undertaken. One firm notably sought in order to establish a strategic partnership with a specific global sourcing representative in order to induce a pattern of process upgrading. The mentoring role of the global sourcing company was actively sought to bring the domestic market in line with the export market. More generally, firms attempted to spread their agents so as to achieve a portfolio of end-customers. Also, in relation to textile suppliers, although the widespread view is one of loss of ‘leverage’, five cases revealed a strategic alignment between clothing manufacturers and textile suppliers. This alignment taps into the existing export platform and reputation-based relationships already established by South African textile exporters. Interactions range from seeking information about the textile exporter’s intermediary overseas to clothing firms negotiating with the end-customers together with the textile suppliers. This “alliance building” behaviour was in four cases more specific to worsted for which South African textile suppliers have an established reputation overseas. [Informant 2]

One of the firm who established a quasi-strategic alliance started from putting forward a new product to UK buyers:

“The product was presented to the buyers and then the yarns were found. The niche

was with the yarn: it enabled us to supply a unique product. ... For the export market we have got to act like a vertically integrated operation. The foreign buyer now wants to go on a factory visit to the firm that is our main source of fabric for the export market ...” [Firm 25]

In contrast 2 firms were seeking leverage over the textile suppliers by negotiating group fabric purchases so that they could leverage against these.

In spite of profitability pressures, the vast majority of South African manufacturers are selective about the type and volume of orders they accept. This behaviour relates to a strategy of risk management, possibly linked to September 11 effects as well as to the difficulties and/or closure of firms which were over-reliant on a particular end-customer.⁹⁰ The primacy of the reliability of the buyer and the need to assess this reliability in an unfamiliar context has caused firms to enquire about the behaviour of the end-customers in other exporting countries. The firms stated that they often have to make a trade off between enforcing a maximum limit on production capacity that is allocated to any given end-customer and the accompanying potential foregone profit and efficiency gains. The problem is that South African firms have a limited choice of foreign end-customers, with the same names appearing regularly as the “buyer lists” available through the global sourcing companies and other agents based in SA. One significant exception was a firm that had *direct* contracts with 12 large foreign end-customers. On average, firms would allocate 23% (n = 12) of their export production capacity to a given foreign end-customer. An upper figure of 30% (n = 12) accounts for the fact that some customers are more trusted than others. In essence, this means establishing a relationship with three to four core (foreign) end-customers. Also, firms were keen to maintain their base of current foreign customers with whom they have a good relationship over the introduction of new “untested” customers.⁹¹ With increasing number of customers, production commitments and production availability becomes more uncertain and being a ‘footlose’ supplier was perceived to adversely affect the reputation of the firm. Commitments are perceived of importance.

“Relationships with export customers are based on trust. For the export market ‘relationship building’ is absolutely vital.” [Firm 8]

“US buyers ask [the textile company’s agent ‘who can I buy garments from?’, ‘who can I trust?’ It is a surprisingly small business. ... There is one agent in the US. It is more difficult to trust this agent but as it is not a high-powered salesman, [the firm’s] customers are secured.” [Firm 7]

Little information was set out that enables to set a strategy of the US *vs.* the UK. A cultural frontier *vis-à-vis* US end-customers was occasionally noted. This is a recurrent theme that separates dealings with the US from those with the EU. South African manufacturers, particularly those in the WC favour trust and communication with their buyers. Cultural advantages and political influences matter (see Appendix Table 15, page 78 and informant 5) generally but some exporters found dealing with US buyers difficult.

“The ‘Yanks’ speak a different language. UK buyers behave differently, they have a similar culture to us, they believe in long-term relationships. This is the market to keep...this is the market I like.” [Firm 25]

The resistance generally laid with the footlose and unpredictable nature of the relationship with US buyers.

⁹⁰ The financial problems facing K-Mart and the retrenchment and rationalisation of the M&S production base has had an adverse impact on several key SA suppliers. An additional very large account has been lost by one firm which cannot be mentioned for confidentiality reasons.

⁹¹ There is the issue that some of the firms believe that they have greater leverage in negotiation with established buyers. It is important to stress, though that the inverse is also true.

Finally, counter to the view that clothing exports form part of a defensive response to adverse domestic developments, the vast majority of firms sought to hold onto their domestic market. The importance of the local market is underlined by the fact that over 75% of the firms were engaged in production for higher-end (Woolworth, Edgars etc) or specialised (i.e. Markhams) local retailers. The purpose of the interaction was not to expand the domestic market (which “had fallen flat”) *per se* but rather to tap into some of the opportunities associated with the high-end market. Although the firms expressed some amount of dissatisfaction around pressures applied by domestic retailers, a number of strengths associated with supplying the higher-end market were mentioned. For instance, some firms felt that they had leverage as a result of their design capacity, especially since many of the retailers were perceived as having an inadequate base of design skills and capacity. Thus, they argued that their design and product development capabilities could be maintained by supplying the domestic market.⁹² More specifically, the view was expressed that the domestic market “allows flexibility” (i.e. small runs or varying orders) which underlies value adding opportunities. In other words, there are higher returns to be made from supplying the local market than from exporting for a given garment. There are positive spillover effects from being involved in both the export and local markets. **Table 16** summarises the various views expressed of how firms seek to incorporate the gains that derive from both markets.

Table 16. The export and local markets: perceived strengths and weaknesses

	Export market	Local market
Weaknesses	High transport costs associated with longer distances. Cost discipline is imposed through competition. The volatility associated with export orders.	Supplying domestic retailers is becoming less attractive in terms of the prices offered. Little opportunity for EOS gains a small customer base.
Advantages	Greater room for efficiency. Full production capacity – potential to exploit EOS and lowering of overheads associated with production. Rationalisation of the product range. Production process improvement at the intra-firm level and/or through QC (and possibly QA.) Learning about international prices and pricing.	Proximity advantages. Maintenance of design capabilities. Allows small run production with the associated flexibility. In some cases productivity is over shorter run / value added platforms (producing more fashion oriented garments). Risk management since export orders are perceived as being more volatile (September 11 effect). Greater market intelligence capacity.

As noted earlier we only have one type of “deepening” functional upgrading associated with exporting. This relates to one firm which expanded exports through volume production, which resulted in a modification of its production functions. More specifically, the firm in question set up former employees as independent contractors to absorb producing excess production capacity. This was different from a typical CMT operation in that payment, contracts and financial support were guaranteed to the independent contractors. In contrast, three other firms have mentioned active

⁹² Firms were critical of South African retailers on a series of factors (unjustified returns, poor communication and untimely responses, price pressure, etc.) One firm stated that pursuing the export opportunity allowed it to shed one of its domestic buyers. That said, a series of factors contribute to the maintenance of some of the exporting firms’ local production base (the depreciation of the Rand, problems related to trust, etc.).

CMTing (albeit for occasionally specialised activities) as discussed in the previous sub-section.

We found no evidence suggesting the transformation of the exporters into lead firms, although this transformation has taken place for manufacturers supplying the local market. To summarise, firms are at the early stage of developing their market intelligence and of positioning themselves strategically. The local market is felt to be, at this stage, important in this regard. Exporting does not appear to enhance management skills, although some shifts, albeit limited, in management thinking were noted.

4.3 Summary and Conclusion

“The changes with export have shifted the firm from sunset to mid afternoon.” [Firm 8]

South African exporters are integrating in the global clothing economy but there appears to be limited evidence of a general upgrading trajectory taking place. First, around the product upgrading platform, firms appear to have developed the capabilities to meet the specs. Firms were, at the time of fieldwork, set to produce at or at near full capacity. In some instances, firms have adopted an intra-firm reject rate threshold that is possibly in excess of that set by the sourcing companies. Process upgrading (but limited) is taking place and, as quality is improving, cost reductions are actively sought. Delivery was not specifically mentioned a problem area. There are also some signs of functional upgrading in the market intelligence terrain. Of the three upgrading platforms, product upgrading, and some aspects of process upgrading are the most dynamic, with changes being externally driven. Whilst exporting firms have little room for manoeuvre to engage in product innovation, the UK market is more amenable to product modifications and adaptations.

The process upgrading platform, in particular, needs to be strengthened so as to enable exports to expand further. Whilst efficiency gains appear to have taken place, the pace at which the changes are occurring and the depth of the changes remain uncertain. The effects of exporting on productivity, reject rates, efficiency and systemic efficiency (organisation of workers, multifactor efficiency etc.) are not always positive. Although it is not possible for all firms to secure immediate process gains from exporting, the overwhelming focus on making the changes required for ‘meeting the specs’ often neglects the process improvements elsewhere within the firms. The fact that QA is not considered to have had a major impact on process improvements suggests that some aspects of the infrastructure for greater returns on exports to be generated are lacking.

The extent to which firms are currently protected from competing with other lower cost suppliers (either through the DCCS or through AGOA) matters in assessing the position of the exporting firms and how they would withstand the withdrawal or reductions of these benefits. Further process upgrading would thus be required to ensure that firms produce efficiently *vis-à-vis* other international competitors in the longer run. The search for new products to put forward to the importing market might be generated from the domestic market and/or the capacity of the firms to negotiate some of the changes with their end-customers.

5 CONCLUSION AND POLICY IMPLICATIONS

While there has been no systematic efficiency improvement, there have, however, been improvements around some efficiency indicators (Section 3.1). The findings also point to a pattern of product upgrading in relation to the unit prices offered in the EU for garments imported from SA (Section 3.2). This notwithstanding, there is evidence of falling exports and loss in market share in the product segment which dominates SA's clothing exports in the EU market. In other words, the indication is one of a mixed signal. No information was available for the US, therefore we were unable to study unit prices and market shares for that market. The second part of the analysis, which discusses results from fieldwork suggests a process of integration into the international economy that is heavily mediated by agents and middlemen. Product upgrading is driven by a core of global sourcing companies and end-customers' buying offices based in SA, as well by QC visits from end-customers themselves. Thus, intra-firm changes incorporate a strong inter-firm/intermediary dynamic. Process upgrading is limited to QC induced efficiency gains. Also, whilst functional changes are in place these largely entail a strategic repositioning of the firms towards the domestic and foreign markets.

Three salient points are worth noting here:

- Firms experienced difficulty in defining a process upgrading trajectory beyond the reductions of costs.
- Firms are seeking to minimise risk by maintaining a significant amount of production for the local market.
- Cost and profit considerations drive efficiency improvements and are currently the major determinants of process upgrading. We, however, found little evidence to suggest that there have been significant changes in mindset associated with improved and strategic use of the factors of production. Moreover, little evidence of systematic productivity gains, reject rates and lead time improvements were identified. Thus the platform for process upgrading is weak and its development seems uncertain. Nevertheless, this might simply be because SA is a small, emerging exporter. More research, however, is required to confirm or reject this preliminary finding.

We suspect that some of the constraints shaping the prospects for continuous VC export upgrading might be related to an over-prioritisation of meeting the most urgent needs of product upgrading. Other constraints or determining factors are specific to the South African context. These relate to government export incentives and trade agreements such as AGOA.

The findings of this report suggest that product upgrading is taking place. This occurs from a mix of intra-firm adjustments and a strengthening of the links with intermediaries and end-customers. What is the role for government in this process? We have identified that the most critical export-support measure to the firms is the DCCS. In particular, its financial component was identified as being of great importance. The key contribution of the DCCS is towards supporting the profitability level of the exporting firms. 24% of the exporting firms stated unequivocally that they would face severe difficulty if the scheme was abolished. Another 60% indicated that they would experience short run problems if the scheme was dismantled. Nonetheless, 13.8% of the firms mentioned that the DCCS "encourages" inefficiency. This was even mentioned as a problem by two firms which were in favour

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of the scheme. A possible reason for the strong support of the DCCS is the fact that the South African clothing exporting firms are operating in an international environment in which margins are tight, especially for commodity products. In such an intensely competitive context, firms are using the DCCS as a mechanism to sustain exports, rather than making the systemic process improvements which are critically important for international competitiveness.

The government has two important support measures in place which seek to address this particular problem area: (1) the Service Development Levy (SDL) which is associated with the Sector Education and Training Authority (SETA), and which aims to encourage workforce training; and (2) the DCCS which is supposed to encourage process improvements. Although the competitiveness fund can be used to meet the cost of meeting the process-related requirements, the fact is that firms did not appear, in general, to find that the DCCS had an impact on process changes. The DCCS fails to shape or to trigger the right process changes, primarily because the process criteria are not targeted enough. However, it should be stressed that National Productivity Institute (NPI) consultant visits (possibly associated with DCCS audits) does contribute somewhat to process changes. NPI productivity contributions were reported by 4 (13.8%) firms. As for training it was considered very important for 37.5% of the firms, and important for another 20.8% of firms. 16.7% of the firms noted that training was helpful and contributed to process change under certain conditions (how much was spent, the type of training, etc.). The SDL was considered “a good idea” generally because it is in line with training needs. Yet, 20.8% reported specific problems with their workforce around labour productivity which could not be addressed through training. Although firms generally commented on training rather than on the SDL *per se*, the view that “[t]he issue is not whether [the SDL] works or not, it is about the discipline of instituting training. Firms need to be reminded that training is helpful” [firm 29] distinguishes those who were concerned with the objective from those who were more concerned with the outcome of the scheme. Four firms specifically commented that it was “too early” to assess the outcome of the SDL.

The discussion of process upgrading sheds light onto the reason why supply-side measures such as the DCCs and the Competitiveness Fund are considered positively. 85.2% of the firm benefiting from the DCCS found it very beneficial. 13.8% of firms found the competitiveness fund “beneficial” to “highly beneficial”. 10.3% of firms claimed however that their contribution to the fund was too high, and 6.9% of firms explicitly stated that they had stopped or were not using the Fund. Since the Competitiveness Fund can be used in conjunction with the DCCS it is difficult to make a distinct assessment of each of these. As for the two firms who referred to IDC pre-shipment finance they found it “extremely helpful”.

The government support measures appear to fall short of dealing with fundamental capital /finance (i.e. working capital and cash flow) ‘shortages’, as well as with the high cost of finance. One firm labelled the current financial support *via* the IDC as “very much on an experimental basis”. Another described IDC as “project focused”. There appeared to be difficulties with the private banking sector as well:

“The banks refuse to support a Cinderella industry.” [Firm 23]

“The banks have to refocus on the lending situation. The banks provide securities but to a limited extent.” [Firm 12]

According to firm 23, textile exports to Mauritius happen because Mauritian firms have substantially better credit guarantees (from their government) than local firms. The financial constraints might thus have widespread implications for upstream relations and process upgrading.

A new role for government might lie in dealing with other more immediate constraints to the

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expansion of exports, *viz.* the expansion of production capacity and AGOA. Whilst, the prospects for further export expansion with the US needs to be assessed to justify support, a separate platform for support might require addressing issues within the textile sector itself. AGOA has simultaneously opened up new opportunities and created new pressures as the deal does not contain any incentive for textile production to serve the interest of the South African clothing exporting firms.

Other schemes aimed at facilitating trade, such as the Export Marketing and Investment Assistance (EMIA) scheme were, on average, considered to be useful but bureaucratic by the two firms who discussed it explicitly. The workplace challenge was considered “conceptually good” but it fails to account for the fact that “South African management is too conservative”. According to the firms, the least beneficial of the existing policy instruments are trade shows/fairs. The point stressed around trade shows was that these did not generate orders or trade leads primarily because the major buyers do not attend them. Moreover trade shows were considered to be costly in terms of sampling and follow-up responses to enquiries. It would appear that trade shows contribute to building the reputation of the firms. According to Firm 22:

“Trade shows ... are only there to encourage people, to show them that they are not alone in their problems. That is all.”

Logistics was generally not mentioned as being a major problem area. Whilst congestion at the Durban Harbour was reported to cause delays (at times of about one week), the extent to which delays caused firms to turn to air-freighting could not be established and should be researched. However, the rebate firm stressed that inconsistency of customs in the process of import clearance severely affected its operations, and will contribute to its decision as to whether or not to remain in SA.

The above broadly sets the position of those firms who were aware or used the portfolio of government measures available. As two firms were not aware of some of instruments available, the government might seek to promote information about these further. As should be clear, an important objective is to build the reputation of the clothing sector overseas (either through economic missions or by encouraging visits from end-customers to SA). 17.2% of firms stressed that cultural and geopolitical factors were important determinants of their export performance. 24.1% of firms mentioned the role of the reputation of their sector and/or of their firm overseas as being related to their exporting prospects. The ECCISA currently has a key role in this regard and is occasionally approached when end-customers or global sourcing companies seek to find a supplier for an order. It thus plays a major role in buyer/seller matches.

Finally, a series of areas for further research have emerged from the research. First, the subset of firms considered does not adequately represent the 470.03 exporting firms. Therefore, more rigorous and targeted studies need to focus on this little-known group of exporters. This will provide a valuable complement to the current research and will provide a platform for designing policies that are more likely to be suited to the needs of firms exporting under 470.03. Second, the study missed out an important channel of South African exports, *viz.* the domestic retailers such as Edcon Group, Woolworths, etc. Third, the report does not focus on exporting prospects for small, medium, and micro enterprises (SMMEs). This report, however, clearly illustrates the high barriers to entry and the high costs of exporting. The commodity, high volume export route (especially the US market) is unlikely to be an option for the smaller firms. There might be opportunities for SMMEs in niche markets around brands, specialised products and small volume, differentiated garments. But this is an empirical question.

Future gathering of any quantitative information on the South African clothing sector needs to involve the industry organisations. We engaged with firms after other researchers had approached the firms seeking information for two other separate research projects. More than half the firms

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emphasised that they were over-researched. This might have contributed to the low rate of questionnaire returns. Having said that, there is also a strong market intelligence dimension to the imparting of information. Trust and relationship-building between researchers and the firms are important platforms for meaningful, mutually beneficial research to take place. The DTI needs to take this into account in its dealing with the firms. In relation to the data, the DTI needs to communicate with the sector about the validity of the data at its disposal. There are currently important discrepancies across statistical sources which matter in terms of the identification of exporting trends. The small team at the DCCS Directorate at the DTI is currently engaged in this and can provide very valuable insight into the changes.

The DTI needs to find mechanisms to assist the clothing sector in order to take full advantage of AGOA. This would require building the clothing sector's capacity at the DTI. Our suggestion is that this would best be served by employing a senior executive from the clothing sector as a consultant/advisor. Since the clothing sector is an industry which is based on tight social networks and trust-based relationships, an "insider" is critically important for making available to the DTI much needed sectoral expertise in relation to the *real* challenges and opportunities facing the exporting firms and potential exporting firms within the sector. Furthermore, it would enable the DTI to tap into the exporting dynamics of the clothing sector, as the person in question would play the role of an intermediary between the private and public sector.

Given the importance of buyers and market access in the clothing global value chain, the DTI should engage in a market intelligence study of the major US buyers and global commissioning agents involved with the US market in order to take full advantage of AGOA. This market intelligence study should: (1) examine the access issues as they pertain to the end market; (2) comprehensively detail the order-winning requirements; and (3) evaluate the full implications for upgrading.

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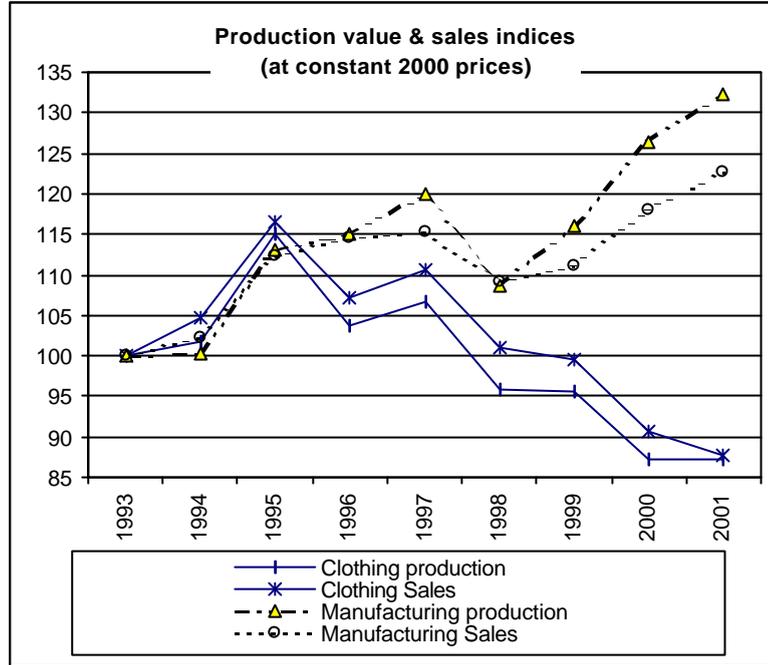
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7 APPENDICES

7.1 Appendix 1: Miscellaneous production related data

Appendix Figure 1: Value of production and sales indices



Source: DTI database.

Appendix Table 1: Index of the value of a unit of clothing good produced (at 2000 constant prices, 1993 = 100)

Value/volume	
1993	100.0
1994	96.6
1995	94.3
1996	94.2
1997	92.9
1998	88.9
1999	87.4
2000	84.6

Appendix Table 2: Clothing firms in SA (number and by region)

	Total		Western Cape		Kwa Zulu Natal		Gauteng		Free State & Northern Cape	
	No.	Average firm size (emp/firm)	No.	% of total	No.	% of total	No.	% of total	No.	% of total
1990	1248	115.7	448	35.9	445	35.7	347	27.8	8	0.6
1995	1064	125.9	404	38.0	385	36.2	268	25.2	7	0.7
1996	1098	136.5	410	37.3	420	38.3	261	23.8	7	0.6
1997	980	142.5	379	38.7	355	36.2	239	24.4	7	0.7
1998	894	144.7	361	40.4	301	33.7	226	25.3	6	0.7
1999	770	179.6	350	45.5	214	27.8	201	26.1	5	0.6
2000	722	189.4	351	48.6	186	25.8	179	24.8	6	0.8
2001	654	202.7	324	49.5	153	23.4	171	26.1	6	0.9

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Change in the number of firms:

	Total	Western Cape	Kwa Zulu Natal	Gauteng	Northern Cape
1990-95	-3.08%	-1.97%	-2.73%	-4.98%	-1%
1995-01	-7.64%	-3.55%	-13.55%	-7.16%	-1.83

Note: The number of clothing firms is lower than that in Clofed (2001:66) which reports data from the 1996 census of manufacturing. Data is unavailable for other provinces.

Sources: Flaherty (2002:13, Table 4). Average firm size is based on own calculations using 1990 data from IDC for SIC 313 and 314, and DTI data for SIC 313, 314 and 315.

Appendix Table 3: Regional distribution of employees belonging to the Bargaining Council

	Total	Eastern Cape Province		Western Cape		Kwa Zulu Natal		Gauteng		Northern Cape	
	No.	No.	% of total	No.	% of total	No.	% of total	No.	% of total	No.	% of total
1990	121108	3118	2.6	54564	45.1	44623	36.8	16092	13.3	2711	2.2
1995	96443	2423	2.5	46980	48.7	34720	36.0	10888	11.3	1432	1.5
1998	80320	1793	2.2	41874	52.1	26397	32.9	8994	11.2	1262	1.6
1999	70151	1415	2.0	37918	54.1	21331	30.4	8176	11.7	1311	1.9
2000	67986	1489	2.2	38262	56.3	19714	29.0	7517	11.1	1004	1.5
2001	59580	1291	2.2	34655	58.2	6626	11.1	6626	11.1	1315	2.2

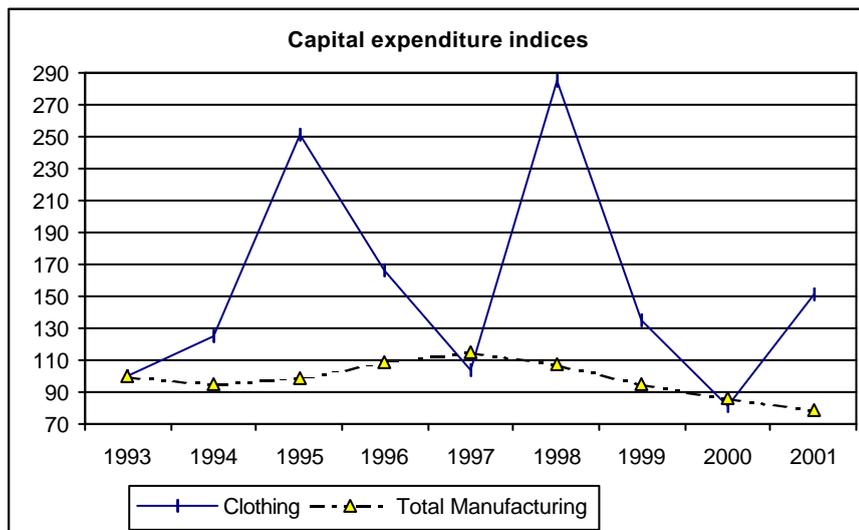
Period change:

	Total	Eastern Cape Province	Western Cape	Kwa Zulu Natal	Gauteng	Northern Cape
1990-95	-4.31%	-4.68%	-4.58%	-7.39%	-7.39%	-11.84%
1995-01	-7.61%	-9.58%	-12.1%	-7.91%	-7.91%	0.27%

Note: data are for January of the year.

Source: Flaherty (2002:12, Table 36).

Appendix Figure 2: Clothing capital expenditure indices (at 2000 constant prices, 1993=100)



Source: Based on DTI data.

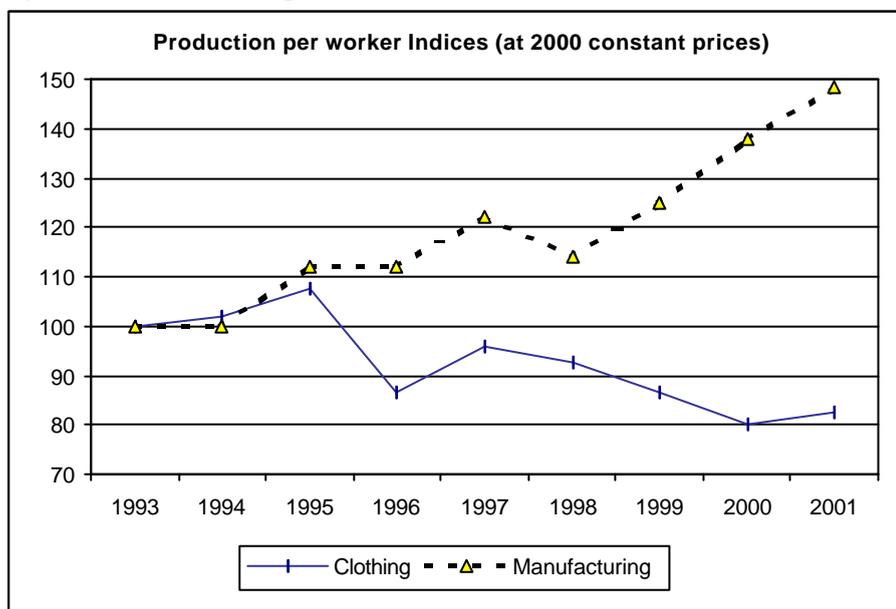
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Appendix Table 4: SA clothing sector employment

	Contribution to total manufacturing employment (%)	Number of employees	Average annual change (%) in emp.
1993	8.92	125,297	
1994	8.85	125,020	-0.22
1995	9.44	133,989	7.17
1996	10.39	149,908	11.88
1997	10.10	139,604	-6.87
1998	9.66	129,372	-7.33
1999	10.61	138,320	6.92
2000	10.63	136,767	-1.12
2001	10.58	132,546	-3.09

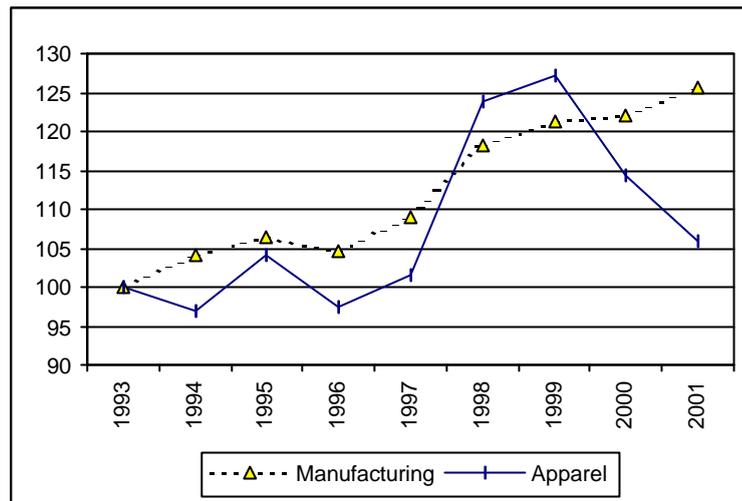
Source: DTI data.

Appendix Figure 3: Production per worker indices



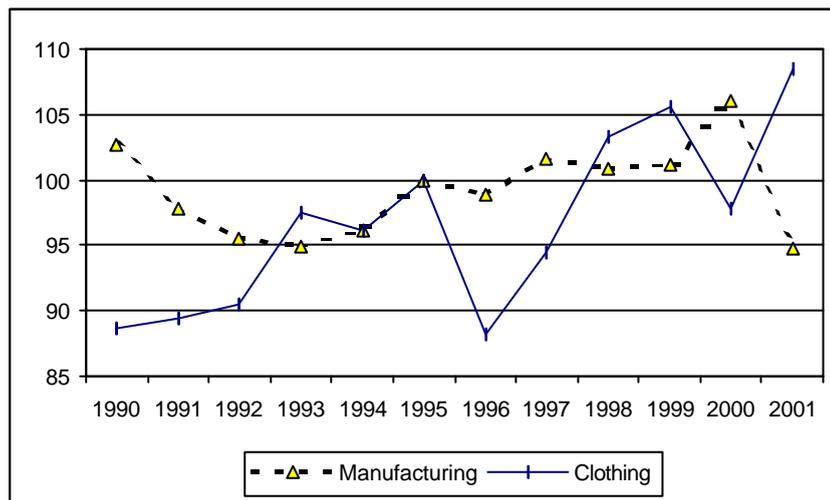
Source: Based on DTI data.

Appendix Table 5: Remuneration of employees indices (at 2000 constant prices, 1993=100)



Source: TIPS SA Standardised Industry Analysis.

Appendix Figure 4: Multifactor productivity indices (at 1995 constant prices)



Source: *Ibid.*

7.2 Appendix 2: South Africa's clothing trade

The DTI trade data are based on the Standard Industrial Nomenclature (SIC) version 5. Clothing according to this database is SIC 313, 314 and 315 aggregated as described below. A point to note is that SIC 313 encompasses some knitted /crocheted fabrics. Under the Harmonised System, clothing is defined as under HS 61, "Articles of apparel and clothing accessories, knitted or crocheted" and HS 62, "Articles of apparel and clothing accessories, not knitted or crocheted".

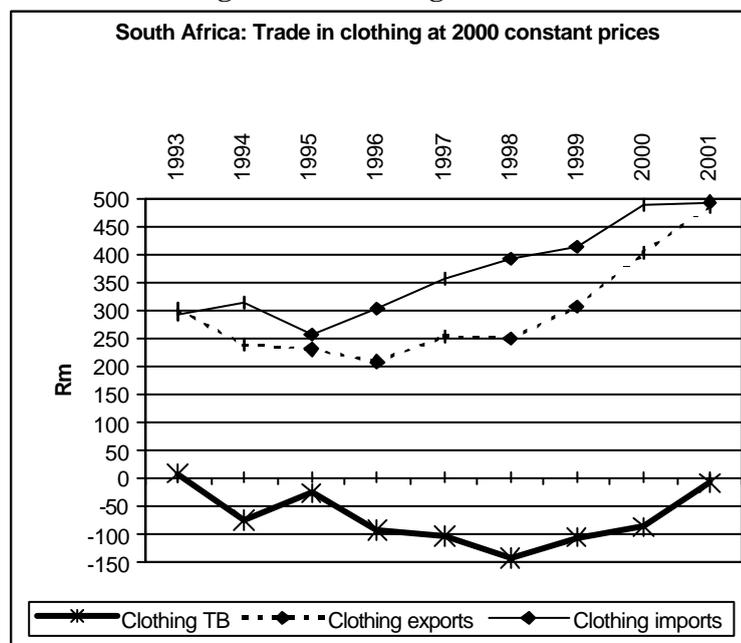
SIC 313	
Knitting mills	Manufacture of knitted and crocheted fabrics and articles
SIC 314	
Wearing apparel	Manufacture of wearing apparel, except fur apparel
SIC 315	
Fur dressing & dyeing	Dressing and dyeing of fur; manufacture of articles of fur

Note: the first column specifies the broad definition of the SIC. The second column details the SIC group. Manufacturing encompasses all SIC 3 categories.

The trade data used to describe SA's exports in this report are from TIPS. TIPS' latest trade database gives SA, not SACU data. Important discrepancies emerged when comparisons were made between DTI SIC-based trade data and those collected from TIPS. The differences in trade values cannot be accounted for by differences in nomenclatures since SIC is more encompassing than HS. Appendix Figure 5 can be contrasted with

Appendix Figure 6. This is one example of the numerous discrepancies encountered with the data.

Appendix Figure 5: S.A's clothing trade according to DTI trade data



Note: Clothing cased on the SIC nomenclature.

Source: DTI.

Appendix Figure 6: S.A's clothing trade according to TIPS' trade data



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Appendix Table 6: Pattern of distribution of South Africa's clothing exports to the EU and US (averages for the 1988-2001 period and for 1995-2001)

Distribution of S.A.'s exports by broad region (% for 88-01 and 95-01)		Pattern over time
61	42% to EU 26% to EU	Pronounced decline of the share of HS 61 export prior to 1994. Progressive decline thereafter. Within the EU, the UK has become the major market of destination. In 1997 more than half SA's HS 61 exports were destined to the UK. The UK absorbed 66% of EU imports of knitted/crocheted apparel from SA in 2001.
	33% to US 53% to US	Increase in proportion exported to the US market in 1994. Consistent displacement of the EU by the US from 1997. US absorbed 74% of SA exports in HS 61 in 2001.
	25% to Other 21% to Other (excl. Africa)	Share of export to other markets dropped consistently from 1998. Prior to this "other markets" peaked in 1993. 10% of SA HS 61 exports were going to markets of destination other than the EU and the US in 2001.
62	47% to EU 44% to EU	Fluctuations over the 1988-2001 period in terms of proportion of SA woven apparel exports to the EU. Between 1988 and 1990, the EU absorbed about 60% of SA's HS 62 exports. Then there was a relative drop until 1994. In the mid 1990s the EU became an important market of destination again. The proportion of HS 62 goods exported to the EU dropped from 1997. The EU only absorbed 26% of HS 62 exports in 2001. Within the EU, the UK is an important market. It became the dominant EU market in 1995. In 2000, 70% of SA's exports to the EU were to the UK.
	23% to US 35% to US	Sharp pre- and post-1995 differences (the US absorbed between 10% and 3% of SA's woven items in the first period compared to 18% to 52% afterwards). Notable increases from 1999 onwards. By 2001, the US absorbed 52% of SA's woven exports. Displacement of EU and other markets would be towards the end of the 1990s.
	30% to Other 21% to Other (excl. Africa)	Sharp pre- and post-1995 differences (absorbed between 36% and 56% of SA's woven items in the first period). There was a decline in 1995-96, and thereafter it stabilized at around 20% between 1998 and 2001.
Clothing	45% to EU 36% to EU	There was a progressive decline in proportion exported to the EU from 1996. The share of SA's clothing exports to the EU fell to 20% in 2001. The UK was the main market of destination and accounted for 80% of SA's exports to EU.
	28% to US 44% to US	The US has become the key market of destination. The importance of the US varies over time. Three distinct periods emerge: 1) between 1988 and 1993 the US absorbed a comparatively small proportion of SA's clothing exports; 2) between 1993 and 1996, clothing exports to the US was over a third of total exports but a drop of the share occurred in 1997 when exports went to other regions (excluding the EU); and 3) there was an increase after 1997. The US absorbed 65% of SA's exports in 2001.
	13% to Other 7% to Other (excl. Africa)	The reverse to what is observed for the US occurred. From 1998, exports to markets other than the EU and the US declined to reach 15% in 2001.

Note: Note that "other" refers to other than the EU, the US and Africa. The share of exports to Africa varies from 13% to 14.5% across the various segments in the second half of the 1990s.

Source: Distribution calculated from TIPS HS trade database. Based on data converted into US\$.

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Appendix Table 7: Average annual percentage changes of clothing exports and imports

	Period	HS 61	HS 62	Clothing
Exports	1988 – 01	18.2%	11.3%	14.5%
	1995 – 01	21.7%	0.9%	9.4%
Imports	1988 – 00	4.3%	4.1%	4.2%
	1995 – 00	5.5%	8.1%	7%

Note: Calculations for trade values in US\$.

Source: Own calculations based on TIPS trade database.

Appendix Table 8: South Africa's clothing export sub-sectors (1995-2001)

		Proportion of Total Clothing Exports	HS Code	Av. annual Export Growth (%)
		1995-2001		
Woven items	Men's or boys' suits, ensembles, jackets etc. (excluding swimwear)	26.2%	6203	0.3
	Women's or girls' suits, ensembles, jackets, blazers, dresses, etc. (excluding swimwear).	9.4%	6204	3.8
	Men's or boys' shirts.	5.2%	6205	13
	Women's or girls' blouses, shirts, and shirt-blouses	3.2%	6206	15
Knitted/crocheted items	Women's or girls' blouses, shirts, & shirt-blouses	9.8%	6106	61
	T-shirts, singlets, & other vests	8%	6109	28
	Men's or boys' shirts	7.6%	6105	20
	Jerseys, pullovers etc.	4.8%	6110	19.1
	Men's or boys' suits, ensembles, jackets, etc. (excl. swimwear)	3.2%	6103	24
Other garments		22.5%	Other	

Note: Export growth is based on the average annual percentage change in exports between 1995 and 2001.

		HS Code	Comments on markets of destination for the key sub-sectors
Woven items	Men's or boys' suits, ensembles, jackets etc. (excluding swimwear)	6203	Progressive displacement of the EU. US currently dominates.
	Women's or girls' suits, ensembles, jackets, blazers, dresses, etc. (excluding swimwear).	6204	Recent shift (from 1998) away from the EU as a major market of destination in favour of the US. Little exports to the US prior to 1998.
Knitted crocheted items	Women's or girls' blouses, shirts, & shirt-blouses	6106	US markedly dominates from 1990s.
	T-shirts, singlets, & other vests	6109	EU sharply dominates until mid-1990s. US dominates from 1998.
	Men's or boys' suits, ensembles, jackets, etc. (excl. swimwear)	6103	Fluctuations in the key market of destination. US dominates from 1999.

Notes:

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- The above sub-sectors are the top 4 sub-sectors which dominate SA's clothing exports in terms of their share of total clothing exports plus HS 6103;
- An end market is said to be dominant when it absorbs in excess of 50% of South Africa's clothing export at the sub-sectoral level (4 digit level).

Source: *Ibid.*

Appendix Table 9: Regional breakdown of SA's exports (%)

	EU	US	Africa	Other Region	UK as % of EU
1988	66.6	8.4	14.7	10.4	43.0
1989	58.2	9.2	19.5	13.1	37.4
1990	58.4	9.3	16.1	16.1	45.4
1991	53.3	6.0	17.9	22.8	39.9
1992	44.4	5.4	14.6	35.5	46.8
1993	42.4	10.0	17.7	29.9	44.0
1994	47.9	37.6	9.9	4.5	46.6
1995	49.7	35.0	9.3	5.9	61.7
1996	46.2	31.0	15.6	7.2	66.7
1997	35.4	26.7	29.5	8.4	72.5
1998	40.0	41.3	10.9	7.8	81.8
1999	35.1	48.6	10.3	6.0	79.5
2000	26.3	57.1	9.5	7.0	80.9
2001	19.9	64.9	8.0	7.2	80.6
Average for the period	44.6	27.9	14.5	13.0	59.1

Source: *Ibid.*

Appendix Table 10: Extra-EU and US share of imports from top 5 suppliers (%)

	6103	6106	6109	6203	6204
1999	64.13	52.12	55.47	43.51	49.53
Average share of top 5 extra-EU exporters (1990-99)	51.76	50.65	48.54	40.90	45.25
2000	52.22	41.07	69.82	51.52	47.42
Average share of top 5 US suppliers (1990-99)	39.71	46.05	46.08	48.48	45.19

Sources: Eurostat (various years) and USITC (2001).

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7.3 Appendix 3: Average annual percentage change in Extra-EU and US imports in core clothing sub-sectors

EU

Average annual percentage changes in imports

(€values)	6103		
	1990-99	1990-94	1995-99
Extra EU	14.3	17.4	13.8
China	29.0	39.7	27.9
Turkey	22.4	24.4	6.9
India	41.4	96.5	7.1
Morocco	4.8	6.3	0.1
Bangladesh	44.4	97.9	8.7
South Africa	74.1	219.7	23.8

(€values)	6106		
	1990-99	1990-94	1995-99
Extra EU	10.4	9.7	13.5
Turkey	7.6	14.0	-0.1
Hong Kong	5.7	-0.4	17.2
Bulgaria	77.5	57.6	90.5
India	6.5	1.8	8.9
Poland	31.8	62.0	12.0
South Africa	4.2	-2.6	66.7

Average annual percentage changes in the value of a unit of good imported

US\$/kg	6103		
	1990-1999	1990-1994	1995-1999
Extra EU	-4.9	-7.0	-5.1
China	-1.3	-1.7	-3.7
Turkey	-0.5	1.1	-3.6
India	-3.4	-5.4	-1.4
Morocco	-1.9	-6.7	0.7
Bangladesh	-2.1	-1.3	-5.4
South Africa	8.3	7.1	8.2

US\$/kg	6106		
	1990-1999	1990-1994	1995-1999
Extra EU	-4.0	-2.8	-6.8
Turkey	-3.2	-2.9	-7.3
Hong Kong	-4.0	-1.0	-6.8
Bulgaria	-11.6	-17.2	2.0
India	-0.9	3.2	-4.4
Poland	-6.7	-10.1	-10.0
South Africa	16.2	-6.6	33.2

(€values)	Average annual percentage changes in imports		
	6109		
	1990-99	1990-94	1995-99
Extra EU	13.9	12.6	15.7
Turkey	16.2	10.3	20.8
Bangladesh	25.1	32.3	20.0
China	21.9	22.7	22.2
Mauritius	13.3	8.6	16.5
India	10.0	5.5	4.9
South Africa	-2.1	-3.4	26.3

US\$/kg	Average annual percentage changes in the value of a unit of good imported		
	6109		
	1990-1999	1990-1994	1995-1999
Extra EU	-2.1	-3.2	-3.1
Turkey	-3.6	-1.9	-8.8
Bangladesh	-1.9	-1.9	-4.6
China	1.8	10.3	-5.7
Mauritius	4.6	-2.5	14.3
India	-3.0	-1.1	-3.3
South Africa	12.3	13.3	7.2

Average annual percentage changes in imports

(€values)	6203		
	1990-99	1990-94	1995-99
Extra EU	7.2	6.9	8.5
Tunisia	6.8	9.7	3.9
Romania	24.0	28.7	20.1
Morocco	6.7	9.5	5.0
Turkey	10.0	7.3	16.1
China	6.9	9.5	8.7
South Africa	21.2	57.9	-0.7

(€values)	6204		
	1990-99	1990-94	1995-99
Extra EU	9.4	7.4	10.3
China	11.1	9.1	20.5
Turkey	10.1	2.0	11.9
Tunisia	14.3	12.3	11.7
Poland	19.4	37.4	3.1
Morocco	13.0	10.7	13.0
South Africa	8.4	28.3	3.3

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Average annual percentage changes in the value of a unit of good imported

US\$/Kg	6203		
	1990-1999	1990-1994	1995-1999
Extra-EU	-2.5	-2.4	-4.0
Tunisia	0.7	-1.3	-1.3
Romania	-0.2	-2.0	-2.5
Morocco	-9.5	-4.4	-20.8
Turkey	-1.1	3.3	-5.8
China	-0.5	-3.9	0.2
South Africa	7.4	17.8	1.7

US\$/Kg	6204		
	1990-1999	1990-1994	1995-1999
Extra-EU	-1.8	-0.7	-5.5
China	3.5	5.9	0.4
Turkey	-0.7	0.4	-6.9
Tunisia	-1.3	0.0	-5.3
Poland	-0.8	0.6	-5.6
Morocco	-3.0	-2.5	-7.5
South Africa	-0.2	-8.9	12.3

US

Average annual percentage changes in imports

	6103		
	1991-2000	1991-95	1996-2000
World	17.2	14.3	17.6
Mexico	81.2	135.5	31.9
Taiwan	5.7	-18.7	25.5
Dominican R.	14.4	23.5	3.5
Honduras	24.2	50.7	2.3
El Salvador	44.7	106.6	15.2
South Africa	138.6	252.7	77.8

	6106		
	1991-2000	1991-95	1996-2000
World	8.2	12.8	5.0
Mexico	31.4	39.0	21.5
Macao	11.4	21.0	0.0
China	10.0	27.4	-5.6
Hong Kong	-5.8	8.2	-13.5
Korea	6.3	7.3	15.5
South Africa*	65.8	69.5	43.1

* 1992-2000, 1992-5 and 1996-2000.

Average annual percentage changes in imports

	6109		
	1991-2000	1991-95	1996-2000
World	23.2	24.0	20.8
Mexico	89.2	199.4	22.6
Honduras	50.5	56.4	30.5
El Salvador	63.6	105.3	37.3
Dominican Rep	28.1	38.0	17.8
Canada	48.6	66.2	32.6
South Africa	224.4	703.6	65.7

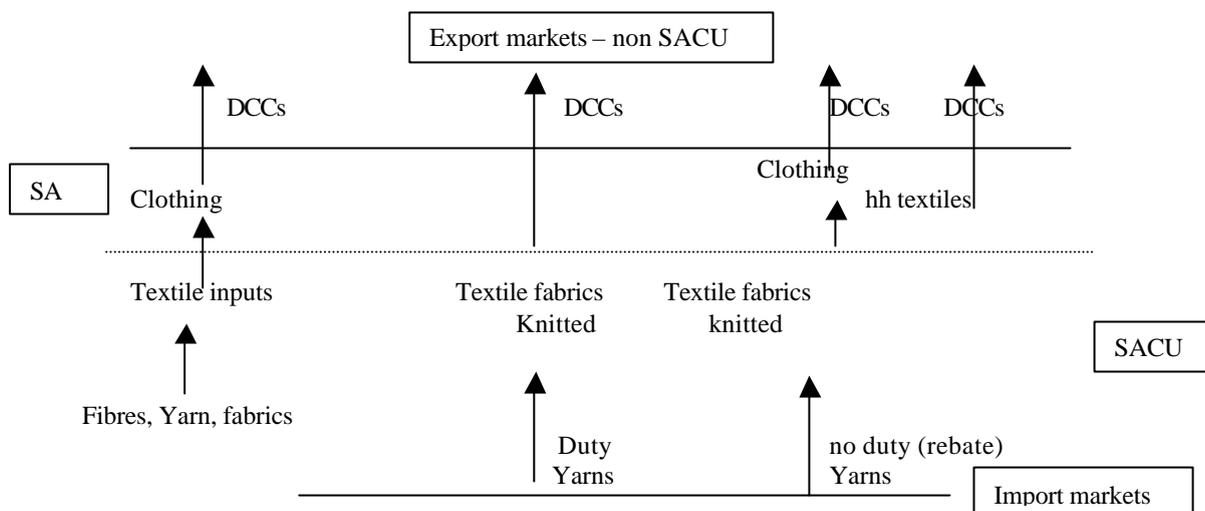
Average annual percentage changes in imports

	6203		
	1991-2000	1991-95	1996-2000
World	12.7	12.6	14.1
Mexico	28.0	31.6	23.8
Dominican R.	11.9	18.0	12.1
China	5.0	7.1	7.4
Italy	7.6	12.0	2.1
Canada	17.8	30.8	5.5
South Africa	112.1	343.1	20.1

	6204		
	1991-2000	1991-95	1996-2000
World	10.1	8.9	11.1
Mexico	30.9	30.4	28.5
China	9.6	12.5	5.3
Hong Kong	0.1	-1.4	2.3
Philippines	14.7	21.8	9.8
Indonesia	15.3	20.9	9.2
South Africa	107.9	349.3	73.2

7.4 Appendix 4: Information related to the firms interviewed

Appendix Figure 7: The pipeline dimension of the DCCS



Note: For other rebated imports (Customs Schedules 3, 4 and 5) DCCs cannot be obtained.

Appendix Table 11: List of goods produced by the firms interviewed.

	Main product produced
1	Bras & panties - some men's T-shirts and underwear
2	Outerwear (trousers, jeans and shorts are exported)
3	Denim trousers & shorts
4	Denim jeans, skirts and shirts
5	Shorts, pants, jeans & shirts
6	Knitted sweaters
7	Jackets, skirts trousers
8	Trousers, jackets etc. / casual wear
9	Trousers (& shirts)
10	School uniform (trousers, shorts, blazers, skirts).
11	Schoolwear, ladieswear & boys school trousers
12	Foundationwear
13	Socks
14	Ladies outerwear but "bottoms" generate the largest revenue
15	School uniform but exports in trousers & jackets
16	Sleepwear outerwear & sportswear items
17	Blouses & soft dresses
18	Shirts
19	Shirts, tops, tracksuits (leisure & sportswear)
20	Outerwear & underwear - knitted cotton fabrics - no trousers
21	Men's and women's wear of Denim.
22	Ladies outerwear
23	Suits, jackets, trousers
24	Suits, jackets and trousers
25	Hosiery
26	Jersey, cardigans, T-shirts, tracksuits
27	Jackets & trousers
28	Tops (T-shirts/shirts & shorts)
29	Suits, jackets & trousers

Note: the number given in the first column does not coincide with the firm reference as given in the text so as to maintain confidentiality.

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Appendix Table 12: Age structure (n = 29)

Established	Frequency	%
[1-10[2	7.4
[10-20[1	3.7
[20-30[	7	25.9
[30-40[	1	3.7
[40-50[	2	7.4
[50-60[	5	18.5
[60-70[	4	14.8
[70+	5	18.5
n.a.	2	

Appendix Table 14: Number of employees (n= 29)

Emp. range	Frequency	%
[200-500[	3	10.7
[500-600[	0	0.0
[600-700[	6	21.4
[700-800[	2	7.1
[800-900[	3	10.7
[900-1000[	0	0.0
[1000-1200[	3	10.7
[1200+	11	39.3
n.a.	1	

Appendix Table 13. Percentage of turnover exported (n = 29)

% of turnover exported	Frequency	%
[1-10[	2	8.7
[10-20[	4	17.4
[20-30[	1	4.3
[30-40[	2	8.7
[40-50[	4	17.4
[50-60[	3	13
[60-70[	3	13
[70-100]	4	17.4
n.a.	6	

Appendix Table 15: Determinants of export competitiveness

Determinants of export competitiveness ...	Number of times when reported as important
Production / capacity to deal with volumes	8
Quality / quality requirements	7
Price	6
Intra-firm characteristics	
Time speed	12
Process-related characteristics	8
Product-related capabilities	9
Capital	3
External to the firm	
Cultural and geo-political factors	6
Infrastructure	2
Tariff regime (quota free, tariff level)	5

Note: Firms might have given more than one response.

Appendix Table 16: Textile related issues

Problem area	Frequency
Lack of availability of required fabrics	9
Quality (i.e. handle, texture, wash)	7
Price	7
Lead time, turnaround time & delivery	6
Lack of variety/print quality problem/innovation	6

Notes: Firms might have listed more than one problem area. Some firms stressed that there are strong nuances in that some of the aforementioned difficulties are textile firm specific.