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Trade and Poverty: A Case Study of the SA Clothing Industry

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TRADE AND POVERTY: A CASE STUDY OF THE SA CLOTHING INDUSTRY

By: Christi van der Westhuizen[1]

Executive summary

This is a case study of how the South African clothing industry has adjusted to the challenges of global competition, and the consequences thereof for the mostly female clothing worker corps. The study looks at restructuring in the industry; examines the social effects on clothing workers; and whether the export potential has alleviated the adverse effects by creating employment. Recommendations are offered for consideration.

Policies of economic openness and trade liberalisation are, among others, aimed at poverty reduction through growth. McCulloch, Winters and Cirera (2001) identify three conduits through which trade liberalisation affects poverty:

- Price transmission, as trade liberalisation affects the prices of goods consumed and produced by the poor;
- Enterprises, as trade liberalisation affects households through its impact on employment, wages and profits; and
- Taxes and state spending, as trade liberalisation affects the government's fiscal position.

Despite these policy aims, trade liberalisation may detrimentally impact on income distribution as exposure of previously protected domestic industries to international competition may cause income and employment losses (Culpeper 2005). The case of the clothing industry in South Africa is an illustration of such an outcome, as the swift rise in clothing imports precipitated the decline of the clothing industry with resultant employment loss. South Africa acceded to the World Trade Organisation's Agreement on Textiles and Clothing (ATC) in 1994 to promote international openness, partly to deal with profitability and productivity problems in the manufacturing sector, as reflected in trade and balance of payment problems (Gelb 2005). Clothing and textiles tariffs were dismantled at a faster rate and over a shorter period than required by the ATC. While other economic factors also contributed to its deterioration, the government has acknowledged the difficulties that global exposure has caused the industry (DTI 2005). The industry has responded to the increase in global competition through adjustments at various levels.

1. South African buyers (retailers) have improved their import capacity and are sourcing significantly increased volumes of clothing from overseas producers.
2. Manufacturers have built their export capacity; and shed the manufacturing function and thereby the labour component, partially or wholly, to become design houses or importers. In the process, the assembly of apparel is externalised to the household, either as a livelihood strategy by retrenched workers or as a cost initiative by large manufacturers.

The predominantly female workers have had fewer options to adjust to the changes, with the consequences of restructuring being acute for these workers. South African studies on employment losses in the clothing industry have shown social dislocation (Van der Westhuizen and Deedat 2003; ESSET 2003; Van der Westhuizen 2005) for two reasons. First, prior to employment loss these workers were low wage earners who increasingly found themselves to be the sole breadwinners as jobs in other sectors were lost, which has meant that after these workers' employment loss such households have been pushed into poverty. Second, these workers cannot find alternative employment due to limited economic diversification and the low rate of job creation and, hence, labour absorption in South Africa.

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The survival of the South African clothing industry hangs in the balance, which should be of concern, given its labour-intensiveness and potential for job creation in a context of high unemployment. The following recommendations are made.

- This study has concentrated on the poverty effects of employment loss in the context of trade liberalisation. Data indicates that clothing retail prices have been dropping in the wake of cheaper clothing being imported, which would also have a positive effect on the poor as consumers of clothing. However, a 2003 study indicates that poor households have so little budgetary room to manoeuvre that 68 percent of households were spending less on the most basic budgetary item, food, after employment loss. This suggests that poor household spend negligible amounts on clothing. A study is necessary to ascertain the actual level of relief of lower clothing prices for the average poor household.
- With a view to welfare interventions by government, detailed analysis is required to ascertain the needs of communities affected by employment loss in the clothing industry. Analysis is needed to ascertain the labour absorption capacity of related sectors, such as the booming clothing retail sector, with a view to retraining unemployed clothing workers.
- To improve South African export production and hence job creation, manufacturers should study the retail market in the US, target smaller retailers and embark on a concerted contact and relationship-building campaign to gain a slice of those markets.
- Niche market production should be pursued as the strategy which will make 'cut, make and trims' (CMTs) viable and address cash flow problems. To enable CMTs to create jobs through production for niche markets, access to seed capital, credit and investment for training, including business training, is needed. In return for assistance, those CMT owners which are currently resisting Bargaining Council agreements should abide by the regulatory environment. CMT numbers and operational needs should be comprehensively researched to debunk exaggerated claims. Claims about labour costs should be further studied to ascertain why some registered CMTs succeed while abiding by labour agreements, contradicting CMT associations' claims that decent wages are unaffordable. A commonly accepted definition of what constitutes a CMT should be developed.
- From the government's side a concerted effort is required to rebuild trust and certainty in the future of the industry. While Black Economic Empowerment (BEE) may not *per se* necessarily improve efficiency, it may be the way to attract innovative individuals and new capital, as in the Brimstone/Rex Trueform deal. The cost of doing business in South Africa should be addressed, especially overhead costs.
- As has been seen, bilateral and multilateral engagement is an essential strategy in creating breathing space for the industry's recovery, and should be pursued further.
- A regional industrial policy is needed to address issues of regional integration of the textile and clothing industries, and of textile supply to overcome 'rules of origin' problems.

1. Introduction

One of the stated aims of policies of economic openness and trade liberalisation is poverty reduction through growth (Culpeper 2005: 4). Trade policy links with poverty in the following ways: trade policy affects trade, which in turn affects poverty through its implications for the economic activities in which poor people participate; its effects on the prices of goods and services purchased by poor people; and effects on government taxation and spending, which affects poor people's entitlements from government (Page 2004: 2). Similarly, McCulloch, Winters and Cirera (2001) identify three conduits through which trade liberalisation affects poverty:

- Price transmission, as trade liberalisation affects the prices of goods consumed and produced by the poor;
- Enterprises, as trade liberalisation affects households through its impact on employment, wages and profits; and
- Taxes and state spending, as trade liberalisation affects the government's fiscal position.

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

From the 1980s onwards the South African clothing sector has increasingly been exposed to international competition, a process which was significantly accelerated when South Africa acceded to the World Trade Organisation's Agreement on Textiles and Clothing (ATC) in 1994. From the South African government's vantage point, economic and political imperatives necessitated economic policy that would promote international openness, partly to deal with profitability and productivity problems in the manufacturing sector, as reflected in trade and balance of payment problems (Gelb 2005: 368-9). Clothing and textiles tariffs were dismantled at a faster rate and over a shorter period than required by the ATC. This translated into the industry being ill prepared for the resultant swift rise in clothing imports, with the bulk emanating from China. The South African clothing industry has also been unable to compete with China in the primary clothing markets of the EU and US after the Multi-Fibre Arrangement was finally brought to an end on 1 January 2005.

The industry has responded to the increase in global competition through adjustments at various levels.

1. Globally, the clothing value chain is driven by buyers, and with the increased exposure to international markets, South African buyers (retailers) have improved their import capacity and are sourcing significantly increased volumes of clothing from overseas producers.
2. Manufacturers have coped with global competition by adjusting their operations in two ways:
   - Building export capacity;
   - Shedding the manufacturing function and thereby the labour component, partially or wholly, to become design houses or importers. In the process, the assembly of apparel is being externalised to the household, either as a livelihood strategy by retrenched workers or as a cost initiative by large manufacturers.

The predominantly female workers have had fewer options to adjust to the changes, with the consequences of restructuring being acute for these workers. The primary welfare impact has been similar to other cases where developing states embarked on rapid or incorrectly sequenced reforms, such as liberalisation, where such reforms caused social disruption through 'considerable and long-lasting' unemployment (Stiglitz 2002 in Culpeper 2005: 11). South African studies on employment losses in the clothing industry have shown social dislocation (Van der Westhuizen and Deedat 2003; ESSET 2003; Van der Westhuizen 2005) for two reasons. First, prior to employment loss these workers were low wage earners who increasingly found themselves to be the sole breadwinners as jobs in other sectors were lost, which has meant that after these workers' employment loss such households have been pushed into poverty. Second, these workers cannot find alternative employment due to limited economic diversification and the low rate of job creation and, hence, labour absorption in South Africa. The latter point is strengthened by experiences elsewhere: 'Between 70 and 80 percent of the workers in the clothing sector are women in most poor countries, and many – perhaps most of them – would not have had an income in the formal sector in the absence of the clothing industry. If we assume that these workers have a higher income and higher productivity in the clothing sector than in their best alternative economic activity, the income gains in poor, clothing-exporting countries are higher than [economic model estimates]' (Nordas 2004: 30-31).

This is a case study of how the industry has adjusted to the challenges of global competition, and the consequences thereof for the mostly female clothing worker corps. The study looks at restructuring in the industry; examines the social effects on clothing workers; and whether the export potential has alleviated the adverse effects by creating employment. As conclusion, recommendations are offered for consideration. The next section explains the methodology followed in the study.

2. Methodology

This case study includes a literature review of relevant studies, research reports and newspaper articles. The primary obstacle encountered in the collation of data is the conflation of data on the clothing, textile and/or footwear sectors, which are related sectors and frequently approached as one sector, especially clothing and textiles. Therefore some data is supplied that is not available in a disaggregated form, particularly with regards to clothing sector statistics.

The literature review was augmented by interviews with the primary actors in the industry and the Department of Trade and Industry. Attempts to secure an interview with the trade union for the sector, the Southern African Clothing and Textiles Workers' Union (SACTWU), were unsuccessful. Respondents were sought on the basis of the length and level of their involvement in the industry, and on the basis of representivity. The author secured interviews on the basis of the following:

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

Based on these criteria, references for industry interviewees were also sought and received from SACTWU and the Export Council for the Clothing Industry (representing exporters). Furthermore, references were received from the Cape Clothing Association (representing manufacturers) and the CMT Employers' Association. Further information flowed from e-mail correspondence.

The study does not examine the price transmission dimension of trade and poverty in depth. However, it does provide data in this regard as well as recommendations in the concluding section. The next section provides a background overview of the industry.

3. Background

Historically, the South African clothing industry benefited from the protection afforded by high tariffs in the era of the National Party's import-substitution policies. The sector, which is concentrated in the Western Cape and KwaZulu-Natal, was well established by the second half of the 20th century and produced predominantly for the domestic market. The development of the industry in KwaZulu-Natal occurred in the wake of the previous government's racial industrial development policies which attracted Asian manufacturers to the 'homeland' border areas. However, the industry exhibited signs of stagnation by the 1970s and was in decline from the late 1980s. The following historical factors played a role:

- the industry's insulation due to apartheid sanctions and protective tariffs;
- the conservative nature of the many family-run businesses in the industry which opted for survival more than the maximisation of profits, and static flexibility over dynamic flexibility (Altman 1993: 33). Static flexibility places an emphasis on labour cost flexibility, historically achieved through geographical decentralisation to low-wage rural areas. Comparatively concentrated production and ownership[2] structures, causing inefficiencies because of high overheads.
    1. As a result, strategies such as marketing, operational change, skills development and grasping 'South Africa's market access arrangements' have not been pursued adequately (DTI 2005; Barnes 2005: 7);
    2. the industry has suffered from low levels of capital investment;
- labour relations marked by an 'apartheid mentality' as employers continue to regard workers as another 'input into the production process' (Altman 1993: ii; 26; 33; ESSET 2003: 15; DTI 2005).

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

The decline in the clothing industry occurred in the context of South Africa's accession to the WTO Agreement on Textiles and Clothing (ATC). As explained in a recent DTI submission to parliament[3]: *'The South African government has always been clear in its policies that the country cannot afford to artificially sustain uncompetitive industries through import substitution or protectionist measures. Based on this, the government has committed itself to support this sector through a range of initiatives with the understanding that, in its current form, the industry was neither competitive nor sustainable and needed to change'* (DTI 2005). South Africa commenced the liberalisation of the clothing sector in compliance with the WTO's ATC, deciding unilaterally to halve *ad valorem* tariffs over a shorter period than required—7 instead of 12 years—to a maximum of 40 percent by 2004. Contending views exist with regards the level of protection, with some arguing the level is high by international comparison, while others point to the decline of the industry as a reason why a high level of protection is required.

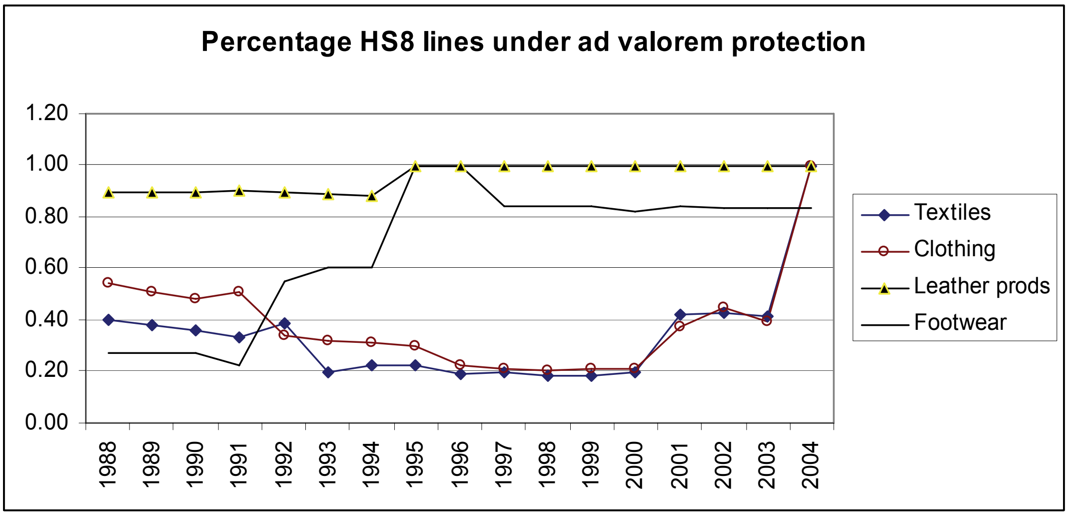
Table 1. South Africa's typical tariffs on apparel, calculated from collection duties[4]

1993	1995	1997	2000	2001 MFN	2002 MFN	2003 MFN	2004 MFN
100%	90%	78%	60%	54%	47%	47%	40%

Source: Edwards, L., 2005. Note: Ad valorem equivalents calculated using collection duties. The collection rate is used in cases where collection rate exceeds the ad valorem component of the mixed or formula duty. In cases of mixed tariffs with a minimum value, the maximum value was used, which may exaggerate the tariff but avoids underestimating the protection.

South Africa has also substantially simplified the tariff structure in clothing and textiles, as can be seen in Graph 1 below.

Graph 1



Source: Edwards, L.

Clothing imports into the South African market have since escalated rapidly. Units from China, the most competitive exporter of clothing in the world market, jumped from 11 million in 1995 to 335 million in 2004 (Clothing Trade Council of South Africa 2005). The South African clothing sector was placed under more pressure when the currency appreciated rapidly between 2002 and 2003, as seen in table 2.

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

4 Ad valorem equivalents calculated using collection duties. The collection rate is used in cases where collection rate exceeds the ad valorem component of the mixed or formula duty. In cases of mixed tariffs with a minimum value, the maximum value was used, which may exaggerate the tariff but avoids underestimating the protection.

Table 2: Effective exchange rate of the rand. Nominal average for the period. (Percentage change)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Exchange rate	-7.4	-11.4	0.2	-12.9	-10.9	-5.9	-15	-21.7	25.1	9.1

Source: SA Reserve Bank Quarterly Bulletin

Table 3 below provides a holistic view of the changes in imports and exports of apparel since the liberalisation of trade under the WTO ATC commenced. The value of clothing imports almost doubled between 1995 and 2000, due to the government's liberalisation of clothing trade. This trend was boosted by the appreciation in the currency from 2003 onwards (shown in Table 2), with the value of imports doubling between 2001 and 2004. On the other hand, exports were negatively affected by the appreciation of the rand, as could be expected.

Table 3: South Africa's clothing imports and exports (R million current prices)

Year	1995	1997	1999	2000	2001	2002	2003	2004
Exports	960.2751	1377.193	1668.578	2060.417	2575.842	3167.95	3138.788	2500.41
Imports	703.206	1248.77	1554.87	1899.6	2120.21	2282.89	3162.79	4571.93

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

The overall trend in production volumes has been downward, as can be seen in the table below. The exception was 2002, partly as a result of increasing clothing exports under the US' African Growth and Opportunity Act (AGOA).

Table 4: Production of apparel: Percentage change year on year (weighted and seasonally adjusted)

	1997	1998	1999	2000	2001	2002	2003
% change year on year	5,02%	-18,35%	0,5%	-22,5%	-7,55%	21,22%	-13,03

Source: StatsSA Indicators (Annual). Sourced from www.tips.org.za / Easydata

The clothing industry's percentage of gross domestic product since 2000 has also been decreasing, along with the related textiles and leather industries as can be seen in table 5 below.

Table 5: Clothing, textiles and leather as percentage of South African gross domestic product (2000-June 2005)

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

Source: Reserve Bank Quarterly Bulletin[5], constant 2000 prices, seasonally adjusted

Regarding consumer prices, table 6 below indicates price reduction in both the clothing and footwear industries, with the most significant decrease from 1997-1998 onwards, also the year in which the trade balance with China in clothing products swung to the negative. The graph below shows

[5] Clothing data not available separately.

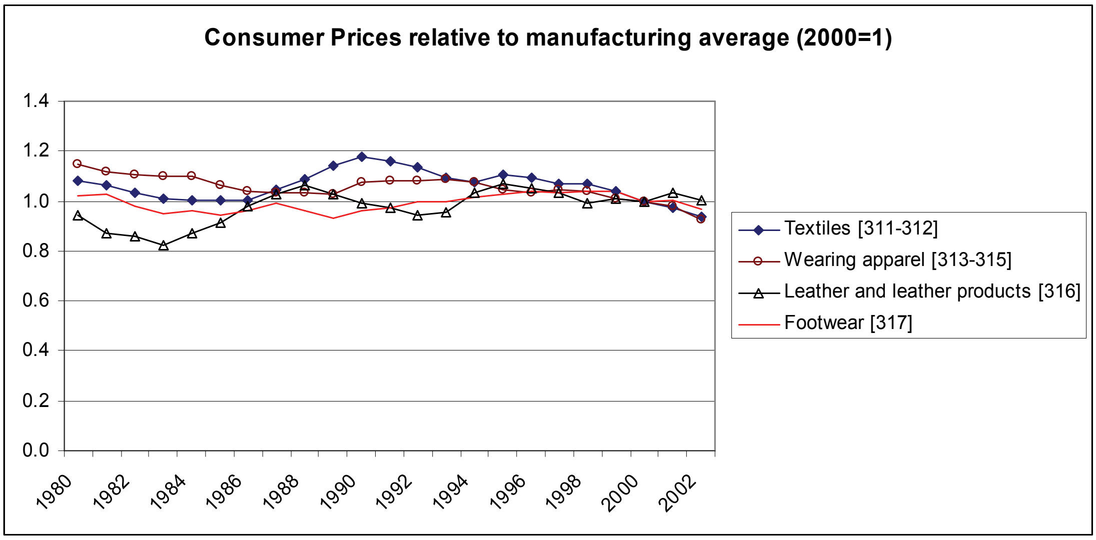
disaggregated data for apparel and the other related industries. The overall picture is of declining prices in clothing, which has positive effects for poor consumers.

Table 6: Consumer prices: Clothing and footwear: Percentage change in metropolitan areas

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
4.9%	3.9%	3.2%	1.0%	1.0%	0.9%	-0.5%	-1.3%	1.6%	-3.8%

Source: SARB Quarterly Bulletin (Annual) 2005[6]

Graph 2.



Source: Statistics South Africa

Employment has been in decline. The trend of employment loss in the wake of liberalisation in the 1990s seems to have been compounded by reduced competitiveness caused by the depreciation of the exchange rate in the 2000s. Employment figures for the clothing industry suffer from inadequate collection, and therefore vary according to source. The government figures in table 7 below show the commencement of a decrease in employment which has been associated with the National Party's Structural Adjustment Programme of 1989 (Altman 1993; Van der Westhuizen 2002).

Table 7: Formal employment in the clothing industry 1988 – 1992

1988	1989	1990	1991	1992
134163	127750	120524	114300	107028

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

Table 8 below shows employment at a higher level in 1997 than in 1992, and then a trend of steady decline from 1997 onwards. However, this data is generated by Statistics SA, and does not correspond with the reported number of jobs lost. In all, 36 863 formal jobs were lost between 1995 and 2001, and a further 37 723 formal job losses between 2002 and 2005 (Clothing Federation of South Africa 2001 in Western Cape Investment and Trade Promotion Agency (WESGRO), 2002: 9; Clothing Trade Council of South Africa, 2005: 19).

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6 Statistics on clothing not available separately.

Table 8: Formal employment in the clothing industry 1997 – 2004

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

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

Statistics SA figures also differ from those emerging from firms registered with the education and training authority of the sector, which put employment at a total of 124 037 in 2005. This number represents employees working for organised employers, which did not include informal employers at the time of the formation of the SETA at the end of 2004. Barnes (2005: 4) attempted a calculation by using the formal and. informal clothing sector employment figures in the September 2003 Labour Force Survey and the formal employment figures of Statistics SA which delivered a total of 158 879 jobs. The variations may be explained by fluctuations in employment, problems with the registration of workers, and increasing informalisation and may only be resolved through more accurate data collection.

Another factor influencing the decline of the industry, aside from the inability to cope with legitimate imports, include the dumping of illegal goods on the South African market through undervaluing or not declaring goods. Indications are that large quantities of goods have entered the country from the Far East and the Southern African Development Community (SADC) without duties being charged (Bennett 2003: 9; CloTrade 2005: 16). Difficulties have been encountered in rooting out the problem because of corruption and a lack of capacity and resources in the customs administration (Bennett 2003: 9).

Lastly, table 9 below shows that labour productivity has improved substantially, which is good news in a sector notorious for low productivity and absenteeism.

Table 9: Employment output ratio (Employees per Rm)

1997	1998	1999	2000	2001	2002	2003	2004
11.78	10.48	10.73	9.35	8.93	7.56	6.79	6.26

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

3.1 Government support

The clothing and textile sectors were collectively earmarked by 2002 as part of the President's Growth Strategy, and the Department of Trade and Industry's Trade and Investment South Africa (TISA) division focussed on the combined sectors as among those sectors with the 'greatest' growth potential. The DTI contends that the clothing industry has enjoyed 'sustained and extensive protection relative to other sectors', and has had sufficient notice and support to adjust to global exposure. Examples are the Duty Credit Certificate Scheme (DCCS) and the comparatively high tariff applicable to clothing. Reorientation towards export markets has partly been enabled by the government's Duty Credit Certificate Scheme (DCCS), an incentive programme launched in 1993 and aimed at boosting manufacturers' export production through providing customs duty rebates on imported inputs to such manufacturers. It has come to be regarded as non-compliant with WTO rules, according to which such support measures are disallowed subsidies. The DCCS is also politically sensitive because it came to be used as a cost input by uncompetitive manufacturers (Interview 5; 13). Manufacturers reportedly 'sold' their certificates to retailers who then used the certificates to import apparel (*Business Report*, 2/2/2005), which translates into imports being boosted with an instrument aimed at aiding exports.

The DCCS was to be replaced with an Interim Clothing Industry Development Scheme while a new scheme would be devised as part of the government's Customised Sector Plan (CSP). A CSP was developed and agreed upon by mid-2005 by the industry, government and SACTWU but a subsequent revision provoked controversy as the industry felt excluded by government and SACTWU. The agreed-upon, pre-revision CSP contained the following actions:

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

The subsequent revisions rendered the CSP less ‘biased’ towards business, and included an emphasis on black economic empowerment, while excising mention of the interim scheme to replace the DCCS. The next section looks at restructuring in the industry, the social effects thereof, and whether export production has provided relief though employment creation.

4. Industry adjustments and social consequences

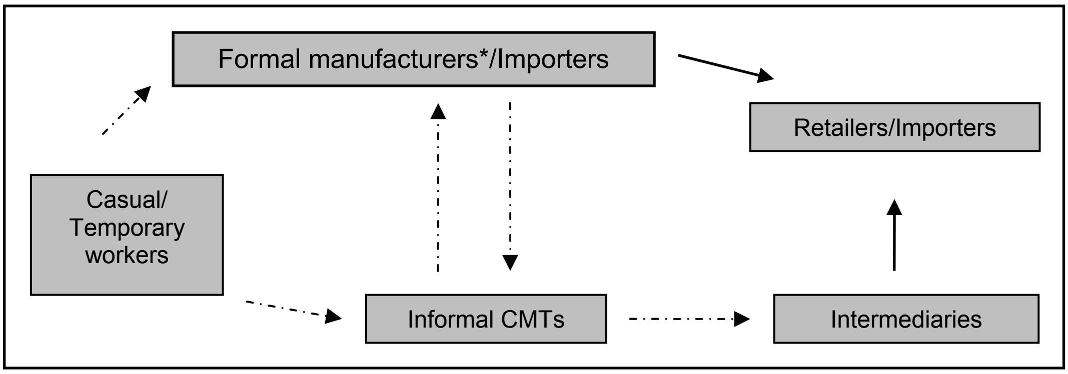
Cheap imports caused a price deflation within the industry, a phenomenon witnessed across the world. As elsewhere, it forced adjustments in the South African industry, especially by manufacturers, as buyers now had the choice of imported goods at lower prices, and manufacturers were therefore competing with such goods, as well as goods from the rural areas and from CMTs. Up until the beginning of the 1990s, decentralisation was sufficient as a strategy of flexibility. However, global exposure forced new strategies similar to what had been witnessed elsewhere as the world. Globally, as a counter to ‘stagflation’, post-Fordist production methods were being adopted, such as ‘flexible specialisation’ (Sabel and Piore 1984 in Green 2003: 38). This encompasses ‘a system of batch production of differentiated, higher-value products’ driven by design and marketing (Gibbon 2002: 11). South African clothing producers had to catch up with the demands of niche marketing, which include shorter lead times and smaller production runs and therefore require smaller, more flexible production units. The flexibilisation strategies have been:

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

4.1 Downsizing, outsourcing and CMTs

While Cosatu’s Industrial Strategy Project of the early 1990s (Altman 1993: 49-65) proposed the flexibilisation of production through reorganising the production line to enable short-cycle manufacturing and ‘quick response relationships’, companies opted for the externalisation of the labour function. In South Africa it has entailed the same actions as elsewhere: factories are replaced by networks of informal producers in coordinated clusters which are connected with the formal economy through subcontracting (Castells and Portes 1989: 29-30). As can be seen in chart 1 below, these processes have inserted three new links in the clothing value chain: casual and temporary workers; the subcontractors or Cut, Make and Trims (CMTs); and the intermediaries. It has also led to changes in the functions of other links, with some manufacturers and retailers adapting themselves to become importers.

Chart 1: The SA clothing value chain



*Formal manufacturers include formal CMTs. (Dotted lines indicate informal links.)

CMTs are frequently small, household-based clothing manufacturers which are set up in one of two ways: either retrenched workers are set up with equipment in the household by erstwhile employers, thus creating CMTs (Interview 3; Van der Westhuizen, 2005: 345), or retrenched workers start CMTs as a survival strategy to 'put food on the table' (Van der Westhuizen, 2005: 347; Interview 3). CMTs with more than five workers have to formalise by registering with the Clothing Bargaining Council, and are therefore bound by collective agreements on conditions of employment. CMTs provide the flexibility that the large factories deem 'too expensive' (Interview 2), due to set structures and factory floor organisation. CMTs can easily replace one 'style' with another because of flexible production lines. At large factories it would be too costly, in terms of production time, to switch 'styles' mid-production (Interview 1). The CMTs fulfil this function most strikingly in cases where a large manufacturer receives urgent additional orders from a retailer in response to good sales of particular garments (Interview 3).

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

Table 10. An overview of the CMT sector

	No. of workers	No. of CMTs	Annual turnover	Annual income	No. non-compliant (National BC)	Variations in wages (Nationally)
Metropolitan W Cape	3—40	>154 (2002)	----	R144 000		
Metropolitan KZN	Typically spread between 5-150; up to 300	500-600 (2005)	R600 000-R5m	----	>877 employing 24 000 workers	Between R50—R450 per worker per week
Rural KZN	Ave 200		----	----		

Sources: (Interviews 3; 9; 12; Van der Westhuizen, 2005: 342; Mail and Guardian). Figures for 2005 unless stated otherwise.

As table 10 shows, CMTs vary considerably in terms of income and number of workers. They also tend to have fewer workers in the Cape Town area than in KwaZulu Natal, which reflects the historical differentiation between higher quality production of smaller orders in Cape Town and mass production of lower quality items in KwaZulu Natal. Broadly, CMTs in Cape Town can be divided into three categories on the basis of number of workers. Well-established CMTs of 20-45 workers are able to secure orders more regularly and pay higher wages; medium-seized CMTs of up to 20 workers are more precarious with less orders and lower wages; and the survivalist operation, with between three and five workers, struggles to complete orders on time and therefore lose payments and suffer cancellations. These CMTs operate from residential premises with the well-established ones in separate rooms built onto houses while the smaller ones operate from lounges, kitchens or garages. In KwaZulu Natal, metropolitan CMTs can employ as little as five workers, going up to 150 workers while a handful employ up to 300 workers. In the non-metropolitan areas of the former Qwa Qwa, CMTs employ up to 200 workers (Interviews 3; 9; 12; Van der Westhuizen, 2005: 342).

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

The primary problem associated with the rise of CMTs relates to the vague notion of ‘flexible specialisation’. In reality, CMTs are cut-throat operations which cannot afford the necessary investment to become competitive in the long run. CMTs are undercapitalised, which means that little or no capital is made available for technology or skills upgrades. The latter is necessary in the context of deskilling, as the older generation of machinists who gained their skills through training in protected factory environments during the 1970s and 1980s are fast fading away. With them go the skills that made the South African clothing work force competitive in quality, upper-end apparel markets (Interview 7). Whether the industry’s future lies in niche markets or mass production, CMTs in their current state cannot on the whole produce competitively for either of these markets.

4.1.1 The other links in the clothing value chain

Apart from the manufacturers, large and small, the other actors that can be identified since the mid-1990s are the retailers and intermediaries/design houses. As the clothing value chain is regarded as a buyer-driven chain, the retailers are locally and internationally the most important actors in the clothing value chain. Power is located at the end of the pipeline as the retailers determine the orders and the prices, causing surpluses not to be distributed through the pipeline but concentrated on the retail end, a situation which has become more entrenched during the 1990s and first half of the 2000s (Altman 1993: ii; 15; Van der Westhuizen 2005: 345, 351). The market in South Africa is dominated by a handful of large companies on which manufacturers have been dependent, and which have shown large increases in sales from 20 to 30 percent between 2004 and 2005 (www.dti.gov.za/news, 23/7/04; *Business Day*, 13/7/05). The largest of the retailers, Edcon, improved its headline earnings with 76 percent between 2004 and 2005 (www.edcon.co.za), in a context of lower interest rates and a consequent boom in retailing since 2003. Retailers insist that they are strong supporters of local manufacturers, having ‘grown’ the local industry (*Business Day* 13/7/2005). Importing is regarded as ‘a headache’, which is why the large retailer Truworths imports only what cannot be produced locally (Interview 6). However, visits to retail stores stacked with imported items from especially China show that retailers have been growing sales on the back of imports. This is confirmed by the doubling of import volumes since the mid-1990s, as seen in the figures in Table 3 above.

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

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

4.2 The social effects of clothing trade liberalisation on women

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

Table 11: Re-employment rates for workers retrenched between Sept 1997 and Sept 2000

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

Source: ESSET 2003: 28

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

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

Moreover, women's employment loss can be devastating in poor communities as the effects are felt beyond the individual worker who loses her job. Studies in developing countries have shown women to be essential for the maintenance of livelihoods in poor families given that they are more likely to spend their income on the needs of other family members and children in particular (Momsen 2001: 1, 2; Page 2004: 8). In South Africa, the lack of economic opportunities for the poor majority means that livelihood options are diminished to desperate actions such as begging for food from neighbours, creating a snowball affect in which whole communities have to absorb the impact of job losses in the clothing sector (Van der Westhuizen and Deedat 2003). Studies have shown differential effects on family members according to gender, with women and children bearing the brunt of employment loss. Unequal power relations in the home ensure that the employed male partner's standard of living is frequently not affected by the female partner's job loss, as the consequences of the woman worker's job loss are off-loaded onto her and her children (ESSET 2003: 14, 36).

Respondents in this study indicated that clothing workers in metropolitan areas support at least four dependants, while those in non-metropolitan areas support at least six dependants. In Newcastle in the KwaZulu Natal hinterland, unemployment stands at 60 percent which explains the higher number of dependents per worker. Other studies have found higher numbers of dependants of clothing workers in urban areas, as can be seen in the table below. The rate of absenteeism in the clothing industry, which is notoriously high (7 percent), is ascribed to the social problems with which these women have to cope, including being the sole breadwinner, alcoholism, drug abuse, domestic violence, gang violence and women's continuing role as the caregiver within the household. These pressures increase after retrenchment.

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

Table 12: Profile of retrenched clothing workers

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

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

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

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

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

In sum, the invisibility of CMT workers ensures they have little bargaining power, causing these workers to be subjected to unhealthy working conditions, including long hours; inconsistent or no payment for work rendered; and no social insurance. CMT workers absorb the costs of the seasonality of clothing production, earning less money or even no money in cases where workers fall prey to fly-by-night operations. In survivalist operations the conditions are the worst, as unemployed family members render unpaid work to 'help out' and children in the household are drawn in to supply labour. Working conditions are unhealthy and unsafe, with inadequate ventilation and unsafe electricity supply and machines (Van der Westhuizen 2002). Therefore, the social costs of restructuring are not only absorbed by the women who used to work in the industry but who, because of the adjustments, cannot find employment but also by their families.

4.3 Export production as employment creator?

The question that arises in the context of a study on trade and poverty is whether export production could boost employment creation. The South African clothing industry is comparatively unusual, as it supplies both the domestic and foreign markets. Market share has been lost to imports, as the latter went up from 7 percent of domestic consumption in 1995 to 20 percent in 2002 (South African Standardised Industry Database, Quantech). Re-orientation towards export production has been strongly espoused, and backed up by government support, but only companies able to attain economies of scale or to access niche markets have been successful. Exports in rand value doubled between 1995 and 2000 and increased by another 50 percent by 2003 only to suffer a setback with the appreciation of the currency. In 2004, export fell back to below 2002 levels (see table 3 in section

3 above). A number of clothing manufacturers had been exporting apparel to the US and EU markets for a substantial period of time, some having started during the apartheid years. The numbers have been disappointing, however, with about 150 exporters out of a total of 2000 clothing manufacturers registered with the Sector Training Authority (SETA) (Interview 13).

The potential for export growth was arrested with the appreciation of the rand, resonating with Culpeper's assertion that 'greater openness may be associated with greater volatility and economic shocks, for example, through capital surges or shifts in the terms of trade' (2005: 11). Vulnerability to such volatility is especially true for developing states pursuing policies of economic openness, as the financial crises of the past decade in Latin America and South East Asia have illustrated. In South Africa, the currency's movements have greatly affected the ability of manufacturers to export competitively, which has translated into job losses. It has also meant that the potential for export manufacturing to create jobs has not been realised, meaning that workers that have lost their jobs have not been re-absorbed. This bears out Culpeper's statement (2005: 11) that '[v]olatility…tends to affect the vulnerable and the poor the most'. Established companies which are large job providers have experienced setbacks because of the rand's appreciation. The largest clothing manufacturer in Southern Africa, Seardel, reported that its clothing exports dropped by 53,5 percent from 2003 to 2004 as a result of the stronger rand, accounting for 9,2 percent of total revenue in 2004 as opposed to 19,9 percent in 2003 (Seardel Interim Report 2004). Its woes continued as its headline earnings per share decreased by 30 percent between 2004 and 2005 (*Business Report*, 23/8/2005). Examples of mass production manufacturers who closed down because of the turn in the rand are (1) several large KwaZulu Natal CMTs (with around 300 workers each) which exported jeans to the US until the rand turned (Interview 9); (2) a foreign investor withdrawing in the wake of the rand's appreciation after setting up a large factory in Atlantis near Cape Town to produce jeans for export (Interview 1). Only a 'small percentage' remains of those exporters who in 2001-2003 had been exporting on the back of the then weaker rand (Interview 2).

Moreover, the preferential access to the US market afforded by the United States' Africa Growth and Opportunity Act (AGOA) did not compensate for the currency's strength. As can be seen in the table below, South African exports have fallen substantially since 2003, while exports from other AGOA signatories have continuously been rising. While the year-to-date figures for 2004 and 2005 are lower for AGOA exports overall—possibly reflecting the end of the Multi-Fibre Arrangement—South Africa's figure for 2005 is almost 50 percent less than that for 2004. While the currency is not the only factor in the decline of exports under AGOA, it shows that a setback such as a stronger currency in conjunction with another factor, such as poor textile supply, can cancel the viability of exporting. The AGOA triple-transformation rule—not only fabric but also yarn should be sourced from either the US or signatory states—has prejudiced South Africa and Mauritius which do not enjoy lesser developed status under AGOA such as Kenya.

Table 13. South African apparel exports and total Sub-Saharan African apparel exports to the US market under AGOA

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

Source: US Department of Commerce, www.agoa.info (Year-to-date = until July of each year)

As has been seen, export growth has not been able to alleviate the employment crisis as its fortunes turned with the appreciation of the rand. The other reasons for sluggish export growth have also been discussed. Export growth can still contribute to job creation and therefore poverty alleviation but the problems need to be addressed first. The following section provides recommendations for the restoration of the industry.

5. Conclusion

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

1. Regarding the workers, trends of informalisation have pushed thousands of women into precarious existences, and with that their families and communities as women play a pivotal role in the social reproduction of such communities. In cases where workers can find no work evidence points to impacts such as reduced food consumption in the household; the withdrawal of children from education; and the increase in social ills such as alcoholism and drug abuse. These developments in the wake of employment loss in the clothing industry is especially of concern because it means more people have joined the ranks of the already numerous poor communities in South Africa, the country with the second highest Gini coefficient in the world. With a view to welfare interventions in the affected communities, detailed analysis is required to ascertain the needs of communities affected by employment loss in the clothing industry. With regard unemployed workers, analysis is needed to ascertain the absorption capacity of other sectors, such as the booming retail sector, with a view to retraining unemployed clothing workers if job opportunities should exist in those other sectors.

2. This study has concentrated on the poverty effects of employment loss in the context of trade liberalisation. The data indicates that clothing retail prices have been dropping, which would also have a positive effect on the poor as consumers of clothing. However, the findings of the ESSET study (2003) indicate that poor households have so little budgetary room to manoeuvre that 68 percent of households were spending less on the most basic budgetary item, food, after employment loss. This suggests that negligible amounts are available for spending on clothing in poor households. A study is necessary to ascertain the actual level of relief of lower clothing prices for the average poor household, as it depends on how much of a poor household's budget indeed goes towards clothing. This will vary according to poverty levels.

3. In those cases where clothing workers have found jobs in the informal sector in CMTs, such work is insecure and intermittent. In 2005, at least 24 000 workers were working in completely unregulated environments where CMT owners were not abiding by Bargaining Council regulations. CMTs' invisibility and 'up-and-go' status render their owners unaccountable to workers and regulators. While the argument can be made that any job is better than no job, the following aspects make CMTs in their current state a non-sustainable option from a socio-economic vantage point:

    - non-payment by fly-by-night CMTs;
    - deadlines set in such a way that they cannot be met, leading to a forced reduction in payment despite round-the-clock working hours;
    - abuses such as arbitrary setting of wages;
    - no coverage of the costs of personal or family illness—no medical aid, no sick leave—in a low income context;
    - unhealthy and unsafe working conditions;
    - unpaid work by family members 'helping out';
    - child labour.

While the pressures exerted by CMTs have decreased labour costs to manufacturers, the cost to workers and to society has increased, as shown in this paper's discussion of the social effects. CMTs have improved labour productivity, but so has the industry as a whole, meaning that other techniques exist to boost labour productivity, which in turn boosts international competitiveness. One illustration is the exporter Allwear in Newcastle, where innovations have been effected to improve worker morale and a sense of ownership in the work process while streamlining the production process. Such innovations should be further studied with a view to wider application.

CMTs could play an important role in clothing manufacturing and hence in job creation through production for niche markets, domestically and internationally. The Department of Trade and Industry and SACTWU regard production for international niche markets in value-added apparel as the future for the industry. This idea centres on design and marketing of niche fashion items for the international market, produced by flexibly organised factories that can accommodate frequent style variation and small orders. Such markets require flexible production units, such as CMTs, which can cope with quick turn-around times and short runs. Some machinists still have the necessary skills to produce for this market. However, in order to achieve this, investment is necessary to train new machinists; provide business training to owners; and provide access to seed capital and credit (Interview 9). CMTs suffer from a lack of business planning and access to capital, which result in poor decision-making while capital is so scarce that even repairs of broken down sewing machines cannot be afforded.

In return for assistance, those CMT owners which are currently resisting the BC agreements should slot into the regulatory environment and abide by such agreements. CMT associations argue that CMTs do not earn enough capital to cover all overheads (thread; needles; machines; transport; premises; telephone) *and* pay decent wages. In some cases—because of insufficient data one cannot say how many—the CMTs' underground status is abused to ensure that even in cases where sufficient profits are generated such capital does not find its way into further productive investment. Larger manufacturers argue that CMTs do not want to abide by BC agreements in order to gain an unfair advantage over the large manufacturers. The latter have more overheads to cover and also source their own fabric, the most expensive input in clothing manufacturing. Related to this is the issue of labour costs, alluded to above. It must be noted that many CMTs are in fact registered and are profitable while abiding by BC labour agreements[7]. The claims made by CMT associations should therefore be investigated more stringently to ascertain whether the difficulties arise from labour costs–which are exceedingly low in some cases, as seen in Table 10 above—or from poor business planning or from exploitative relations. In order for CMTs to become successful producers for niche markets, it needs to be kept in mind that such higher-end markets entail production of more intricate fashion apparel in constantly changing styles, and retailing at higher prices. Therefore, higher skilled workers are required, whose capabilities are regularly upgraded, and who would have to be remunerated in accordance with their higher skill levels.

The above shows that a comprehensive study of the CMT sector is necessary as no holistic picture exists. The number of CMTs and their operational needs should be objectively ascertained to debunk possibly exaggerated claims. A commonly accepted definition of a CMT should be developed as it is debatable that a factory with 300 workers should be regarded as a CMT.

4. From the side of large producers, it is argued that the sector will contract with another 60 percent if only the niche market option is followed, as such markets are so small and limited that only a few manufacturers would be able to access them. Large producers maintain that mass production for the international market is within the reach of the industry, provided certain changes are effected. Mass production holds with it the promise of mass employment, and therefore deserves serious investigation. Manufacturers identify the following advantages for South Africa as exporter:

    - Language compatibility with major target markets;

[7] As found in site visits by the author in 2002.

- Proximity to US market by ship;
- Infrastructure and communications far advanced in comparison to the rest of the continent;
- High labour standards can be utilised as marketing tool, given the improved consumer consciousness of ethical trade in the EU and US markets;
- While the skills of machinists may be in the process of being lost, there are enough machinists to provide South Africa with labour able to produce value-added fashion items;
- South Africa's design capacity is internationally competitive;
- Attraction of South Africa as tourist-friendly country to buyers and quality inspectors of US and EU companies;
- South African manufacturers' ability to provide full package services, which includes all functions from design to sourcing fabric to assembling to finishing, packaging and shipping.

Efficiencies are possible, because small retail orders from the US are substantial by South African standards, i.e. long runs of one style, for example for 200 000 units. Tern Sportswear, the largest exporter at 1,5 million garments per month, receives US orders of between 150 000 units and 1 million units. Tern's CEO, Alan Jarvis, attributes its continuing export performance to, among others, large volumes (E-mail correspondence). Those manufacturers that managed to retain their export market in the face of a strong currency were able to because of one of three factors: long-standing relationships forged over several years (House of Monatic; Seardel; Allwear; Tern Sportswear); or a strongly interconnected relationship with an overseas customer where fabric supply to the manufacturer is part of the deal, which alleviates the pressure of AGOA's onerous rules of origin (Lolita Clothing); or being vertically integrated with a textile manufacturer (Standard Textile Company and Tern Sportswear). Other factors should be examined, as large manufacturers still contend that competing in the international market is impossible without a weaker currency, preferential access such as provided under AGOA, and government support, as set out in the CSP of mid-2005. South African manufacturers should study the retail market in the US, target smaller retailers and embark on a concerted contact and relationship-building campaign to gain a slice of those markets.

5. At the local level, the most important step would be to reinstitute certainty in the industry. The long time lags in the finalisation of the CSP encumbered exporters' business planning, as orders in the international markets work on six-month cycles (Interviews 5; 11). The uncertainty exacerbated the threat of losing long-standing relationships and market space, which would take a long time to re-establish (Interview 10). Respondents pointed out that the signals from government about the future of the industry have been confusing and have strengthened perceptions that government regards the industry as a 'sunset industry', or that the industry is being sacrificed for the political objective of belonging to the WTO (Interview 1). This has contributed to the problem of low levels of new capital flows into the sector and the failure of the industry to attract 'new blood' in the form of young professionals and engineers, leading to the depletion of management and industrial expertise (Interview 7). This is compounded by the historical reality of clothing manufacturing being dominated by conservative, risk-averse family businesses, as well as the related problems of a 'lack of creativity, entrepreneurship, vision and leadership', and the inability to adapt to changing global dynamics (DTI 2005). This has led to minister of finance Trevor Manuel calling on the industry to become innovative, rather than copying others (*Business Day* 26/11/2004).

6. Black Economic Empowerment (BEE), which has been included in the revised CSP, may be the way to attract innovative individuals and new capital into the industry. While BEE *per se* would not necessarily improve efficiency, other factors come into play. Through BEE, individuals may be attracted who hail from communities historically dependent on the clothing industry and who are therefore concerned about the clothing manufacturing's social function as a labour-intensive industry. An example is House of Monatic's takeover of Rex Trueform's Salt River factory in 2005. The factory was being closed due to profitability considerations. However, BEE company Brimstone Investment Corporation (which owns House of Monatic) stepped in to save Rex Trueform partly in the interest of 'job security for our community', according to its CEO Fred Robertson (*Cape Business News* 1/7/2005). Brimstone was planning a 'mechanism' to accommodate clothing entrepreneurs as part of the revamping of

Rex Trueform, which may provide opportunities for new entrants. This holds the possibility of building economies of scale. BEE measures could also activate the necessary government support for newcomers (Interview 1) and address the persistence of apartheid-era labour relations. As the DTI has remarked, employers continue to regard workers as merely another 'input in the production process' and should rather approach them as partners in business (DTI 2005). BEE deals in which workers gain ownership in clothing companies will address this problem. The fashion business has already benefited from the arrival of new talent after the demise of official apartheid, leading to an explosion in fashion shows and the development of fashion districts in Johannesburg and Cape Town. This holds promise for niche market production for domestic and international consumption.

7. Another factor at the local level is the cost of doing business in South Africa compared with its competitors. These differentials include lower inflation and lower overhead costs, such as electricity, transport in trading partners. Municipal rates in South Africa have also been escalating (Interviews 7; 10), translating into another unnecessarily costly input for the embattled industry.

8. At the regional and local levels, an important factor constraining growth is access to textiles, cited by a number of respondents (Interviews 1; 4; 10). Competitiveness in the world market demands ready access to a reliable supply of a variety of quality textiles. The chronic underinvestment in the textile industry has led to a 1998 estimation that R3 billion to R10 billion over 5 to 10 years may be necessary to modernise and add capacity in spinning, weaving, finishing, dyeing and printing in South Africa (USITC 2005: K-42). A short term response to address the issue of textile availability would be to lower tariffs to make textile imports more affordable. However, in terms of the clothing and textile industries' combined 2014 vision, as expressed in the Customised Sector Programme (CSP), commitment has been made to re-capitalise both industries and thereby aid vertical integration. The AGOA rules of origin would have been considerably less of an obstacle if South Africa enjoyed higher levels of vertical integration of its clothing and textile industries (Gibbon 2002: 4). This would also fit in with a longer term strategy to approach the development of the clothing and textile industries from a regional perspective. The government, trade unions and clothing and textile producers agree in the CSP that textile production for export to the rest of the region is a priority. Despite its problems, South Africa remains the country with the best textile production capacity in a region notorious for textiles which are sub-quality, unreliable and production which suffers from insufficient volumes, long time lags and limited variety. South African clothing manufacturers regard regional integration as essential for growth with some contending that Africa could in the longer term become the next low-cost world producer of clothing as Asian countries diversify away from the industry. In Japan, Taiwan, Korea, Hong Kong, and Singapore clothing manufacturing served as a stepping stone industry toward export-oriented economic development. Zambian producers have also made arguments for vertical integration on a regional scale. Zambia is a cotton producer with good spinning capacity and the potential for growth if the necessary investments are made (Mtonga and Chikoti 2002: 3). As yet, no country in the Southern African Development Community is competitive at every production stage of the textile and clothing supply chain. The production and value-adding steps in this supply chain require 'different resource investments in capital, skills and capacity building…and different markets have different competitive requirements for price, response time, product quality, the variety of products, and order delivery size' (Chemonics International 2004: 3). SADC is a net exporter of cotton of about 145 000 tons per annum which, if utilised in the sub-region, would go a long way in supplying fabric for AGOA exports (Chemonics International 2004: 6). In order to go the regional route, a regional industrial policy is needed.

9. At the global level, bilateral and multilateral engagement (the latter in the World Trade Organisation) constitutes another essential strategy in creating breathing space for the industry's recovery. In this regard, the government's negotiations with China about clothing imports seemed outdrawn. While the sensitivity of such negotiations is appreciated, such processes should be handled as swiftly as possible. Similarly, exporters argue strongly that the South African government should engage the US government to modify the highly constraining rules of origin in AGOA. This is after the Mauritius EPZ Association made a submission in 2004 to the US House of Representatives, asking for a special dispensation to

access third country textiles, a request which was granted. Namibia and Botswana received similar concessions in 2002. Secondly, regarding the arrangement of trade promotion trips, respondents in the study criticised previous trips as being poorly organised in terms of meeting the correct people and utilising time efficiently, causing despondency about such trips from the industry.

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Interviews

Interview 1: Verne Manne, clothing factory owner, Atlantis, Western Cape; 22 August 2005
Interview 2: Gert van Zyl, Director: Cape Clothing Association; Cape Town, Western Cape; 23 August 2005
Interview 3: Ziyad Ally; CMT owner and chairperson of the CMT Employers' Association, Mitchell's Plain, Western Cape; 24 August 2005
Interview 4: Jack Kipling, President: Clothing Trade Council of South Africa (CloTrade), Cape Town, Western Cape; 24 August 2005
Interview 5: Kevin Williams, Lolita Clothing factory owner, Cape Town, Western Cape; 25 August 2005
Interview 6: Tony Taylor, Deputy Managing Director, Truworths Cape Town, Western Cape; 25 August 2005
Interview 7: Brian Buckingham, Managing Director, House of Monatic, Cape Town, Western Cape; 25 August 2005
Interview 8: Johan Baard, Divisional Director, Trade and Industry, Seardel Investment Corporation, Cape Town, Western Cape; 26 August 2005
Interview 9: Cyril Govender, Chairperson CMT Employers' Organisation, Durban, KwaZulu Natal; 5 September 2005
Interview 10: Keith Robson, Head: Corporate Affairs, SA Clothing Industries, Durban, KwaZulu Natal; 5 September 2005
Interview 11: Jan Henk Boer, Divisional Managing Director, Allwear & Markstan, Newcastle, KwaZulu Natal; 6 September 2005
Interview 12: Danie Roux, Representative of the Confederation of Associated Employers of Southern Africa (CAESA), Johannesburg, Gauteng; 7 September 2005
Interview 13: Paul Theron, Manager: Textile and Clothing Customised Sector Programme, Trade and Investment South Africa, Department of Trade and Industry, Pretoria, Gauteng; 29 September 2005

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The Southern Africa Labour and Development Research Unit

The Southern Africa Labour and Development Research Unit (SALDRU) was established in 1975 as part of the School of Economics. SALDRU conducted the first national household survey in 1993 (the Project for Statistics on Living Standards and Development). More recently, SALDRU ran the Langeberg Integrated Family survey (1999) and the Khayelitsha/Mitchell's Plain Survey (2000). Current projects include research on public works programmes, poverty and inequality.

The Trade and Poverty Project

South Africa is currently engaged in various trade negotiations at the multilateral, regional and bilateral level. The net impact of the resulting trade reforms should be to contribute to growth, employment and raising average incomes. But this net impact conceals a range of differential effects: the benefits of reform do not accrue automatically and equally to all households or communities, and in some cases poverty and unemployment may rise. Policy makers need to be aware of these different effects and implement trade reforms in a way that maximizes the benefits for the poor.

The objective of the South Africa Trade and Poverty Research Project is to analyse the impact of specific trade reforms on poverty in South Africa. The project includes a number studies that explores various linkages through which trade reform affects prices, consumption, production, and employment. These studies fall under 5 broad sections:

1. Review of trade and poverty in South Africa
2. Industry level analysis of trade, enterprise production and employment
3. Household level analysis of trade and poverty
4. Sector specific analysis and case studies
5. Policy simulations

The project is funded by the Department for International Development (through the Trade and Industrial Policy Strategies and the RTFP), USAID and the Department of Trade and Industry. All papers can be accessed via the project home page:

http://www.saldru.uct.ac.za/saldru_trade&poverty.html.