

The challenges to reversing the decline of the apparel sector in South Africa

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Introduction

Industrial development and export diversification of manufacturing activities is a major development objective for developing countries (LDCs). The apparel sector has traditionally been a gateway to export diversification for LDCs and is generally regarded as a first step for embarking on an export-oriented industrialization process (Gereffi 1999). Historically, this was the case in the developed world, then the NICs, followed by more recent examples mostly in Asia (China, Vietnam, Bangladesh etc.). Given its low entry barriers (low fixed costs and relatively simple technology) and its labour intensive nature, the apparel sector has the ability to absorb large numbers of unskilled, mostly female, workers and provide upgrading opportunities into higher value-added activities within and across sectors. In certain more advanced developing economies, such as Turkey, the sector has moreover sustained large numbers of direct jobs, even in the face of high comparative costs.

In 2011 global apparel exports accounted for US\$375 billion, making apparel one of the most traded manufactured products. Developing countries have accounted for a rising share of apparel exports and the apparel sector constituted the first manufacturing sector where exports became dominated by developing countries. Global apparel exports are dominated by Asian developing countries but, over the past two decades, LDCs from other regions have also developed export-oriented apparel sectors. For many LDCs, apparel exports are the main manufacturing export and the largest share of formal manufacturing employment - for example in Lesotho it accounts for around 80% of formal manufacturing employment and 72% of merchandise exports, in Honduras for 79% and 51%, in Bangladesh for 40% and 82%, and in Cambodia for 30% and 61% respectively (Frederick and Staritz 2012).

However, the defining characteristics of the apparel industry also mean that it is very competitive. It is easy to enter and relatively footloose as production and trade patterns can be adjusted quickly to changing market conditions. This can be also seen in the important role of export processing zones (EPZs) or special economic zones (SEZs) which generally offer tax, duty and infrastructure incentives to attract particularly foreign direct investment (FDI) in the apparel industry in many developing countries. Given the termination of WTO-governed quotas on clothing and textiles exports to developed economies at the end of 2004, the environment for global apparel trade has further changed significantly in the 2000s, which may also condition the role of the sector in promoting export diversification and industrial development in LDCs (Staritz 2011, 2012).

This paper is concerned with applying these issues to the South African apparel sector. Its central focus is asking whether there still a labour intensive apparel path for South African manufacturing today? To do this it unpacks the dynamics underlying the travails that the apparel sector has suffered over the past 15 years. It identifies the key drivers of the domestic industry pointing out some constraints in the process, establishes whether there has been correspondence between these drivers and policy levers, examines previous policy faults, and suggests some policy alternatives to build a sustainable apparel industry in South Africa. Drawing on lessons from the Turkish experience it argues for the central importance of upgrading within the sector, concentration on the

domestic market for the industry's short-term recovery, and a movement towards the adoption of Quick Response manufacturing capabilities.

Apparel global value chain dynamics

The strength of GVC analysis has been a political economy framework foregrounding the concept of lead firm power driving value chain dynamics. These lead firms exercise power within GVCs as governors of market requirements and drivers of various standards (Gereffi et al., 2001; Gereffi, et al 2005; Kaplinsky and Morris, 2001). The GVC literature stresses that upgrading processes are shaped by the type of value chain in which firms are inserted, and in particular by the governance structure of chains determined by lead firms. These structures influence the flow and allocation of activities and resources within chains, and hence, firms' prospects of entry and upgrading and the distribution of rewards and risks along chains (Gereffi et al., 2001; Gereffi et al., 2005; Kaplinsky and Morris, 2001).

As in many other sectors production and trade in the apparel sector is organized in GVCs where production of components and assembly into final products is carried out via inter-firm networks on a global scale. The apparel sector is particularly suited for these global production arrangements as most (intermediate) products can be exported at each stage of the chain (Morris and Barnes 2009). A large part of apparel production remains labour intensive, has low start-up and fixed costs and requires simple technology. These characteristics encouraged the move to low-cost locations, mainly in developing countries, exporting into the three main high income developed country markets of the US, EU and Japan. In addition to the tangible, production-related steps in this value chain there are also "intangible" activities that add value. They include product development, design, textile input sourcing, logistics and distribution, branding, and retail. These activities are controlled by a combination of lead firms, intermediaries and supplier firms.

The global dispersion of production within the developing world was further aided by the added imposition of a global regulatory regime, the Multi Fibre Arrangement (MFA). The MFA was designed to protect local production in these developed countries, which established strict quantitative quotas on imports from low cost locations. Instead of achieving this aim of protection the real consequence was a relocation of large Asian transnational producers, already locked into GVCs servicing markets in the US and EU, to new developing country locations which had quota surplus.

Apparel manufacturing is highly competitive and becoming more consolidated. Developing countries are in constant competition for FDI and contracts with lead firms or intermediaries, leaving many suppliers with little leverage in the chain. Given this intense competition and the commodity nature of manufacturing activities, strategies of upgrading are extremely important for suppliers to sustain and improve their positions in apparel value chains.

In apparel the strategies of lead firms, in particular their global sourcing policies, shape production and trade patterns. Sourcing decisions are frequently motivated by labour cost differentials given the labour-intensive nature of apparel production. But in

addition to the classic criteria of costs, quality and reliability, other criteria are increasingly shaping sourcing decisions (Gereffi and Frederick 2010; Staritz 2011).

- *Lead times and flexibility*: The importance of ‘time’ in sourcing decisions is related to the shift to lean retailing and quick response production where buyers defray the inventory risks associated with supplying apparel to fast-changing, volatile and uncertain consumer markets by replenishing items on their shelves in very short cycles and minimizing inventories (Abernathy et al. 2006). Lead times have declined from several months to several weeks which requires more efficient and flexible supply chains, production processes, and work arrangements (Plank et al. 2012). Price is still an important market requirement but new dynamics favour additional factors such as speed to market and flexibility through small volume runs to achieve this.
- *Non-manufacturing capabilities*: Buyer concentration on their core competencies (i.e., branding and design), reducing costs and increasing flexibility has multiplied the functions demanded from suppliers. Buyers also desire capabilities such as input sourcing, product development, inventory management and stock holding, logistics and financing. Fulfilling these new minimum requirements does not however necessarily lead to better contracts or higher prices.
- *Consolidation of supply base*: Buyers have focused on the most competitive suppliers that offer consistent quality, reliable delivery, large-scale and flexible production, competitive prices, and broader non-manufacturing capabilities. This ensures more cost-effective forms of supply chain management and reduces the complexity of their supply chains. This has led to a consolidation of the supply base, reducing the number of supplier countries and firms within countries.
- *Compliance*: Compliance with labour and environmental standards has assumed prominence in buyers’ sourcing decisions due to civil society pressures. Many buyers have developed codes of conduct (CoC) that include labour and environmental standards. Compliance with these codes is a minimum criterion for entering and remaining in supply chains, but buyers often do not support firms to improve standards or reward them. These standards are essentially in the private and civil society domain. There have also been discussions of bringing labor issues into the WTO with contrasting positions where largely developing countries argue that in the current global trade context this would undermine their “competitive” advantage, or strengthening the role of the ILO.

In summary, the changing nature of value chain dynamics and the power of lead firms is crucial for shaping apparel producer access and upgrading opportunities within these chains. From the perspective of apparel producers, the need to work with lead firms is paramount. Industrial policy which ignores this is likely to have deleterious effects.

Changing global trade patterns

China is the largest exporter of apparel, increasing its world export share after the MFA phase-out (from 28% in 2004 to 41% in 2011) (Table 1). Excluding the second largest

exporter – the EU-15 (which includes intra-EU trade) – the other top exporter countries, Bangladesh, Turkey, India, Vietnam and Indonesia, accounted together for less than half (20% of world export share) of China’s total exports in 2011. Generally the top 15 export countries increased their market share from 81% to 87% from 2005 to 2011. Within the top 15 global apparel exporter countries, New Asian exporter countries have increased their export shares since 2004. Most other apparel producing countries have lost global market share since 2004, including higher cost Asian apparel exporter countries (Hong Kong, Taiwan, South Korea), U.S. and EU regional suppliers (Mexico, North African and Eastern Europe), as well as SSA countries (Gereffi and Frederick 2010; Staritz 2011). Turkey is a stand-out performer in this regard. Its labour costs are substantially higher than South Africa’s and yet it has grown its apparel exports significantly¹.

Table 1: Top 15 apparel exporting countries

Country/ Region	Value (\$Mil)						World Share (%)					
	2000	'05	'07	'09	'10	'11	'00	'05	'07	'09	'10	'11
World	193,669	268,431	318,533	299,415	326,254	375,113						
China	48,019	89,890	118,362	123,988	139,900	155,478	24.8	33.5	37.2	41.4	42.9	41.4
EU-15	33,980	47,598	56,470	51,405	51,898	61,069	17.5	17.7	17.7	17.2	15.9	16.3
Bangladesh	4,862	8,038	11,208	14,241	16,620	21,938	2.5	3.0	3.5	4.8	5.1	5.8
Turkey	6,711	12,942	15,568	13,160	14,759	16,289	3.5	4.8	4.9	4.4	4.5	4.3
India	5,131	9,476	11,458	11,931	12,877	14,346	2.6	3.5	3.6	4.0	3.9	3.8
Vietnam	--	4,739	7,708	9,410	10,953	14,077	--	1.8	2.4	3.1	3.4	3.8
Indonesia	4,675	5,679	7,386	7,169	7,894	9,574	2.4	2.1	2.3	2.4	2.4	2.6
Cambodia	--	--	3,770	3,482	4,184	5,601	--	--	1.2	1.2	1.3	1.5
Mexico	8,924	6,683	5,131	3,927	4,199	4,541	4.6	2.5	1.6	1.3	1.3	1.2
Pakistan	--	--	--	3,222	3,679	4,477	--	--	--	1.1	1.1	1.2
Sri Lanka	--	3,083	3,602	3,537	3,729	4,274	--	1.1	1.1	1.2	1.1	1.1
Romania	2,737	5,177	4,394	3,219	3,327	4,177	1.4	1.9	1.4	1.1	1.0	1.1
Tunisia	2,645	3,478	4,121	3,788	3,730	4,110	1.4	1.3	1.3	1.3	1.1	1.1
Morocco	--	3,331	4,239	3,598	3,765	4,095	--	1.2	1.3	1.2	1.2	1.1
Thailand	3,672	3,862	4,098	3,509	3,725	3,788	1.9	1.4	1.3	1.2	1.1	1.0
Top 15	147,007	216,185	265,407	259,586	285,238	327,834	75.9	80.5	83.3	86.7	87.4	87.4

Source: UN COMTRADE 2013.

Notes: Apparel - HS 61+62; -- indicates country not in top 15 in given year; EU-15 values include intra-EU trade.

Although Sub Saharan Africa (SSA) does not feature as a significant global apparel player this does not mean there have not been significant production and export shifts in the region. The development of SSA export-oriented apparel industries since 2000 was driven by three regulatory regimes:

- i) MFA quotas on large Asian producer countries. This stimulated Asian FDI into SSA apparel producing countries. However, likewise the phasing out of the MFA, which ended 31 December 2004, also had a major constraining impact on these same countries, and hence serves as an important benchmark.

¹ Turkey’s minimum wage in 2011 was \$4.10 per hour, relative to \$3.10 in South Africa’s metropolitan areas and \$2.40 in non-metropolitan areas (Barnes, 2012).

- ii) Duty-free PTAs to the US (African Growth and Opportunity Act (AGOA) with favourable rules of origin (ROO) requirements²), the EU (Everything But Arms (EBA) Initiative and Economic Partnership Agreements (EPAs), and South Africa through the Southern African Customs Union (SACU) and the Southern African Development Cooperation (SADC).
- iii) National policies supporting export-oriented firms, including FDI incentives, and special economic zones (SEZs).

In 2000 SSA apparel exports were \$2 billion - around 50% of the exports went to the EU and 38% to the US. AGOA coming into effect in 2000 however had a dramatic effect on SSA apparel exports (Table 2), both in terms of the sheer volume of exports (increasing to around \$3.2 billion in 2004) as well as dramatically changing its composition. Exports to the EU stagnated while those to the US more than doubled, peaking at \$1.9 billion in 2004. The share of SSA apparel exports in global apparel exports increased from 0.7% in 1995 to 1.3% in 2004, whilst in the US SSA's import share increased from 1% to 2.6%. The growth of apparel exports in some countries was spectacular. Between 2000 and 2004, Kenya's apparel exports grew six-fold, Swaziland's five-fold, and Lesotho's three-fold, Lesotho, Swaziland, Madagascar, Kenya and Mauritius, became the largest SSA exporters of apparel accounting together for around 80% of SSA's total apparel exports in 2004 (Table 2) (Morris et al 2014). South Africa's apparel export trends are more complex and are discussed in the following section.

Table 2: Top SSA apparel exporters by year

	Value (\$US Mil)							Share of Total (%)						
	'00	'04	'05	'07	'09	'10	'11	'00	'04	'05	'07	'09	'10	'11
Total SSA	2,092	3,238	2,800	3,011	2,525	2,309	2,675							
Mauritius	962	959	807	965	817	770	844	46.0	29.6	28.8	32.0	32.4	33.4	31.5
Madagascar	369	562	539	697	578	378	463	17.6	17.3	19.3	23.2	22.9	16.4	17.3
Lesotho*	153	494	423	415	331	364	405	7.3	15.3	15.1	13.8	13.1	15.8	15.2
South Africa**	396	478	337	313	371	334	369	18.9	14.8	12.0	10.4	14.7	14.5	13.8
Kenya	50	307	297	270	213	222	288	2.4	9.5	10.6	9.0	8.4	9.6	10.7
Swaziland*	37	191	172	149	116	158	161	1.8	5.9	6.1	5.0	4.6	6.8	6.0
Ethiopia	1	5	5	6	9	13	45	0.0	0.1	0.2	0.2	0.4	0.5	1.7
Botswana	26	35	38	43	20	13	17	1.2	1.1	1.3	1.4	0.8	0.6	0.6
Malawi	27	48	48	37	24	14	16	1.3	1.5	1.7	1.2	1.0	0.6	0.6
Tanzania	3	8	7	8	6	9	13	0.1	0.3	0.3	0.3	0.2	0.4	0.5

Source: UN COMTRADE; apparel represents HS 61+62; exports represent partners' imports.

* From 2005 onwards UN COMTRADE data is integrated with SARS data to include exports South Africa through SACU. Conversion from Rand to US Dollar based on UNCTAD annual exchange rate.

** From 2007 onwards these are not real exports of locally made apparel but a significant proportion is trans-shipment of imports, largely from China, to other parts of Africa.

By 2004 (the last year of the MFA) Kenya, Lesotho and Swaziland exported almost exclusively to the US (90%, 92% and 94% of total apparel exports, respectively) (Table 3). However Madagascar's major export market shifted from the EU to the US, which trebled and accounted for 57% of total apparel exports (Table 3). The EU also remained

² AGOA ROO allows "least developed" qualifying countries to source fabric/accessory inputs from non-SSA/US suppliers. This single transformation allowed for Asian input imports. South Africa is subject to triple stage transformation ROO - i.e. firms have to source fabric, yarn or cotton from SSA or US suppliers.

the major end market for Mauritius (66% of total exports) (Table 4). Mauritius and Madagascar still comprised 88% of SSA exports to the EU-15 in 2004 (Table 4).

Table 3: Top SSA apparel exporters to the US by year

Exporter	Value (\$US Mil)						Share of SSA Total (%)					
	'00	'04	'07	'10	'11	'12	'00	'04	'07	'10	'11	'12
SSA Total	748	1,757	1,293	790	904	866						
Lesotho	140	456	384	281	315	301	18.7	25.9	29.7	35.5	34.9	34.8
Kenya	44	277	248	202	261	254	5.9	15.8	19.2	25.5	28.8	29.4
Mauritius	245	226	115	120	157	163	32.7	12.9	8.9	15.1	17.3	18.8
Swaziland	32	179	135	93	77	60	4.3	10.2	10.5	11.8	8.5	6.9
Madagascar	110	323	290	55	40	43	14.7	18.4	22.4	6.9	4.4	4.9
Botswana	8	20	31	12	15	11	1.1	1.2	2.4	1.5	1.7	1.2
Ethiopia	--	--	--	7	10	10	--	--	--	0.8	1.1	1.2
Tanzania	--	--	--	2	5	8	--	--	--	0.2	0.6	0.9
South Africa	142	141	24	6	7	6	18.9	8.0	1.8	0.8	0.7	0.7
Malawi	7	27	20	10	13	6	1.0	1.5	1.5	1.3	1.5	0.7
Top 10	746	1,735	1,283	788	900	861	99.8	98.8	99.2	99.6	99.5	99.4

Source: USITC; General Customs Value

Table 4: Top SSA apparel exporters to the EU-15 by year

	Value (\$US Mil)							Share of SSA Total (%)						
	'00	'02	'04	'07	'10	'11	'12	'00	'02	'04	'07	'10	'11	'12
SSA Total	993	809	947	1054	711	798	725							
Mauritius	626	577	637	654	425	416	347	63.0	71.2	67.2	62.0	59.8	52.1	47.8
Madagascar	240	131	196	337	252	321	321	24.2	16.1	20.7	31.9	35.4	40.3	44.3
Ethiopia	--	--	--	--	5	28	31	--	--	--	--	0.7	3.5	4.2
South Africa	77	61	71	26	13	13	12	7.8	7.6	7.4	2.5	1.9	1.6	1.6
Cape Verde	--	--	--	7	5	6	3	--	--	--	0.6	0.7	0.7	0.4
Top 5 Total	975	792	926	1033	701	784	722	98.1	97.9	97.8	98.1	98.5	98.2	98.4

Source: Eurostat; Conversion from Euro to US Dollar based on UNCTAD annual exchange rate.

After the MFA phase-out, the apparel industry declined quite drastically in terms of production, exports, employment and number of firms in all major SSA apparel export countries (Kaplinsky and Morris, 2006). The global economic crisis accelerated these developments through a downturn in global demand (Staritz, 2011). The total value of SSA apparel exports declined by 22% from 2004 to 2009 - by 39%, 33% and 31% in Swaziland, Lesotho and Kenya, respectively, but increased again in 2010/11 (Table 2). For Lesotho and Swaziland, this increase is largely attributed to a shift in exporting to South Africa. Kenyan exports, however, remained US concentrated - 91% in 2011. Madagascar's total apparel exports remained relatively constant post MFA but the composition of exports changed radically. The loss of AGOA in 2009 as a result of the coup, led to a further reduction of US exports. While exports to the US declined by 87% between 2004 and 2012, exports to the EU increased by 64% (Tables 3, 4). Exports from Mauritius to the US and the EU declined by 28% and 46%, respectively, between 2004 and 2012. The new regional market in South Africa made up for a part of these losses, and total apparel exports declined by only 12% from 2004 to 2011.

The export structure has changed substantially in all main SSA apparel exporter countries. First, US exports have strongly declined since 2004, except for Kenya where

exports recovered in 2011. Second, as regards the EU market, Mauritius and Madagascar have increased exports post-MFA, while the other three countries still do not export there. Third, and most importantly, regional end markets, especially South Africa, have increased in importance. The growth of regional apparel exports to South Africa is based on SACU and SADC preferential market access. For Lesotho, Swaziland, Madagascar and Mauritius, the South African market has become a major destination (Table 5)³.

Although China still strongly dominates South African apparel imports, accounting for 62.6% in 2011, dropping from a high of 74% in 2005, notwithstanding a substantial increase in the quantity of imports measured in value terms, regional SSA countries increased their share from 5.6% in 2005 to just under 19% in 2011 (Table 5). South Africa has become a major alternative regional market for SSA apparel producers, with exports jumping from \$42m in 2005 to \$290m in 2011 (Table 5).

Apparel exports from Mauritius to South Africa increased dramatically from \$9m in 2005 to \$103m in 2011, and its share increased from 1% in 2005 to 6.7% in 2011, accounting for 20% of Mauritius' total apparel exports. Madagascar's exports of apparel to South Africa was zero in 2005 but jumped to \$40m by 2011. This constituted 2.6% of South African apparel imports in 2011, and accounted for 9% of Madagascar's total apparel exports. The growth of exports to South Africa from Lesotho and Swaziland has been even more remarkable.⁴ In Rand terms, between 2005 and 2012, apparel exports to South Africa from Lesotho increased 100 fold, from R6m (\$1m) to R605m (\$74m), and from Swaziland eighty fold, from R11m (\$2m) to R886m (\$108m) (Table 6). The South African market accounts for 15% and 49% of total apparel exports in Lesotho and Swaziland, respectively. In Swaziland's case, apparel exports to South Africa in 2012 have now outstripped their exports to the US by a considerable margin - in US dollar terms \$108m as compared to \$60m respectively (Table 3 and Table 6).

Table 5: Top 10 apparel exporters to South Africa by year

	Value (US\$ Mil)							Share of Total (%)						
	'00	'04	'05	'07	'09	'10	'11	'00	'04	'05	'07	'09	'10	'11
World*	192	564	755	903	1,011	1,353	1,534							
China	95	419	558	554	670	920	961	49.6	74.4	73.9	61.4	66.3	68.0	62.6
Mauritius	1	4	9	36	50	69	103	0.6	0.7	1.1	4.0	4.9	5.1	6.7
Swaziland*	-	-	2	6	16	59	79	0.0	0.0	0.3	0.7	1.6	4.4	5.1
India	20	30	52	51	51	60	73	10.5	5.3	6.9	5.6	5.1	4.5	4.8
Lesotho*	-	-	1	1	28	46	60	0.0	0.0	0.1	0.1	2.8	3.4	3.9
Bangladesh	0	2	4	20	41	40	58	0.1	0.4	0.5	2.2	4.0	2.9	3.8
Madagascar	0	0	0	3	13	18	40	0.0	0.0	0.0	0.4	1.3	1.3	2.6
EU-15	16	21	21	25	22	25	29	8.5	3.7	2.8	2.8	2.1	1.9	1.9
Indonesia	4	4	6	23	14	15	19	2.3	0.7	0.8	2.5	1.4	1.1	1.2
Viet Nam	1	1	2	16	13	14	16	0.5	0.1	0.2	1.7	1.3	1.0	1.1
SSA Total*	24	27	42	76	129	202	290	12.6	4.9	5.6	8.4	12.8	14.9	18.9

Source: UN COMTRADE; exports represented South Africa's imports from partner countries. Notes: Other Asia, nes describes areas in Asia not classified; in practice, this primarily represents Taiwan.

³ Kenya does not export apparel to South Africa, although there are small but rising exports from Kenya to the East African Community (EAC) common market (Staritz and Frederick 2012, Morris et al 2014).

⁴ This is not shown in UN COMTRADE data due to under-reporting of intra-SACU trade. Hence, we use data on South African apparel imports from the SACU region from the South African Revenue Service (SARS).

* For 2009, 2010 and 2011 UN COMTRADE data replaced with SARS data for Lesotho and Swaziland; Conversion from Rand to US Dollar based on UNCTAD annual exchange rate.

Table 6: Exports to South Africa from Lesotho and Swaziland

Lesotho								
	2005	2006	2007	2008	2009	2010	2011	2012
HS61-62 Rand m	6	17	6	110	239	335	436	605
HS61-62 US\$ m	1	2	1	13	28	46	60	74
Swaziland								
HS61-62 Rand m	11	10	45	96	133	432	573	886
HS61-62 US\$ m	2	1	6	11	16	59	79	108

Source: SARS

These new SSA entrants have major implications for the viability of domestic producers. South African apparel producers now found themselves competing globally for domestic market share with other producers on their very own doorstep.

The South African Apparel Industry and Chinese Imports

Until the mid-1990s, the garment and textile sector was locked into import substituting industrialisation (ISI), with firms protected by an almost impenetrable thicket of targeted import quotas and high, product-specific tariffs. In 1994 the government initiated a radical garment tariff phase-down agreement which saw the elimination of import quotas, a movement to a more uniform tariff structure, and a major reduction in nominal tariffs. By 2001, tariffs on textiles were down to 28% and tariffs on garments down to 40%, both from over 100%.

In March 2001 the U.S. Africa Growth and Opportunity Act (AGOA), allowed South African apparel producers duty and quota free access to the US market which met particular rules of origin. On the basis of AGOA a number of US retailer buyers saw the South African apparel and textile industry as a base for SSA imports. Buyers flew in to seek potential new sites for orders. Simultaneous with AGOA was a rapid depreciation of the exchange rate in 2000/2002 – from a yearly average of R6,94 per \$1 in 2000 to R11.61 in January 2002. All of these factors created considerable excitement amongst domestic garment manufacturers who jumped on the ‘export bandwagon’. Local apparel manufacturers used this to sign numerous export orders to US retailers, seeking larger profits than supplying the domestic market. Total exports of apparel at nominal prices jumped dramatically from R471m in 1995 to R1901m in 2001 and R2,590m in 2002 (Morris and Einhorn 2008, Morris and Levy 2014).

However the local apparel manufacturers did not have sufficient capacity to supply both export and domestic markets. Hence many reneged on their domestic orders in search of the holy export grail. Faced with cancelled orders, South African retailers scrambled to find stock. Despite the now highly unfavourable exchange rate for imports, buyers went offshore and discovered China as an alternative supply source. This was facilitated by the coincidental radical simplification and reduction of the apparel tariff structure. The subsequent strengthening of the Rand turned the entire scenario around, creating easier

import access and crippling exports. By November 2004, the Rand/US\$ exchange rate had appreciated again to R5.73 at its lowest.

Local manufacturers now faced an entirely different scenario and the capacity of domestic manufacturers to export was radically limited. The radical shift in the exchange rate meant that export competitiveness was crippled. The local price of imported garments had fallen sharply. AGOA rules of origin for South Africa demanding triple transformation severely constrained garments exports. And the South African government was reluctant to extend the Duty Credit Certificate Scheme subsidising apparel exports. Those garment manufacturers that had hastily jumped onto the 'export bandwagon' now reneged on their export orders and by 2006, apparel exports had collapsed to R1,006 million, around the same level as 1999 (Morris and Einhorn 2008). In dollar terms the collapse of exports to the US was even more dramatic – from \$231.8m in 2003 to \$24m in 2007 and then falling even further to only \$6m by 2012 (Table 3).

Local apparel manufacturers sought vainly to return to supplying the South African domestic retailers, but the restructuring of the domestic value chain had taken a radical turn. The appreciating exchange rate and the economic boom, coinciding with the indirect impact of global Chinese apparel exports (and competition from falling unit prices), afforded retailers greater buying power in international markets. Apparel imports grew from \$192m in 2000 to \$755m by 2005 and \$1,534m in 2011 (Table 5). In line with this import surge, Chinese apparel share of total value apparel imports jumped from 16.5% in 1995 to 74% in 2005.

Large scale imports of apparel from China (and later from other apparel producing countries) into South Africa had become the order of the day. The world of domestic apparel manufacturing would never be the same.

The impact in terms of production, sales and employment on the local apparel manufacturing industry was profound. South African domestic demand increased markedly, but this was taken up by retailers turning to imports rather than local producers being able to take advantage of the opportunity. Using 2005 as a base, the value of apparel imports and that of local apparel production for the domestic market diverged radically. Between 2005 and 2011 the value of domestic production for the local market remained relatively flat, apart from a surge in 2008, whilst the value of apparel imports increased year on year, comprising a greater and greater part of meeting domestic demand. Domestic production was valued at R14.5b in 2005 and R15.2b in 2011, whilst the value of imports increased from R4.8b in 2005 to R10.1b in 2011. As a consequence domestic production decreased from 76% of domestic demand in 2005 to 60% in 2011, whilst the share accorded to imports increased from 25% to 40% respectively (Table 7).

Table 7: Value of apparel - domestic demand, domestic production, and imports

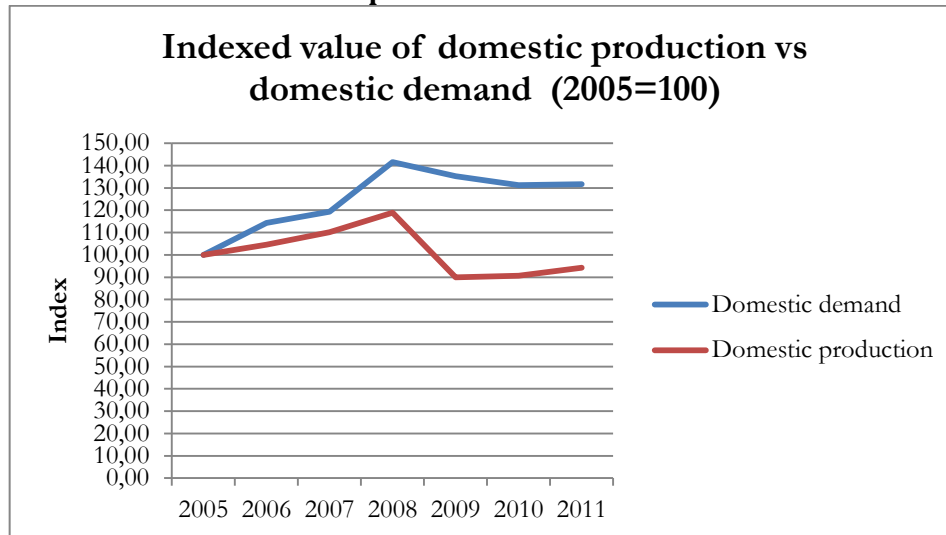
	Domestic demand	Domestic production	%	Imports	%
2005	19 250 582	14 459 836	75	4 790 747	25
2006	22 020 987	15 120 980	69	6 308 100	31
2007	22 964 949	16 656 849	73	6 900 008	27
2008	27 244 927	19 804 098	73	7 440 829	27

2010	25 254 403	16 144 003	68	8 211 430	32
2009	26 024 969	17 813 539	64	9 110 400	36
2011	25 344 725	15 211 792	60	10 132 933	40

Source: STATSSA – calculations by Lyn Reed.

The decline in real terms can be seen in Figure 1. Using 2005 as the base, it shows the indexed value of domestic production versus domestic demand.

Figure 1: Indexed Value of domestic production and demand



To add insult to injury, the officially recorded imports did not capture the de facto impact of foreign apparel circulating in the domestic economy. The borders were porous, customs officials were insufficiently trained to monitor false product declarations, and organised crime syndicates operated freely. Hence the actual quality and value of imports seeping into South Africa from illegal operators and sources is anecdotally recognised as being much higher than the official data reveals.

As a result of this restructuring of the apparel industry the number of formal apparel manufacturing firms and employees registered through the National Bargaining Council steadily declined from 97,960 workers in 2003 to 85,854 in 2005. The decline proceeded apace and ten years later in 2013 the number of employees in the industry had almost halved (46%) to 52,656. The decrease in the number of formal sector apparel firms known to the bargaining council did not parallel this massive drop in employment, dropping 19% from 1,042 to 865 (Table 8).

Table 8: Number of firms/employees in apparel industry

Year	NATIONAL TOTAL*	
	Employers	Employees
31-10-2003**	1 042	97 960
31-10-2004	1 161	97 954
31-10-2005	1 149	85 854
31-10-2006	1 051	75 929
31-10-2007	1 041	72 919
31-10-2008	1 048	67 737
31-10-2009	1 001	60 253
31-10-2010	933	56 699

31-10-2011	952	58 647
31-10-2012	936	54 737
31-10-2013	865	52 656

Source: National Bargaining Council

*These figures reflect only establishments known to council inspectors, irrespective of compliancy.

** October is most representative, coinciding with wage setting and avoiding year end manipulation.

However, as much as the bargaining council data base provides the only reliable available quantitative data on firm and employment numbers⁵, it also underestimates the actual number of firms and employees working in the industry. There are many small informal economy firms, employing anything between 5 to 50 workers, unregistered, using unapproved piece work payment systems, which is not to say actual take home pay is lower, below the statutory wage, hiding beneath the bargaining council and union radar. This hidden economy intersects with the formal apparel sector through outsourcing arrangements with design houses, full package firms, and third party intermediaries. All the available evidence points to a radical restructuring of the industry, and suggests that small informal CMT enterprises have proliferated since the early 2000s, while larger CMT operators who are tightly linked to the retail chains are expanding, and the large full package manufacturers are declining. These informal enterprises, mostly run by ex-formal sector skilled workers, are hidden in residential areas, mostly competing on price, and operating beneath the radar screen of officials - NBC compliance officers, union officials, and census takers. They seem to be highly differentiated in scale, scope and performance; with the larger informal enterprises feeding into full package firms and indirectly into the retail chains. However their exact number, levels of differentiation, and workers employed is unknown.

The Response of the Industry, Unions and Government

The South African apparel industry was caught in a set of contradictions between the strategic positions of the past and the requirements of the future which paralyzed its ability to respond consistently (Barnes 2005). First, there was the position of the firms themselves. South African domestic apparel enterprises were caught in a contradiction between being inefficiently and ineffectively set up for import substituting industrialisation, but having to play on the field of globalization which was characterised by import threats from rising Asian producers operating under entirely different competitive production platforms. Indeed these firms were decidedly chary of looking inside their own black box of production and instead focused the blame for their predicament on forces and actors outside their own control.

Second, the South African government was locked into a contradictory policy response. On the one hand government had opened up the industry to the chilly winds of liberalisation by radically reducing the protective barriers and rationalising the tariff regime. Yet it was unable to take the further necessary steps to assist domestic firms to take the necessary steps to raise their systemic competitiveness through aligning with the retail buyers driving their value chains. It dropped the firms into competing in the deep end of the global pool but itself operated within an ideological framework driven by its tripartite alliance union partners.

⁵ See Edwards and Morris 2007 for the methodological problems in the official employment statistics which gave rise to distorting breaks in the employment series.

Third, the unions were victims of their own ISI era success which required them driving a strategy of maintaining high wages, restricting shift work and piece rate wage systems in the face of more productive systems in competitor countries. Instead of facing these new globalisation challenges they aimed their attacks at the retail companies driving the value chains that their future existence depended on. In short everyone failed to take account of the exigencies of globalisation and look at their own role and required responsibilities in this transition. Instead they tried to marshal the resources and ideological frameworks from the past to deal with the challenges of the future.

The industry (apparel and textile manufacturers), union and government responded to this rapid process of import penetration in a manner reminiscent of the previous ISI era. Instead of focusing on the change that globalisation had brought about - both in terms of the operations of global value chains, the role of lead retailer firms, and the need for manufacturers to radically upgrade their operational performance as the best way of meeting the competitive threat - they externalised the problem, blamed other forces, and tried to bring back the grand old days of government protection. In other words a focus on tariffs and import controls, calling on the DTI to raise the protective walls against the threat of Chinese imports. The manufacturers blamed the government policy of regularising the tariff book and rapidly dropping tariffs from over 100% down to 40% which made them vulnerable to lower cost production sites, floods of illegal imports, and what they regarded as 'unfair' Chinese competition.

The union in calling for further protection significantly went much further. It publicly accused the large clothing retailers as the cause of the threat to the industry. The thrust of its proposed interventions was to aim at restricting the flow of imported Chinese apparel into the country. It did so in a two fold manner. Their first major policy intervention was to demand of the retailers (and lobby government) to commit to restrict importation of apparel items. Indeed the union demanded retail publicly, and contractually, commit to sourcing 75% from local apparel manufacturers. The union also lobbied government to bring pressure on the retailers in the negotiations around the department's sector plan to include this quantum in the customised sector plan (C&T CSP). The retailers however categorically refused to make any such quantitative agreement on local sourcing, arguing it was unworkable in practice. The second major thrust of the union was to attempt to statutorily curb the ability of retailers to import apparel from China. It therefore lodged a request with the DTI to use the temporary safeguard agreement in the cessation of the MFA (applicable to the US and EU but not SA) and initiate negotiating a quota system for the importation of apparel from China.

Coupled with this import restrictive strategy was an attempt by the union to focus on consolidating the industrial relations framework they had successfully negotiated over the previous decade around a drive to achieve 'decent work'. This focused on rigidifying labour markets, introducing a nationally centralised bargaining council system and driving a threefold strategy within it. These were: Raising wages (both generally as well as closing the gap between the metro and non-metro wage levels); resisting any attempts to dilute operational systems (blocking flexible shift systems⁶ and banning

⁶ Manufacturers unsuccessfully tried to incorporate this into the apparel industrial policy negotiations, arguing that it would assist them to compete internationally with Asian firms using such flexible systems as standard operating practice (Business Alliance 2005).

piecework payment); and using the council to bring to book firms that were not compliant insofar as they were not meeting the statutory minimum wages which usually meant forcing them to close down. The latter usually involved confronting Chinese owned firms in the Newcastle/Ladysmith area which claimed they were successfully competing with imports at the bottom end of the market through ignoring the conditions set out in the statutory bargaining council agreement (Nattrass and Seekings 2014)

Basically the union was attempting to constantly extend its hold on the industry to protect itself against the forces of globalisation rather than cooperating with the more progressive firms to increase competitiveness and create sustainability of the clothing industry. In doing so it was continuously forced to try and control all aspect of industrial life and move into areas well beyond that of conventional industrial relations. Hence it was inexorably and incessantly trying to gain control of the industrial policy/strategy terrain of firm, value chain and sector activity in order to shore up its eroding position as firms closed down, retrenched or disappeared beneath the radar.

For the first half of the decade the government remained silent when lobbied by industry and union for action to protect them against Chinese imported apparel. In any case the DTI's industrial capacity and expertise had been hollowed out as the experienced and skilled sector directorate personnel left to seek employment outside of government. When it did act the DTI was increasingly dominated by ideological and politically based positions rather than policy informed ones. In 2005 government finally responded to pressure and initiated sectoral policy action in three major initiatives. First, it started negotiating an industrial policy for the apparel and textile sectors, the customised sector plan (CSP) with industry partners, but this process was increasingly captured by ANC alliance politics through union lobbying outside the government-industry negotiation forum. Instead of acting as a strong independent arbiter of stakeholder interests in the CSP discussions, the DTI allowed the tenor, tone and structure of these CSP negotiations to be dominated by the union's positions. The end result was a CSP document endorsed by government and the union but with a decided lack of enthusiasm from industry stakeholders (Morris and Levy 2014).

The second major government intervention was to support the union and drive through, against the objections of the apparel manufacturers and retailers, a two year Chinese quota plan (the China Restraint Agreement of 2007-8) restricting importation of a select number of apparel and fabric items (Morris and Reed 2008). Indeed the DTI made it clear that it was acting on behalf of the union, and effectively put the union in charge of the administrative process even to the extent that any exemptions sought were subject to the union signing off them. The purported idea was that manufacturers would use the respite to inject new technology into their operations during this period and be able to compete with imported apparel when the China Restraint Agreement ended. However the net effect was simply to accelerate import diversion, since retailers went looking for other countries to import from, and hence discovered that China was not the only competitive global producer of apparel (Reed 2012).

Third, government raised the duty payable on imported apparel from 40 to 45%. But this did not apply to regional country agreements such as the Southern African Customs Union or SADCC. So apparel producing countries such as Lesotho and Swaziland had no

restrictions on exporting to South Africa, whilst the SADC rules of origin required only double transformation for Mauritius and Madagascar to export duty free to South Africa. It is not accidental that the rapid growth in imported apparel from these countries within SSA coincided with the developments discussed above. Indeed South African apparel firms re-located to Lesotho and Swaziland during this period and were directly responsible for this major export of apparel to South African retailers (Morris et al 2011). In respect of imports from Mauritius and Madagascar this was a direct function of South African buyers seeking these firms out (Morris and Staritz 2014).

By late 2005 the apparel manufacturers broke out of this contradictory paralysis of being locked in an ISI mind-set and started to fundamentally shift their strategic position to take into account the new globalisation era requirements. First, it became apparent to them that unless they fell into line with world class manufacturing practices and upgraded their production capabilities they would never be able to build a sustainable competitive model. Hence the coming into being of two clusters (Cape and KZN Clothing and Textiles Clusters – CCTC and KZN CTC) explicitly aimed at upgrading the international competitiveness of the domestic apparel and textile manufacturers by improving their operational performance and building their dynamic capabilities. Hence their activities were heavily loaded towards skills acquisition in world class manufacturing techniques and therefore process upgrading (Morris and Reed 2009). This is reflected in the changes in the average operational performance data for the two clusters between 2006 and 2012 (Table 9). Average work-in-progress inventory improved by 28%, while finished goods inventory reduced by 34%, resulting not only in lower financing costs, but also an ability to move towards a greater level of operating flexibility. Similarly, quality (reflected in customer return rates) improved by nearly 50%. The firms’ change in capabilities to undertake more rapid style changeovers, another important index of operational flexibility, also improved by 30%.

Table 9: Operational performance of CCTC and KZNCTC combined

	2006	2012	% Change 2006-2012
Total Inventory (operating days)	37.56	30.58	18.58
Work in Progress (operating days)	6.90	4.98	27.74
Finished Goods (operating days)	11.76	7.76	34.07
Customer Return Rate (%)	2.68	1.39	48.04
Lost production time to Style Changeovers (%)	8.36	5.85	30.05

Source: B&M Analysts’ database

Second, the apparel manufacturers realised that if their future lay in supplying the domestic market then they had to build a strategic alignment with the local retailers driving the domestic value chain to secure greater local sourcing. They had nothing to gain and everything to lose by attacking these retailers. This shift from reacting on the basis of ISI mindsets to meeting globalisation dynamics was manifested in three forms:

- *Cluster cooperation*: The retailers joined the two clusters and gave moral, financial and practical support to demonstrate cooperation with their local suppliers and assist in raising the general competitive level of local apparel firms.

- *Industrial policy cooperation:* The creation of a Business Alliance, comprising retailers, apparel manufacturers and textile mills, presenting a common strategic position to government and union in various negotiations over issues affecting the industry, e.g. the CSP, the China quota agreement, etc.
- *Supply chain alignment:* Harnessing government funding support, individual retailers and key local suppliers created supply chain clusters to effect value chain alignment and build systemic competitiveness.

The principle underlying this shift was that the main advantage the local apparel manufacturers had in competing with imports was if they took advantage of their geographical localness in order to provide retailers with speed and flexibility of supply. Based on the successful Turkish model of supply into the European Union, if they could cut lead times and introduce short production cycles then they could establish a significant advantage in the eyes of retail buyers against imported apparel. This shift to quick response supply however required value chain re-alignment between buyers and producers all along the chain. It also required retailers shifting from simply basing their buying decisions on competitive prices and large orders which required maintaining large stocks to moving to a new retailing model based on minimizing inventories and increasing their returns through repeatedly turning over stock within the year. This has been increasingly done through building individual retailer supply chains clusters working with key suppliers that have proven their ability to improve their competitiveness within the two clusters and taking them to a new level in a new process of upgrading and value chain alignment. Quick response experiments with such supply chain cluster alignment have demonstrated a significant benefit for retailers shifting to such a model.

The results of Quick Response pilots run between South African retailers and manufacturers over the last couple of years have demonstrated the potential positive impact for retailers and manufacturers of establishing a QR model. A total of 159 orders were, for example, run on the QR model across two South African retailers and a selection of their domestic suppliers in 2013, with 14.03% more Rands banked by the retailers relative to a control set of orders placed on long lead times out of the East. This is because the purchasing of the South African sourced QR product was adjusted on the basis of point of sales information and delivered back into stores within 56 days in the right colour, patterns, styles and volumes being demanded by customers. The products consequently sold at full price, providing the retailers with a higher retained margin than secured from their Asian sourced products, which required extensive marking down before being cleared (hence securing lower retained margins). The documented success of Inditex (Barnes and Johnson 2006, Barnes and Hartogh 2010, Ghemawat and Nueno 2006, Ton et al 2010), the world's leading apparel retailer, which purchases nearly two-thirds of its apparel from higher cost proximate suppliers in Spain, Portugal, Morocco and Turkey on a QR basis (and only around a third from Asia) is indicative of the opportunity.

These pilots have demonstrated that it is possible to maintain a vibrant domestic industry that provides labour intensive employment. Work through the Cape and KwaZulu-Natal Clothing and Textiles Clusters in 2013 (Stewart 2013) suggest that the apparel industry could sustain 110,697 formal sector jobs by 2022 on the basis of South

African retailers shifting 40% of their total purchases to the Quick Response model over the next decade. Key is developing the manufacturing performance attributes that align with Quick Response retailing requirements:

- High levels of product flexibility: shifting between knitted and woven product, as well as different fabric qualities and a variety of garment styles. This requires product upgrading at the manufacturers.
- High levels of production versatility: encompassing volume flexibility, short manufacturing throughput times, and a range of advanced production skills and associated equipment. This requires production upgrading.
- Supply chain management capabilities: managing not only production, but also product development, pre-production processes, fabrics, trims and any sub-contracted work, so as to guarantee lead times and the quality of merchandise produced. This requires functional upgrading.

The DTI's introduction of the Production Incentive and the Clothing and Textiles Competitiveness Improvement Programme in 2010 has supported a large number of established firms in their endeavours to embrace these upgrading challenges. The Production Incentive has, for example, paid out R2.5 billion in upgrading grant support to apparel, footwear and textiles manufacturers over the last four years (DTI 2014a), while the CTCIP has provided the industry with grants worth R633 million over the same period (DTI 2014b). This support has helped to initiate the re-capitalisation of the textiles industry that supplies South African apparel manufacturers (Barnes 2012), and has also supported the stabilisation of, and even growth in, employment within certain segments of the industry. For example, manufacturing employment within the TFG Fast Fashion Cluster, a CTCIP supported programme involving seven manufacturers and TFG, a major South African apparel chain, grew from 1,681 in 2011 to 1,893 in 2014, an increase of 212 jobs (12.6%). Similarly, aggregated employment amongst the members of the Cape and KwaZulu-Natal Clothing and Textile Clusters increased consistently from 2009 to 2013 (although at an average growth rate of less than 2%).

These successes have taken place on the back of substantial upgrading. They have been induced through a mix of successful, albeit narrow set of industrial policy interventions, the implementation of effective clustering methodologies, and firm-level recognition of the need for product, production and process upgrading. This has partly been in reactive response to intensifying international competition and partly in proactive response to the emerging demands of domestic retailers who are in the early stages of developing QR business models.

At the other end of the production spectrum, those apparel manufacturers operating at the bottom to lower-middle end of the market have responded in a different manner. Some firms simply relocated to Lesotho and Swaziland to escape the restrictive labour market conditions and wage systems in South Africa, maintained their value chain linkages to South African retailers, and flourished (Morris et al 2011). Others, caught by the policy refusal to take serious account of locational rural disadvantages and the bargaining council tendency to close the gap between metro and non-metro wages, simply ignored the bargaining council wages and paid a wage local workers would

accept to secure employment. The Chinese firms in Newcastle are the most publicly demonstrable example (Nattras and Seekings 2014). Another group of small enterprises, squeezed by the fact that the policy and labour market regime did not create sufficient differentiated space for small enterprises, hid beneath the radar in the informal economy (Edwards and Morris 2007). In effect all these firms (and the workers employed) have demonstrated with their feet that a policy environment and response ossified in an old ISI model restricts the competitive and employment basis of the South African apparel industry for this segment of the market. Importantly, the legal status of these firms has excluded them from participating in the DTI's PI or CTCIP support programmes. Participation in these programmes requires full Bargaining Council adherence on the part of each applying firm, effectively restricting the involvement of this category of firm. Without any obvious ability to define a competitive advantage based on design capabilities, product versatility, and/or advanced production capabilities defined by speed, flexibility, or assured quality, these firms have been forced into closure, their re-constitution as legal entities in neighbouring countries, or operating illegally in South Africa's marginal urban or rural geographical spaces. This has fundamentally impacted their ability to create decent employment opportunities in South Africa, trapped as they are in a "pincer movement" - between demand for Asian prices on the one hand and more advanced QR manufacturing capabilities on the other.

Conclusion

The South African apparel sector faces extreme competition from imported garments. This threat comes not only from China and other Asian low cost country production sites. It has also shifted to more competitive producers within SSA itself who present severe challenges at the middle CMT end of the market (Lesotho and Swaziland) or at the higher, more complex segments (Mauritius and Madagascar). The local apparel sector is thus under severe threat at all market segment levels, whether we are discussing those firms operating within the parameters of bargaining council compliancy, or the non-compliant Chinese owned firms in Newcastle and small informal economy enterprises hiding in Mitchells Plain and largely trying to compete on price alone.

If the sector is to survive then all concerned have to move from an old ISI defensive mind set of trying to protect those who are regarded as insiders and punish those who fail to achieve the compliance standards. This is a recipe for continued competitive decline on all sides, shrinking employment, and contraction of the domestic apparel industry. Policy has to move from a rigidified 'one size fits all', centralised, inflexible modality to one that stresses greater flexibility, decentralisation, and diversity. In other words a differentiated policy that takes into account the different needs of the industry. On the one hand support needs to be provided to the larger, more advanced firms that have the capability to meet evolving domestic retailer demand for speed, flexibility and assured quality standards, and that may even be able to establish themselves as exporting platforms for QR retailers in Europe (in much the same way as the Mauritian apparel industry has crafted a niche for itself in this regard). On the other hand, the regional location dynamics and differentiated value proposition of the less sophisticated, longer lead time, "commodity-type" apparel manufacturers that compete head-on against low cost Asian manufacturers at the bottom-end of the South African apparel market also

needs to be recognised, and factored into policy directives and associated support and/or sanctions.

We argue that national policy has been sensibly re-oriented towards supporting the upgrading of the more advanced, Bargaining Council compliant set of firms, but that its narrow focus has effectively trapped the less sophisticated non-compliant firms in a non-dynamic, slowly diminishing, often labour exploiting model, with limited incentive for process, product or functional upgrading. How does one facilitate the inclusion of these firms in the industry's drive towards recapitalisation and its positioning as a medium cost, high value supplier to South African (and international QR) retailers?

The Turkish experience⁷ holds some valuable lessons here:

- Turkey has one set minimum wage nationally (around \$100 per 45 hour week), which is pitched at a non-metropolitan level, meaning metropolitan based factories have to pay well above the minimum wage to provide their employees with a living wage (50% to 100% higher than the \$100). This drives productivity and a focus on the sweating of overheads, as opposed to a singular focus on labour costs, in the metropolitan-based factories.
- Turkey has a flexible working environment, with factories permitted to extend their work week from the standard 45 hours to 54 hours on a non-negotiated basis. The additional nine hours are remunerated at a premium of 50% of the base hourly rate. This allows the factories to more effectively sweat their overheads and also permits them to adjust their production output on the basis of variable market demand.
- The entire Turkish apparel industry, and the associated textiles industry that provides the bulk of its required woven and knitted fabrics, is oriented towards competing on the basis of its Quick Response capabilities, and hence on a differentiated basis relative to low cost Asian competitors. The industry is consequently focused on continuously upgrading its product, production, and functional capabilities, with a seamless set of linkages between the more advanced, high value adding (but necessarily more expensive) metropolitan-based factories (and their design centres) and the less advanced, lower cost rurally based factories.

Having considered these challenges exclusively in relation to the apparel industry so far, what does our argument mean for manufacturing employment in South Africa more generally?

- Industrial policy needs to be “tied up”. Focusing on the provision of upgrading support is required, but treating an ISI-based labour market structure as sacrosanct, when it lies at the heart of the inability of firms to successfully compete in the domestic (and international) market space, is severely limiting to the resuscitation of labour-intensive industries.

⁷ Evidence secured from factory-based study tours to Turkey in 2011 and 2014 by one of the authors.

- The informalisation of manufacturing activity has to be reversed if sustainable, reasonable employment opportunities are to be created. Firms need to be incentivised to formalise, grow, and advance their operational capabilities; thereby allowing them to escape the “factor-cost trap” that informalised production leads them into. Competing on the basis of low labour productivity, and associated aged, poorly maintained capital equipment, can only lead to a “race to the bottom” outcome that is ultimately not in the interests of any sector stakeholder: government, capital or labour.
- “Forcing” demand for South African manufactured products, whether through quantitative import restrictions (such as quotas), locally-mandated government purchases (e.g. designated sectors under the national government’s public procurement laws), or increased tariffs, may shore up the position of certain manufacturers in the short-term, but unless the underlying reasons for the lack of firm-level and broader sector competitiveness are dealt with the ongoing long-term decline of manufacturing is assured.
- Identifying, and responding to the multi-faceted factors that either support or undermine the ability of firms to successfully compete is therefore of paramount importance to the creation of labour absorbing development trajectories within sectors. Macro factors, such as market forming trade access/protection and monetary and education policy (amongst others) may create the base conditions for the growth and/or demise of manufacturing sectors in developing economies such as South Africa. But how does one induce capital and labour to embrace development paths grounded in sector-based competitive realities that have the potential for positive outcomes for the entire sector, and South Africa more generally, rather than short-term vested interests?

We contend that the sustained growth of the apparel (and other manufacturing sectors) in South Africa will only occur when the hard realities of South Africa’s position within Global Value Chains is clearly understood, sector development threats and opportunities identified, and a social compact formed to effectively respond to, and benefit from, the substantial domestic and international market prospects that exist. The strategic focus (or foci) this will give rise to will vary from one sector to another, although a central tenet to all potential industry development is the need for continuous product, process and functional upgrading. Only then will South Africa’s factor cost disadvantages be mitigated. Evidence from countries such as Turkey, which have successfully competed in the labour intensive apparel sector (even with factor costs substantially higher than South Africa’s) over the last decade, highlights the potential of this development path.

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