A Strategic Assessment of the South African Clothing Sector[1]

For
The National Economic Development and Labour Council (NEDLAC)
29 July 2005

By
Dr. Justin Barnes
BA Hons, MSocSci, PhD (Natal)
Managing Director
Benchmarking and Manufacturing Analysts SA (Pty) Ltd

Benchmarking & Manufacturing Analysts
1st Floor, 8 Old Main Rd, Hillcrest 3610
PostNet Suite #10139, Private Bag X1005, Hillcrest, 3650
South Africa
Tel: +27 (0) 31 765 3870, Fax: +27 (0) 31 765 3873
admin@bmanalysts.com
www.bmanalysts.com

---

[1] Please note that this document represents an update of a report compiled for Trade and Industrial Policy Strategies, and that was presented at the Presidency/ComMark Sector Workshop on the 26th of November 2004.

Contents

Introduction....3
1. Overview of sector trends....3
2. Analysis of sector dynamics....5
3. Market and trends....6
4. Global and local policy framework....9
  4.1. Multilateral agreements....9
  4.2. National government policy....9
  4.3. Provincial government support....10
5. Constraints and challenges....11
6. Industry opportunities....11
Appendix A: Recently completed research on the South African clothing industry...15

Tables and figures

Table 1: TIPS data on the clothing sector (SIC313-5), 1994-2003....3
Table 2: A comparison of the Western Cape and KwaZulu-Natal clothing sectors....5
Table 3: Selected average comparative competitiveness indicators for the clothing industry (2004)....8
Table 4: Hourly labour costs - A comparison of selected countries, 2002....11
Table 5: Strategic themes and Key Action Programmes (KAPs) identified through the CSP....12

Introduction

This document has two objectives. First, it endeavours to capture the domestic clothing sector's major market and production trends, as well as broader dynamics. Second, these foundational elements operate as a mechanism to identify current clothing sector constraints and opportunities and hence the need for, and the importance of, policy related interventions. Given its objectives, the document comprises six sections. Section 1 provides an overview of the sector's major trends as gleaned from TIPS data, whilst Section 2 reviews the sector's structure in respect of various criteria. Section 3 explores market trends and competitiveness related issues, with Section 4 then exploring the international and government policy framework in which the industry operates. Section 5 attempts to synthesise the constraints and challenges confronting the sector, with Section 6 then considering the policy implications and opportunities arising from the analysis. These last two sections represent the core of the document insofar as they build on the findings generated out of the 2004 TIPS study (out of which this document is largely derived), and present the major strategic recommendation to have emerged out of the recently completed CSP research undertaken by B&M Analysts on behalf of ***the dti***.

1. Overview of sector trends

TIPS data, as presented in Table 1, shows that the South African clothing sector has performed poorly. By comparing the average of the indicators for the period 1994-8 with the average for the period 1999-2003, it is clear that the sector's performance has deteriorated. In particular, there has been deterioration in real value added at basic prices (10.4%), real exports (4.4%), employment (0.6%), output per employee (11.9%), remuneration per employee (6.8%) and gross mark-up (7.8%). Interestingly, both exports and employment increased (by 1.8% and 1.1% per annum respectively) from 1994 to 1998, but declined (by 8.0% and 1.1%) from 1999 to 2003, while real value added declined consistently over the two periods. Real output per employee declined from R67,935 to R60,716 between the two periods, whilst remuneration per employee also fell (from R18,935 to R17,224).

Table 1: TIPS data on the clothing sector (SIC313-5), 1994-2003[2]

	1994 - 1998				1999 – 2003				Avg. change (%)
	Weighted	Not weighted	% Contribute	Avg. for period	Weighted	Not weighted	% Contribute	Avg. for period	
Weighted annual average % change*									
Value added at basic prices	-1.43	-1.1	0.6	3,125	-0.39	-0.95	0.48	2,799	-10.44
Final output-Exports of goods/services	1.75	0.91	0.69	928.86	-7.99	-7.03	0.54	888.18	-4.38
Employees	1.1	0.86	1.73	135,579	-1.11	-1.14	1.18	134,815	-0.56
Average over the period*									
Employment output ratio: Employees per Rm				14.72				16.47	11.89
Remuneration per employee (Rand)				18,482				17,224	-6.81
Gross markup**-Current prices				7.61				7.02	-7.75
GDFI*** output ratio-Current prices				0.02				0.03	50.00
Fixed capital stock output ratio-Current prices				0.11				0.13	18.18
Export-output ratio-Current prices	10.18	9	1.34	11.27				19.97	77.20
Import leakage****-Current prices				11.65				11.41	-2.06
Imports-domestic demand ratio-Current prices				10.26				9.11	-11.21
Weighted annual average % change									
Labour productivity index				-2.64				0.67	125.38
Fixed capital productivity index				-4.20				0.60	114.29
Multi-factor productivity index				-2.70				0.58	121.48

Source: Tips – South African Standardised Industry Database

Note: *Rm at constant 1995 prices, unless otherwise stated, **Gross operating surplus ratio, ***Gross domestic fixed investment, ****Intermediate imports ratio

In contrast, there has been an improvement in the GDFI output ratio, the fixed capital stock output ratio and productivity indicators between the two periods. Although the GDFI output

[2] Table 1 includes SIC 313-155. SIC 315 captures 'dressing and dyeing of fur, and articles of fur'. This category is usually excluded when analysing apparel. Most of the subsequent data comparisons thus exclude SIC 315. It accounts for less than 1% of the total, making its inclusion/exclusion insignificant.

ratio grew by 50%, this growth in investment was from only 0.02% to 0.03% of output. Average fixed capital stock similarly grew from an extremely low 0.11% to 0.13% of output (or 18.18%). Over the 1994 to 1998 period, the average productivity of labour, fixed capital and multi-factor productivity were all exceptionally low, with less than zero units of output produced by each. For the 1999 to 2003 period, the productivity index for each indicator was positive, although still low. Labour productivity reached an average of 0.67 units of output per employee, fixed capital productivity rose to 0.6 units and multi-factor productivity improved to 0.58 units.

Regarding imports and exports, Table 1 shows an increase in the export-output ratio, import leakage (the amount that is imported to satisfy local demand) and the import minus domestic demand ratio (import penetration). The data show that exports increased from 11.27% to 19.97% of output over the 1994-8 to 1999-2003 period, whilst imports as a proportion of local demand declined from 10.26% to 9.11%. In summary, the performance of the sector over the two periods under review has been poor. Not only has real value added and real exports declined, so has employment.

These overall trends (although not the absolute values) are supported by additional statistics from Statistics South Africa and ***the dti*** database. According to these data sources nominal clothing sales increased from R10 billion in 1995 to R13 billion in 2003, but the real value of sales actually declined from R11.8 billion in 1998 to R10.4 billion in 2003, a 12% decline. Employment in the clothing industry has followed a volatile, negative trend, falling by 11.5%, from 125,181 employees in 1994 to 110,739 in mid-2004 – a loss of 14,442 jobs. However, it is important to note that official statistics are likely to underestimate total clothing industry employment due to the large number of informal, micro and home industries that are not captured. Based on the proportional breakdown of formal versus informal clothing sector employment in the September 2003 Labour Force Survey and then extrapolating this across to formal employment levels as indicated by Stats SA, we estimate total clothing employment to be 158,879. In contrast to the data presented in Table 1, output per employee levels calculated using Stats SA data also provides a higher average of R80,001 per employee for the 1999 to 2003 period, and an annual average growth of 3.48%, reflecting a positive trend.

The clothing sector performs well in terms of capacity utilisation, with average utilisation rates of 85% over the 1990-2003 period. Nevertheless, capital expenditure on new assets has been exceptionally low at an average 1.4% of sales from 1992 to 2002[3]. Although the clothing sector is labour-intensive, it is still necessary to invest in capital, technology and innovation to become internationally competitive, especially in light of the constantly changing global environment. Lastly, there has been an increase in the export propensity of firms, as well as an increase in import penetration. Although the industry's export performance has improved since the early 1990s, it remains modest, reaching 1.4% of total manufactured exports in 2003. Additionally, the demand for clothing is price elastic and therefore the recent appreciation of the Rand has resulted in a loss in export volumes. With regards to imports, the nominal value of clothing imports nearly tripled from 2000 to 2004, reaching R3.9 billion[4].

[3] Clothing sales was calculated using SIC 313-314, while capital expenditure data includes SIC 315. SIC 315's sales value is not available and capital expenditure data is reported in aggregate form, leading to a slight over-estimation of capital expenditure for the sector. Unfortunately, little appears to have changed since 2002 in respect of capital expenditure levels, with 27 firm-level benchmarks completed at Western Cape and KZN clothing firms in 2004 and 2005 revealing average capital expenditure levels of 2.4% of sales in 2003 and 2.6% of sales in 2004.

[4] If under-invoicing and the smuggling of garments into SA are factored in, the situation is likely to be far worse. According to the Textiles Federation of SA, the unit price of garments imported into SA declined from an average R21.43 in 2002 to R12.78 in January-June 2003. The value of official imports thus substantially under-represents the growth of import penetration levels into the domestic economy.

2. Analysis of sector dynamics

The South African clothing industry is concentrated in three provinces: Western Cape, KwaZulu-Natal and Gauteng. According to National Bargaining Council statistics, as of June 2004 there were 827 clothing firms in SA, with 327 located in the Western Cape, 239 in the Northern areas, 219 in KwaZulu-Natal and 42 in the Eastern Cape[5]. Nationally, the sector comprises a number of well-established large firms, SMMEs and home industries. There is also a large cut-make-and-trim (CMT) industry in the Western Cape and KZN that range from large, well-established firms to small home industries. In addition, many of the smaller enterprises form part of the informal economy. Similarly, there is a diversity of fabrics that are used across the provinces, ranging from natural fabrics to synthetics and synthetic mixes. However, higher value-added fabrics (e.g. wool) tend to be used mainly in the Western Cape. Even though the clothing sector is concentrated in only a few areas, primarily the Western Cape and KwaZulu-Natal, there are some major differences between the industries in these provinces, as outlined in Table 2.

Table 2: A comparison of the Western Cape and KwaZulu-Natal clothing sectors

Western Cape	KwaZulu-Natal
Firms are concentrated in the Cape Town metropolitan area	Firms are located in the metropolitan area of Durban and outlying non-metropolitan areas
The industry consists of full-line manufacturers and a large number of CMTs	The industry is mainly comprised of CMTs
Firms are subject to a comparatively higher cost structure e.g. wages	Firms are subject to a lower cost structure[6]
Firms produce mainly for the higher end of the market	Firms produce mainly for the lower end of the market and wholesalers
Most firms are South African owned	Many firms are foreign owned – Chinese, Taiwanese, Indonesian and Singaporean
Firms focus on domestic markets due to their higher value position and proximity to retail head offices	The industry's lower cost structure has meant that firms in this region have a greater export focus

The single most significant input into the clothing sector is fabric, which accounts for approximately half of the cost to produce a garment. This clearly ties the domestic clothing and textiles industries together, and even more so with various trade agreements stipulating rules of origin requirements for clothing exports (see Section 4). A constraint to the clothing industry is the shortage of domestically produced fabrics, as well as the limited variety of fabrics produced locally. These factors inhibit the ability of firms to meet the rules of origin requirements for exports under preferential trade agreements, and forces firms to import fabrics that are not produced locally. Furthermore, because these rules of origin tie the domestic textiles industry into the clothing production process, any weakness in the textiles sector has a marked impact on the success of clothing exports. A recent survey on the SA textiles industry[7] revealed that although the industry does have operational strengths, there are numerous competitive weaknesses that remain: Long lead times, poor delivery reliability and deteriorating quality performance. Without an efficient, supportive textiles industry, clothing industry expansion is constrained. Additionally, expansion in the export-oriented clothing

---

[5] The national bargaining council began to include non-metro area firms in their statistics from 2003, but this process has not yet been completed, and therefore these statistics are also incomplete.

[6] 'Grade A' employees can earn R611 a week in the Western Cape, but only R463 in KwaZulu-Natal. Although metro wage rates are the same for the two provinces, the high proportion of firms and employees in KwaZulu-Natal's non-metro areas gives it a low cost structure. In addition, non-metro firms do not have to provide sick leave or contribute to provident funds.

[7] This is based on a benchmark survey of 26 SA and three international firms. B&M Analysts compiled the survey for the Textiles Federation in 2004. Although the sample is small, the findings are strongly suggestive of the industry's performance.

industry should have a positive impact on the textiles industry – at least the part that supplies clothing production (about 48% of the SA textiles industry[8]).

Clothing is a labour-intensive sector, contributing 1.8% of overall employment in SA. Combined with textiles, it contributes about 13.4% of total manufacturing employment. As a result, overall employment is relatively large, while output per employee is low compared to more capital-intensive industries. Furthermore, the clothing sector requires a relatively unskilled labour force, with 82.2% of employment in the sector attributed to semi and unskilled workers, 13.4% to mid-level skill occupations, and only 4.4% to jobs requiring high-level skills. Nevertheless, there is a serious need to develop skills, particularly middle-to-upper management skills. Although the CTFL SETA through its Centres of Excellence programmes at the Durban and Peninsular Technikons, as well as Johannesburg University, support the skills base of the industry, these institutions are finding it difficult to secure sufficient support from industry to effect positive transformation. The clothing industry is particularly important to the economy because of its labour absorptive capacity and its ability to offer entry-level jobs for unskilled labour. However, the rapid pace of job losses is a major concern. According to a recent Western Cape clothing industry report (the Ralis report), if employment trends continue the sector will disappear by 2012. While this is clearly an overstatement, the general principle is correct: This is a sector the South African economy is slowly losing. Based on current trends we estimate that the two industries are set to lose between 50,000 and 75,000 jobs in the formal and informal sector over the next nine years.

A number of institutions support the SA clothing sector. However, these institutions are fragmented and often act as lobbying associations. Institutions include:

- **SACTWU:** Southern Africa Clothing and Textiles Workers Union
- **Clothing Manufacturers' Association (CMA):** Employers organisation that is the bargaining council partner to SACTWU
- **CMT Employers' Association:** Employers association in the clothing industry
- **Bargaining Council for the Clothing Industry:** Employer–employee regulatory council for the clothing industry
- **CloTrade:** The Clothing Trade Council of SA (previously Clofed) was formed in 2003 by clothing manufacturers to be the collective voice of members to interact with government and other stakeholders in respect of trade related matters
- **Industrial Development Corporation (IDC):** The IDC has a Textiles, Clothing, Leather and Footwear Strategic Business Unit that is committed to playing an active role in accelerating the development of this industry
- **Garment Manufacturers' Association:** Association of larger Western Cape CMTs
- **Clothing Industry Export Council:** An initiative of TISA to assist exporters. In collaboration with EMIA, it provides funding for initiatives such as trade missions and exhibitions
- **CTFL SETA:** Clothing, Textile and Footwear Sector Education and Training Authority
- **CSIR:** Supports clothing and textiles through, for example, the National Fibre, Textile and Clothing Centre, which promotes growth and global competitiveness of the South African textiles pipeline.

3. Market and trends

The liberalisation of the clothing sector internationally has been controversial due to its significant socio-economic contribution in both developed and developing countries alike. However, clothing manufacture in most developed countries has already severely contracted and changed its focus. For example, the US, EU and Japan are the largest consumers of

[8] The amount of textiles supplied into clothing as a proportion of textiles output is contentious. The SA Textiles Federation argues that the figure is 33%, but research undertaken by B&M Analysts indicates 48%. The difference appears to exist in the 'double-counting' of yarn sales to fabric manufacturers as textiles sales, when this fabric is then sold to apparel manufacturers.

apparel worldwide, but while there is still an important apparel industry left in Southern Europe, in the US and Japan 85% to 90% of apparel is now imported. The actual production of apparel has therefore moved away from developed to developing countries, with the commercial buyers that remain in the developed countries now controlling extended global value chains and becoming much more demanding. They insist on lower prices, shorter lead times and smaller minimum quantities, with this directly linked to the increasing sophistication of consumer markets in developed economies, as well as increasing market segmentation. The result of this is that as markets become more differentiated and fashion changes become more frequent, so manufacturers need to improve their responsiveness in respect of meeting these buyers' demands.

The scale and scope of global clothing trade is illustrated by a number of important facts:

- Global clothing trade totalled $462 billion in 2003 and has grown at a compounded annual rate of 6.6% since 1990
- The US alone imported clothing worth $71.3 billion in 2003, up from $27.0 billion in 1990
- China and Hong Kong, which together totalled 33% of global clothing exports in 2003, increased their clothing exporting levels from $25.1 billion in 1990 to $75.2 billion

Given the scale of clothing production globally, it is important to note that the South African clothing industry was built up under isolation with the domestic market driving production. As such, it was never able to achieve scale economies. Furthermore, the industry was protected by an import substitution strategy and now that the economy is exposed to international competition it is comparatively inefficient, lacks capital, technology and innovation, and has high labour and management costs in relation to output. Liberalisation and the restructuring of the industry in the 1990s resulted in large decreases in employment, while productivity has increased through cost-minimisation and downsizing rather than production growth. Even the recent explosion in domestic retail sales amongst the major retail groups that dominate the clothing value chain has had limited impact on the sector due to the propensity of the retailers to import cheaper wearing apparel in an attempt to bolster their margins and market share. Moreover, whilst certain retailers appear to be guiltier of this approach than others, the trend is evident across all major retail groups. This is reflected in the fact that clothing imports increased 58% on 2003 levels through 2004.

Conversely, South African clothing exports have generally been modest and primarily to the EU and US markets[9]. The bulk of exports are basic, commodity items (such as T-shirts) produced because of preferential trade agreements that have provided South Africa with duty and tariff-free access, where competitor countries have generally been restricted. However, even under these conditions South Africa's higher cost structure means that firms have found it difficult to compete with low-cost competitors, such as China, India, Indonesia, Turkey and Pakistan. Furthermore, with the end of the Multi-Fibre Agreement (see Section 4) these countries will no longer be constrained, placing South Africa in a precarious position, unless it is able to upgrade and improve its competitiveness.

Table 3 presents data on selected competitiveness indicators, comparing the performance of the domestic clothing industry relative to a sample of international clothing, South African textiles and South African automotive component firms[10]. The data shows that not only is the

[9] South African clothing firms have been exporting to the EU (particularly the UK) for many years, but exports to the US are relatively new and as a result of AGOA. Most of the growth to the US has been in woollen and synthetic garments, rather than cotton, suggesting that SA's clothing industry is most competitive in these categories. However, the level of penetration into the US and EU markets remains negligible (e.g. only 0.36% of US clothing imports in 2003).

[10] Firm-level competitiveness data is collected on an ongoing basis by B&M Analysts as part of its coordination of the South African Automotive Benchmarking Club, Cape Clothing Cluster and the KwaZulu-Natal Clothing and Textiles Cluster Pilot Project. Statistics are based on data from 71

clothing industry faced with major international challenges, but that it also has inherent competitive weaknesses. For example, compared to the international firms, South African firms perform poorly in relation to output per employee and total inventory holding levels. Compared to the domestic automotive component firms' average, the clothing firms' performance is weak in relation to total inventory, customer return rates, domestic customer lead times, delivery reliability and absenteeism. Moreover, the data illustrates that the sector lags many of the comparative indicators by a significant margin. Positively, that there is substantial scope for firms to improve their performance and thus bolster their competitive position.

Table 3: Selected average comparative competitiveness indicators for the clothing industry (2004)

	SA clothing	**International clothing**	**SA textiles**	**SA automotive components**
Output per employee (Rand '000)	91.35	316.62	387.9	709.8
Total inventory (days)	45.83	37.22	66.90	40.40
Customer return rate (%)	0.49	0.09	1.90	0.07
Customer delivery reliability (%)	86.67	89.38	88.0	93.1
Absenteeism (%)	7.93	4.66	4.03	3.50

Source: B&M Analysts' databases as at 20/07/2005

If the sector continues along its current trajectory then it is probable that only a few firms will remain, employing a small number of people and servicing niche markets. In essence, SA will have lost the sector, resulting in the loss of thousands of jobs in an economy that already suffers from high unemployment. This will also impact substantially on other sectors, such as textiles and retail. First, if the clothing sector is lost, then the demand for nearly half of the textiles industry will also be lost which could result in the closure of more textiles firms and the loss of additional jobs. Second, despite the surge in imports, the retail industry still relies heavily on domestic clothing firms. If the domestic clothing industry disappears, retailers would become completely dependent on imports. This would lead to less flexibility, increased costs and greater price volatility due to exchange rate fluctuations, all of which would negatively impact on consumers.

Despite the concerning outlook, there are still numerous opportunities for clothing firms to explore:

- Specialised niche export markets to combat higher prices and longer lead times.
- Demand for apparel in growing middle-income countries is increasing at a much faster rate than their economic growth. Exports to these markets should be more fully explored.
- South Africa is not competitive in the manufacture of basic items, but is competitive in the areas of man-made fibres and woollen articles where US import duties are still high and where SA has the advantage of preferential trade agreements.
- The African export market could be more actively pursued.
- The development of an African brand could help boost exports, as well as sales into the growing domestic market.
- Clothing manufacturers could increase their supply into the local market by improving their relationship with customers and providing retailers with better responses, follow-up services and shorter lead times[11].
- Various existing and potential trade agreements (e.g. AGOA, US/SACU FTA, SA/EU FTA, SADC, Mercosur) not only provide export opportunities, but also create the potential for access to cheaper inputs, as well as technology.

---

automotive component firms, 26 textiles firms, 26 South African clothing and nine international clothing firms. Clothing sector data is thus not representative and therefore none of the findings are conclusive. The results are nevertheless suggestive.

[11] This opportunity is apparently supported by Steve Ross, CEO of Edcon, who was quoted in the **Business Day** recently (13 July 2005) as saying: 'Local clothing manufacturers can sell more goods to retailers if they model their operations on those of component suppliers to the automotive industry.'

4. Global and local policy framework

4.1. Multilateral agreements

Multi-Fibre Agreement (MFA): On December 31, 2004 the MFA came to an end and with it the termination of all quotas on textiles and clothing trade between WTO member states. This is likely to significantly affect the apparel industries in southern Europe, as well as those developing economies' apparel and textiles industries that have grown as a result of access to quotas, rather than genuine competitiveness. One of the major concerns is how China will behave after the removal of quotas. There is consensus that China is the nation that is most likely to benefit, with its clothing exports having already increased significantly since it joined the WTO in 2001, whilst it has the ability to produce a growing range of items, and has improved its capacity to meet international quality standards. In a quota-free world, experts predict that China's share of world clothing exports may double in less than five years. Along with India, China is therefore expected to dominate global production, with preliminary evidence from early 2005 confirming their threat. India's overall clothing and textiles exports increased 33% in January 2005, when compared against January 2004 figures, whilst China experienced an even more astounding 546% increase.

African Growth and Opportunities Act (AGOA): This is a US programme that allows certain non-reciprocal tariff preferences to 37 Sub-Saharan African (SSA) countries covering 6,000 product lines to 2015. Clothing is governed by a separate set of conditions and rules of origin. These rules stipulate that clothing has to be made from US fabric, yarn and thread, or from fabric, yarn and thread that is produced in an AGOA-beneficiary SSA country. However, a special rule applies to LDCs, allowing these countries duty-free access for apparel made from fabric originating anywhere in the world until September 2007. With the single exception of South Africa (and Mauritius until mid 2004), all 19 AGOA-beneficiary SSA countries that qualify for the clothing provision also qualify for this rule. Therefore, while clothing exports to the US from South Africa require triple-stage transformation to qualify for AGOA, all other eligible countries are only subject to a single-stage transformation[12]. This places South Africa in a disadvantaged position. Rules of origin tie the domestic textiles industry into the clothing production process and therefore any weaknesses in the textiles sector have a marked impact on the success of clothing exports.

4.2. National government policy

Duty Credit Certificate Scheme (DCCS): This is an export-incentive programme for the textiles and clothing industries that ostensibly ended on the 31st of March 2005, to be replaced by an Interim Clothing and Textiles Scheme to run until the 30th of September 2006. The DCCS was designed to encourage the outward orientation of the clothing and textiles industries by allowing firms to claim a remission of duty for proven exports[13]. Alternatively the rebates earned could be sold to any other importer of garments or textiles. This resulted in the majority of credits being sold to retailers who paid as much as a 30-40% discount, which they then used to import garments, thus reducing demand for domestically produced apparel and ultimately hurting domestically oriented clothing firms. Despite DCCS benefits, the appreciation of the Rand through 2003 placed enormous pressure on clothing manufacturers, resulting in most firms being uncompetitive in their principle export markets by 2004. Additional pressure was also placed on the local market due to the surge in garment imports – facilitated in small part by the access of retailers to DCCS benefits.

Prior to the expiration of the DCCS on the 31st of March 2005 the clothing and textiles industries submitted a joint proposal requesting that ***the dti*** put in place a two-year Interim

[12] Triple-stage transformation requires the yarn, fabric and apparel to be produced locally (or US yarn or fabric may be used). A single-stage transformation only requires the garment to be produced locally.
[13] The level of support depends on the product exported, and there is also greater support for firms exporting more than 15% of their turnover.

Development Programme for the two industries, with this programme retaining the core elements of the DCCS. The response thus far has been confusing, with verbal agreement given on the introduction of an Interim Clothing and Textiles Scheme that replaces the DCCS and terminates on the 30th September 2006. To date, however, no official confirmation has been given to the two industries, creating widespread uncertainty as to whether it will, in fact be implemented, and what particular form it will take.

4.3. Provincial government support

Clothing has been identified as a key strategic sector in the Western Cape and KZN. In light of this, both provincial governments have set aside funding to support the industry. In the Western Cape, the primary project at present is the funding of a Cape Clothing Cluster, which has as its objectives (1) the fostering of joint action between clothing firms to achieve economies of scale not possible individually, and (2) the facilitation of knowledge enhancement through the exchange of firm-level expertise. These objectives pertain to four areas, each with two-year business plans - human resource development, manufacturing excellence, supplier development and capital upgrading. The KZN provincial government has followed the example of the Western Cape and is in the process of launching a similar cluster, although its focus encompasses clothing and textiles. Following the successful completion of its pilot over the last five months, the KZN Clothing *and* Textiles Cluster will be formally launched on the 1st of August 2005. In addition to these Clusters, both provincial governments have funded a variety of smaller projects and research to obtain a clearer understanding of sector dynamics and policy issues.

Regarding empowerment within the clothing sector, CloTrade recently undertook a survey on the demographics of its members. The preliminary statistics from this survey in which 50% of its members participated reveal that:

- A full 96% of clothing industry employees are PDIs. In addition, PDIs hold 79.5% of management positions, 93.5% of supervisory positions and 39% of directorships.
- Males make up 16.7% of total employment and females 83.3%.
- White owned private companies account for 59%, BEE companies 12%[14], and foreign owned companies 3% of CloTrade members. The remaining 26% are either directly listed or wholly owned subsidiaries of JSE listed companies.

Although the survey is not representative of the industry, the results reflect the industry's positive BEE and employment equity profile. However, a lack of confidence in the future of the industry appears to have prevented further employment equity and BEE progress.

It is the general view of the clothing sector that government policy is not providing a macroeconomic environment conducive to industry growth. The current strength of the Rand makes South African clothing exports less competitive in their destination markets with many exporters losing international contracts. The strong Rand also fosters increased domestic market competition through the availability of cheaper imported clothing. Most notably, this emanates from China, which now contributes over 70% of total South African clothing imports. In addition, the uncertainty surrounding the DCCS' replacement programme places exporting firms in a difficult position with regards to the viability of securing future export contracts. A second significant threat for the South African clothing sector is illegal imports, through dumping and the under-invoicing of imported garments. The South African clothing industry is currently protected by tariffs of 40%, but a common opinion in the industry is that as a result of the inability of the customs service to effectively police clothing imports, real levels of protection are around half the advertised level. Finally, and perhaps even more importantly, the sale of distressed and over-run goods into the South African market at massively discounted values (primarily from China) is having a devastating impact on local manufacturers, with Customs' apparently incapable of responding to this threat, due to present WTO rules and regulations.

---

[14] BEE ownership within the industry is much greater if CMT companies are included.

5. Constraints and challenges

From a national perspective, the broader regulatory environment does not directly affect the manufacture of clothing, as it is a non-intrusive manufacturing process. However, the highly regulated labour market has a marked impact given the industry's labour-intensiveness. In this regard wage rates, as well as the oft-cited 'inflexibility' of the labour market, appear to have a constraining effect on the sector. Many clothing firms are relocating to non-metro and decentralised areas (particularly in KwaZulu-Natal) where they are able to pay lower wages. This relocation has occurred in an attempt to compete with cheaper imports as a result of global trade liberalisation and lower wage rates in competitor countries. As Table 4 shows, South Africa has high labour rates when compared to competitor countries[15]. Furthermore, South Africa is not only competing with countries that have lower wage rates, they also have more flexible labour markets in terms of additional labour costs (such as overtime and shift pay, sick leave and pension contributions). These factors increase costs, decrease flexibility and reduce the ability of firms to compete effectively, particularly when competing in standard, commodity markets.

Table 4: Hourly labour costs - A comparison of selected countries, 2002

Country	US$ per hour	Country	US$ per hour
Bangladesh	0.39	Kenya	0.38
Sri Lanka	0.48	Mauritius	1.25
China	0.68-0.88	South Africa	1.38
India	0.38	Madagascar	0.33

Source: Economics Intelligence Unit (2004)

Other constraining elements include the South African textiles industry's lack of competitiveness[16] (with clothing firms forced to source from them due to high tariffs on imported fabric and AGOA's three-stage conversion rule), the apparent indifference to local sourcing amongst major domestic retailers, the failure of clothing manufacturers to adhere to world class manufacturing standards, the failure of the industry to employ state of the art technologies; and skills deficiencies created by the perception of many professionals that clothing is a 'sunset industry' and hence a sector to be avoided when entering the corporate arena.

6. Industry opportunities

Although the clothing industry has not performed well recently, it is important to reiterate its labour-intensiveness and the fact that it employs over 150,000 people. It is thus essential that policies and interventions be put in place to secure the sector's growth and development, or that at least limit the losses that are likely to occur over the next few years. In this regard policy needs to be directed at first stabilising the industry, second re-establishing its foundations, and third providing an enabling environment for its future growth.

The recent completion of a Customised Sector Programme (CSP) for the South African clothing and textiles industries holds significant promise in this regard, with the sector development strategy developed through the process identifying 26 Key Action Programmes (KAPs) capable of crisis managing the clothing and textiles industries' present tenuous positions, re-establishing their foundations and then maximising the numerous opportunities that still exist. These KAPs are presented in Table 5, under each of the levels (critical, foundational and developmental) outlined above, as well as the seven strategic themes that capture their particular intent. For example, the two critical (or crisis management) strategic

[15] With the appreciation of the Rand since 2002, SA is in an even weaker comparative position.
[16] There are a few notable exceptions to this, however, with certain of the textiles firms operating at international competitiveness levels.

themes are recapturing domestic market share and maintaining exports. These two strategic themes then have seven and four KAPs respectively.

The seven domestic market share KAPs encompass: (a) Government engagements with multilateral forums to secure appropriate developing economy responses to the importing of distressed and under-invoiced goods, (b) the implementation of customs' regulations to eliminate under-invoiced and illegal imports, (c) firm-level support for customs in respect of identifying under-invoiced and/or illegal imports, (d) the establishment of a partnership between SACU member states to ensure policy and monitoring consistency, (e) the maintenance of tariffs at existing levels, (e) the aggressive implementation of already enacted country of origin labelling legislation and the associated establishment of a buy South African clothing campaign, and finally (f) the close monitoring of duty credit certificate use through the lifespan of the Interim Clothing and Textiles Scheme. In terms of the maintenance (and even future growth) of exports, the four KAPs are (a) the confirmation and then replacement in September 2006 of the Interim Clothing and Textiles Scheme, (b) the pursuit of new and the expansion of existing Preferential Trade Agreements with key trading partners, (c) the establishment of a project that fully explores African export opportunities, and (d) securing greater levels of EMIA support for the clothing and textiles sectors, particularly when endeavouring to access non-traditional markets.

Table 5: Strategic themes and Key Action Programmes (KAPs) identified through the CSP

Level	Strategic theme	KAPs	Priority level	Finances required
Critical	1. Recapturing domestic market share	1. Government engagement with multilateral forums	5	None
		2. Implement regulations to eliminate under-invoiced & illegal imports	5	None
		3. Support customs re illegal imports	5	R2m
		4. Partnership between SACU members to ensure policy & monitoring consistency	5	R1m
		5. Maintain tariffs	5	None
		6. Country of origin labelling & buy SA clothing & textiles campaign	2	R3m
		7. Monitoring of DCCs	2	None
	2. Maintenance/ growth of exports	8. Confirmation & replacement of interim scheme replacing DCCS	5	R800,000
		9. Pursue preferential trade agreements with key trading partners	4	None
		10. African textiles exports	4	R5m
		11. EMIA support	1	None (existing)
Foundational	3. Capital upgrading	12. Textiles & clothing investment support programme	5	R1,325m (R265m pa)
		13. Preferential lending rates	4	Not available
		14. Labour market investment flexibility	4	None
		15. Provincial/local government investment support	3	Not available
	4. Firm-level competitiveness	16. Regional cluster support	5	R5m p.a.
		17. Facilitation of access to technology	3	R3m p.a.
		18. Adherence to global standards	3	R1m p.a.
	5. Creating a sustainable skills base	19. Support for the CTFL SETA	5	Not available
		20. Support for Centres of Excellence	4	Not available
		21. Higher skills development at a Tertiary Education Institution	4	R3m p.a.
Develop-mental	6. Industry transformation	22. Broad based BEE charter	5	None
		23. BEE investment support	3	Not available
	7. Coordinating value chain opportunities	24. Entrenched support for TCDC	5	R2m p.a.
		25. Globally competitive materials	4	R500,000
		26. Niche market value chain working groups	4	R4m

These KAPs are not all equally important however, and as such each is rated on a 1-5 importance scale in Table 5, with 5 indicating critical importance and 1 only marginal importance. Where possible, an outline of anticipated finances required to implement each KAP is also provided.

The same approach is taken in respect of identifying interventions to re-establish the industry's foundations. Three strategic themes are identified in this regard: The re-capitalisation of the clothing and textiles industries, the development of firm-level competitiveness and the upgrading of human skills. Under re-capitalisation, four potential KAPs are identified: (a) The establishment of a clothing and textiles investment support programme, (b) the provision of preferential lending rates into the industry, (c) increasing the flexibility of the South African labour market so as to shorten amortisation periods, and (d) the provision of provincial and/or local government investment support via rates and/or other tax rebates. In respect of the development of firm-level competitiveness, the three KAPs are (a) securing government support for regional clusters, (b) the facilitation of firm-level access to new technologies via a technology upgrading fund, and (c) the provision of public sector support to clothing and textiles firms endeavouring to secure global quality and environmental accreditations. Finally, the four KAPs identified in respect of the creation of a sustainable skills base for the two industries are: (a) Ongoing financial support for the CTFL SETA, (b) ongoing financial support for the three Centres of Excellence established by the CTFL SETA, and (c) additional financial support for the establishment of an advanced, post graduate course in clothing and textiles production at a Tertiary Education Institution.

The final level considered – developmental – relates not so much to dealing with generic weaknesses, as is the case for the first two levels, but rather maximising opportunities and in this respect only two strategic themes are considered. The first pertains to industry transformation, with the two KAPs here being (a) the establishment of a BEE charter for the clothing and textiles industries and (b) the provision of a BEE investment support mechanism, with this to be tied to the identified re-capitalisation interventions. The final strategic theme identified through the CSP process relates to the coordination of value chain opportunities, and in this regard three KAPs are identified. The first of these, (a) entrenched support for the Textiles and Clothing Development Council, is the most important of the 26 KAPs identified. The final two KAPs are also important, however, encompassing (b) firm-level access to globally competitive materials and (c) the establishment of a number of niche market working groups, with these to be organised on a value chain basis.

Whilst the 26 KAPs developed through the CSP process are prioritised and given an importance rating that should be factored into decisions regarding which should be initiated first, it is important to note that lower importance KAPs may be more easily implemented and hence should not necessarily be disregarded. Cumulatively, two or three lower prioritised KAPs may in fact prove more beneficial than one high priority KAP. It is also important to note that not all KAPs necessarily need to be implemented. For example, if the National Treasury approves a capital investment programme for the clothing and textiles industries, there should be no need for any other capital investment interventions (with the exception perhaps of the enhanced labour market flexibility KAP).

Decisions regarding which strategic themes and KAPs to focus on lie with the South African government and broader industry stakeholders. In addition, the KAPs will require extensive resources – financially and in terms of human capital. The intention of generating all 26 KAPs through the CSP process was to ensure that ***the dti*** and other industry stakeholders had a clear perspective on the processes that need to be followed through on to secure the future stabilisation and then success of the clothing and textiles industries. Certain of these processes may need to be implemented in the short-term, whilst others may only require focus in the next few years, when the present crisis confronting the two industries abates and their foundations re-established. The sequencing and timeframes associated with these KAPs need to be agreed upon by industry stakeholders, although it is obvious that many need to be implemented immediately. In this regard, it is important to note that securing stakeholder ownership of the KAPs to be implemented is absolutely critical. This highlights the importance of KAP#24, namely the entrenchment of the Textiles and Clothing Development Council (TCDC) and its core coordination and monitoring role in respect of the various proposed interventions. Without the TCDC, or a public-private institution that is organised according to the same principles, the challenges facing the clothing and textiles industries are unlikely to be holistically, transparently and effectively confronted.

It is important to emphasise that the future demise of the South African clothing and textiles industries is not guaranteed. In fact, buoyant domestic market conditions and rapidly growing international trade in clothing and textiles suggests massive opportunities for those manufacturers that are able to substantially enhance their operational performance within a more conducive national operating environment. This is encapsulated within the industries' 2014 vision, as articulated in the CSP strategy document:

> *By 2014 the South African clothing and textiles industries, in partnership with the government of South Africa, commit to increasing their competitiveness and outputs, attracting investments, promoting exports and creating and sustaining quality job opportunities and living standards for their employees. This will be achieved through a coordinated industry response to opportunities and threats, whilst also being inclusive of transformation and the South African government's broader socio-economic objectives.*

Not only will the realisation of this vision salvage the clothing and textiles industries, along with the 50,000 to 75,000 jobs that are likely to be lost if present trends continue, there is a real opportunity for the two industries to create jobs once their foundations have been re-established. Based on the industries' increasing their employment by 25,000 over the period 2005 to 2014 (which is a conservative estimate), this would secure 75,000 to 100,000 clothing and textiles jobs (the majority – 50,000 to 70,000 - of which would be in the clothing industry). Given the estimated R1,411 million cost of the KAPs proposed, and for which we have been able to calculate likely expenses over a five year period beginning 2005, the total employment return on investment from the implementation of the CSP would be exceptional. Based on the lower estimate of 75,000 jobs being secured (50,000 in the clothing sector alone), each job secured would cost a total of only R18,817 over the five year period.

Appendix A: Recently completed research on the South African clothing industry

- ***the dti*** (2005), "Sector Development Strategy for the South African Clothing and Textiles Sectors", Unpublished mimeo (June 2005).
- Barnes, J. & Esselaar, J. (2005), "Customised Sector Programme Report: Clothing and Textiles", Unpublished mimeo produced for ***the dti*** (31st March 2005).
- Barnes, J. et al (2004), "An analysis of the MIDP's contribution to the success of the South African automotive industry – Policy lessons for the clothing, textiles and paper and paper products industries", NPI Research Report: 26/06/2004.
- Gibbon, P. (2002), "South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints", mimeo.
- Minor, P.J., Velia, M. and Huges, J.K. (2002), "Assessing the potential for South African clothing exports to the United States and how the DTI and the South African clothing industry could best ensure that this is maximised", Research Report to the South African Department of Trade and Industry.
- Moodley, S. and Velia, M. (2002), "An analysis of the recent exporting trajectory of the South African clothing value chain: Upgrading or Downgrading?", Research Report No. 54, School of Development Studies, University of Natal, Durban.
- Morris, M., Barnes, J. and Esselaar, J. (2004), "An identification of strategic interventions at the Provincial Government level to secure the growth and development of the Western Cape Clothing and Textiles industries", compiled for the Western Cape Provincial Government Department of Economic Development and Tourism, by Benchmarking and Manufacturing Analysts.
- Ralis (2004), "Observation and Results from the Rapid Appraisal of Local Innovation Systems (RALIS) exercise conducted in the Clothing and Textile Sectors of the Western Cape, South Africa", Mesopartner: Local Economic Delivery.
- Robbins, G., Todes, A. and Velia, M. (2004), "Firms at the crossroads: The Newcastle-Madadeni clothing sector and recommendations on policy responses", An initiative of the KZN DEDT and Newcastle Municipality.
- Skinner, C. and Valodia, I. (2002), "Labour Market Policy, Flexibility and the Future of Labour Relations: The case of the KwaZulu-Natal Clothing Industry", Transformation, Vol.50: 56-76.
- Wesgro (2002), "Background report on the Clothing Industry in the Western Cape Province of South Africa", produced for Wesgro by Eckart Neumann.