

**PROMOTING THE COMPETITIVENESS  
OF TEXTILES AND CLOTHING  
MANUFACTURE IN SOUTH AFRICA**

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## ABSTRACT

This discussion paper summarises the findings of a study carried out in 1997-1998 of the textile and clothing industries of South Africa. The full research report is also available from the EAGER project. The research combined quantitative and qualitative competitiveness analysis to identify best practices used by South African manufacturing firms. The country's textile and clothing sector benefited greatly from domestic market protection. As South Africa rejoins regional and global economies, it faces increasing competition from legal and illegal imports at various points along the industrial value-chain and must learn to compete. Among the findings of this study are the following:

- **Escalating tariff structures**, which protect domestic raw material and input manufacturers against imports, penalise firms which prefer to access inputs from foreign suppliers. Access to foreign suppliers at world prices is a critical component of success of major textile and apparel exporting countries.
- Thinking of the **fibre-fabric-apparel pipeline** in integrated terms, implying that the interests along the chain should be convergent, is a strategic blunder for individual components of the industry, for which international markets now exist. Rather, each industry should focus on independent competitiveness strategies.
- South African industries are penalised by **economic policy instability**. Stability, or at least predictability, of macro and sectoral variables such as exchange rates, interest rates, wages, tariffs, etc. are necessary to minimise risk, encourage exports, and facilitate longer range planning.
- Use by firms of existing **government incentives**, such as duty credit certificates (DCCs) and export marketing assistance, is varied. Most exporters are quite familiar with DCCs and count on using them to help offset their costs, biased upward because of the aforementioned protection. However, many firms are confused by the range of incentives available from the DTI, and do not avail themselves of export marketing assistance.
- An interesting subset of firms is experimenting with **alternative ways of doing business**. For some, this means moving part or all of their manufacturing off-shore, within southern Africa. For others, this means introducing innovations in South Africa such as new product lines, information management systems, inventory control methods, overseas market contacts to input suppliers and final clients, means of ordering work flow through the shop floor, and forms of labour relations to improve worker productivity.
- **“Workforce training”** is needed at *both* management and worker levels, although the former is more critical. Management needs help in a wide range of modernisation efforts, including in realising how its workforce can be a potential source of valuable innovation ideas, thereby improving productivity, increasing profitability, and ultimately resulting in higher wages for a more highly skilled workforce.
- Several **product niche opportunities** are being missed (Mandela shirts, Afro-centric designs in clothing, Afro-centric clothing itself, wildlife/sportswear products,...), in both domestic and foreign markets. Clothing exporters should focus on product development and licensing to attract and retain consumer loyalty.
- **Applied technology research and development** is critical to sustained competitiveness and should be emphasised among South Africa's public-private partnerships in the textile and clothing industries.

Stakeholders to whom these findings were presented in February 1998 reacted with great enthusiasm to the report. Private firms encouraged the authors to use this research to inform policy makers both in the Department of Trade and Industry and the Parliament. An extension of the analysis to the regional level was also recommended.

Lists of the firms which participated in the study and the individuals contacted by the researchers, as well as a copy of the questionnaire which structured the firm interviews, are available upon request from Lynn Salinger (lsalinger@aird.com).

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**TABLE OF CONTENTS**

*Page*

**I. WHY THIS STUDY? ..... 4**

**II. INTERNATIONAL POLICY AND MARKET TRENDS..... 5**

**III. MANUFACTURING IN THE SOUTH AFRICAN ECONOMY ..... 9**

**IV. THE DOMESTIC TEXTILE AND CLOTHING SECTORS..... 12**

**V. STRATEGIC IMPLICATIONS ..... 24**

**VI. SUMMARY AND CONCLUSIONS..... 28**

**BIBLIOGRAPHY ..... 35**

## I. WHY THIS STUDY?

The present study focuses on a new opportunity for trade and investment in Africa, namely, in export-oriented textile and clothing sectors. Two issues, competitiveness and labour productivity, have been of particular focus in this study, undertaken in South Africa.

South Africa's industries have long been protected from competition with world markets by high tariff and non-tariff barriers. The effect of these tariff and non-tariff barriers has been to shift domestic demand for inputs from international to South African sources, available at higher domestic prices as a result of the border interventions. This policy of protection has had two effects. First, it makes domestically produced and imported goods more expensive in South Africa than they would be in the absence of these policies. Second, it makes South African exports more expensive on international markets, because of the higher cost of inputs. As a result, the textile and clothing industries in South Africa have long been inwardly focused, rather than export-oriented. Thus while the textile and clothing sector is significantly more developed in South Africa than elsewhere in Sub-Saharan Africa, the challenges it faces with respect to export competitiveness are still significant. How South Africa manages its transition to global market participation therefore may offer insights for other, more nascent industries in the region.

The Government of South Africa offers several export incentives schemes to textile and clothing exporters. However, as part of South Africa's commitment to the WTO, duty barriers on textile and clothing imports are being lowered, and the range of available incentives is being changed from price incentives to marketing assistance, as per World Trade Organisation principles. As South Africa's textile and clothing firms are increasingly having to compete with international suppliers in South Africa, neighbouring countries, and abroad, they face a steep learning curve. During the tariff phase-down period, South African firms must learn to contend with the pressures of globalisation in their industries. They must learn to compete.

Competitiveness is a term which has assumed a broad number of definitions in both the economics and business literatures. Some use it in firm management sense to mean financial or economic "profitability," others in a broad sense to compare economic conditions across national platforms. The term is used here to encompass both quantitative (cost) and qualitative (strategic management) factors.

This study believes that it is important to assess both cost and non-cost factors in determining a firm's competitiveness vis-à-vis international markets. The clearest evidence of a firm's international competitiveness is if it produces profitably relative to international suppliers, either as an exporter or import substituter. Moreover, the most competitive firms are able to increase their market share over time, relative to these same international suppliers.

The reorientation of South Africa's textile and clothing sectors toward export markets will have important implications for labour productivity and the demand for labour. As noted in Dickerson (1995, p. 10), "textile and apparel production often has been a first industry for [developing] countries as they have moved toward economic and industrial development." This is true for a number of reasons. Start-up capital costs, particularly in the apparel side of the industry, are low and the physical capital base is relatively mobile. Labour requirements are high, making location

of these industries attractive in countries with large supplies of relatively inexpensive labour. Employment generation is thus an important benefit of the industry, particularly for female labourers who often comprise a large proportion of the manufacturing labour force. Income derived by women from such “off-farm employment” is often the first contribution toward diversification of household income sources away from a traditionally heavy reliance on agriculture.

This topic is relevant in South Africa today. According to its per capita income, South Africa ranks as an upper-middle income country. However, this aggregate indicator masks a wide, bipolar distribution of income, a legacy of its apartheid past. Thus, many segments of the country’s population face challenges with regard to improving education, housing, health, and welfare which parallel those of lower income countries. South Africa also faces important challenges in the area of employment generation. With as much as forty percent of the employable labour force unemployed in some parts of the country, labour intensive development strategies are key political topics of discussion (Standing, Sender and Weeks, 1996). The labour-intensive nature of clothing assembly makes this sector an important one, therefore, from the perspective of job creation for the country.

These two themes – export competitiveness and implications for labour in a globalising textile-clothing industry – outline the breadth of focus of this study, which was developed in concert with the South African Department of Trade and Industry, the Textile and Clothing Federations, and the South African Clothing and Textile Workers’ Union. In addition, the study team met with members of South Africa’s research community from the Universities of Witwatersrand, Natal-Durban, Durban-Westville, and Cape Town with experience in these areas. The research report was presented at an EAGER workshop held in South Africa in February, 1998 and also was presented to the Cape Clothing Manufacturers’ Association.

The authors wish to thank the South African Department of Trade and Industry, the Textile and Clothing Federations, as well as the South African Clothing and Textile Workers’ Union, for their help in understanding the issues, accessing reports and information, and identifying survey participants. This report benefited enormously from their contributions and suggestions. The authors are also indebted to the hundred-plus firms which gave so generously of their time and business information. However, the final report reflects the views of its authors only and in no way engages the positions of the aforementioned organisations. The analysis and interpretation of global trends and South African cost data is our own.

## **II. INTERNATIONAL POLICY AND MARKET TRENDS**

Increased globalisation of textile and clothing production and trade has been facilitated by a confluence of factors, including changes in policies and market practices in general and in those specifically related to clothing and textiles.

A key element in the successful development of export-oriented apparel industries has been access to imported inputs from world markets at world prices. For the exported final garment to remain cost-competitive in the consumer market abroad, garments must be assembled in countries where the internationally sourced fabric and trim required for assembly are imported at low or zero

duties. Many developing countries had pursued strategies of import substitution to encourage domestic industrialisation back in the 1950s and 1960s, which meant that imports were subject to highly protective tariffs. In order to promote exports, these protective walls had to be circumvented. Some developing countries began to offer preferential duties and other advantages (e.g., relaxed labour codes, modernised power and telecommunications facilities) to enclave export industries, frequently organised in industrial parks known as “export processing zones” (Salinger, Savarese, and Amvouna, 1996). In addition to duty advantages, a nexus of efficient trade-related institutions such as customs services, port facilities, banking, telecommunications, domestic truck/rail transport, and sea/air transport in/out of the country are required. Finally, by managing local currency regimes to keep values at equilibrium levels, eliminating quantitative trade barriers, streamlining procedures for foreign capital inflows, and reducing or eliminating government intervention in the production and marketing of goods, governments have fostered economic policy environments conducive to international trade.

At the same time as international trade rules are changing, technological advances in electronic communications, international shipping, and management have facilitated the parcelisation of manufacturing processes. Reduction of manufacturing to small, simple tasks enables multinational firms to contract these tasks to foreign collaborators, partners, or suppliers around the world. Unskilled or semiskilled labour in developing countries is hired to carry out these simpler tasks, while the more complex aspects of design and co-ordination of production, trade, and commercial activities is managed by higher-paid skilled labour in developed countries. This international division of manufacturing labour will evolve as a broader pool of skilled labour is trained outside of the developed world. The result of this international division of labour has been a steep increase in import dependence by developed countries for certain products.

As the success of new developing country textile and apparel exports took hold in the 1970s, textile and apparel interests in developed countries grew increasingly protectionist. Under the Multi-Fibre Arrangement (MFA, 1974-1994), textile and clothing importers established bilateral import quotas in individual product categories whenever a trading partner’s exports to its market became threatening to domestic market interests.

This system of regulated textile and apparel trade actually helped to spawn increased internationalisation of production of these very products. As quotas were used up in one exporting country, international clothing entrepreneurs frequently sought new production platforms in which to establish commercial relations with existing manufacturers or even establish new manufacturing operations altogether. Exports from a new platform could grow for some time, without the risk of a quota, before attracting the attention of importers. This “quota-hopping” behaviour of the international clothing industry is one of the factors which enhanced the establishment of clothing operations in developing countries (Whalley, 1995).

Today, the MFA is dead and international textile and apparel trade is managed by the Agreement on Textiles and Clothing (ATC), signed as part of GATT 1994. The ATC lays out a staged process for liberalisation of bilateral import quotas over a ten-year period, through 2005. This obligation applies to the four countries or country groupings which maintained restrictions under the MFA, namely Canada, the European Community (of twelve), Norway, and the United States, as well as fifty-five other countries which chose to use transitional import safeguard mechanisms.

The shape and dynamics of international textile and apparel production and trade will thus have changed significantly by 2005. Countries and individual textile and apparel industries are beginning to adjust in anticipation of these global market and technological changes. These changes hold important implications for the competitiveness of firms everywhere and for the management and policy strategies pursued by firms and the governments that regulate their markets.

Pressures to remain cost-competitive have led many clothing firms based in industrial countries to move important parts of their production offshore. Regional or bilateral trade agreements have been developed to allow textiles produced in capital-intensive industries in the industrial countries to be processed into home textile and apparel products by labour-intensive assembly operations in developing countries which rim industrial country poles. These goods are then re-imported with duty preferences into the industrial countries for end consumption. "Outward processing traffic" (OPT), as this arrangement is known, takes place between Germany and Eastern European countries such as Poland and the Czech Republic, between France and Mediterranean clients such as Morocco and Tunisia, and between the United States and Mexico and Caribbean partners. For example, special concessions in the North American Free Trade Agreement (NAFTA) and the Caribbean Basin Initiative (CBI) grant OPT operations preferential access to North American markets. Similarly, within the Southern Africa Customs Union (SACU) and vis-à-vis certain Southern African Development Community (SADC) neighbours, South Africa allows imports of textiles and clothing at low rates of duty, encouraging "the NAFTA-isation" of these sectors, i.e. the spread of manufacturing activities into lower-cost neighbouring countries such as Botswana, Mozambique, Lesotho, and Malawi, for re-import back into South Africa.

The first effect of increased globalisation and liberalisation of international trade is a reduced emphasis on cost as the sole determinant of competitiveness. Whereas neo-classical economists previously focused on relative costs of production as the key factor influencing "comparative advantage," today other factors are recognised as being just as vital. This becomes increasingly true the more countries liberalise their economies and squeeze out the costs of inefficiencies.

For starters, when costs of production are defined as the costs of assembly and delivery to an export point, these costs usually represent a minor portion of total cost. The largest component of total cost today is the value of all the services bundled into the final cost of goods. Today's vendors of differentiated consumer products must also expend for product design, rapid turnaround of designs, the overhead costs associated with developing international market linkages, merchandising, service, inventory management, lead times, transport and trade, and quality control in order to nuance their products in the eyes of the purchaser.

More importantly, consumer preferences are changing. Consumers in developed and newly industrialising countries no longer demand standardised products, but rather products that will distinguish their wearer from the masses around him or her. Thus, textile mills which provide specially-treated fabrics offering unique looks or wear characteristics and apparel companies which can provide sophisticated, quality products will more successfully appeal to end consumers and achieve higher returns than those which supply standard cotton knits and wovens. Moreover, increasingly sophisticated consumers are demanding increased variety of product choice. This is leading to shorter product seasons, more rapid product cycle turnover, and smaller lot sizes. The competitive apparel firm must be responsive to these changed demand parameters as well.

As a consequence of shorter product cycles and more rapid turnaround, retailers are assuming a much more pivotal role in the design and merchandising process in the U.S. and elsewhere. Private labels designed by retailers are beginning to take market share from established brand labels in many markets. Assembly of private label clothing is much more heavily dependent on imported garments in the U.S., as retailers seek the lowest cost platforms to contract for the manufacture of their wares. While this trend bodes well for foreign apparel suppliers, it brings increased responsibilities for them in terms of inventory management, order control, and delivery of goods. Foreign suppliers need to adopt more sophisticated, computerised systems which can follow inputs, cut-ups, and final goods through every stage of the apparel export process. Firms which can manage this pipeline effectively, and communicate regularly with their clients at every stage of the process, will outcompete those that cannot.

Another aspect of consumer responsiveness is quality. Increasingly, consumers expect fabrics whose colours do not run and clothes whose seams are finished and whose fit is right. One strategy being pursued by large apparel manufacturers in the U.S. today to counter substandard product quality is automation. By computerising cutting and particularly tricky assembly operations, standard sizing and enhanced end-product quality can better be assured. The U.S. industry is also actively pursuing demand-activated manufacturing technologies, i.e. technologies which will allow manufacturers to more accurately and rapidly respond to tailor-made style and size orders. The use of whole-body scanners by manufacturers and retailers will allow customers to order clothing cut and assembled according to a large array of computerised patterns so that the final product fits individual body types correctly. The use of snapshot fashion ordering systems and digital fabric printing will allow mass customisation to be realised, i.e. the manufacture on a large scale of speciality products tailored to individual consumer style and colour preferences (Pine, 1993; Anderson et al., 1997). Research and development of these new technologies in the U.S. is funded by private-public partnerships incorporating fibre producers, textile companies, labour unions, apparel manufacturers, researchers, and the U.S. Department of Commerce. Another research and development focus being conducted in private-public partnership is with regard to improving efficiency of sourcing, inventory, and warehousing operations, and reducing pipeline bottlenecks and improving flow from fibre to consumer.

This overview of international trends has highlighted how changes in industry parameters are effecting changes in the international regulation of textiles and clothing trade. This in turn is spawning a wave of liberalisation and innovation, changing the way countries and their firms will challenge each other in the market arena.



### **III. MANUFACTURING IN THE SOUTH AFRICAN ECONOMY**

South Africa's post World War II import-substituting industrialisation (ISI) strategy relied heavily on the country's mining industry and the social and economic structure of apartheid. The ISI strategy immediately boosted demand for intermediate inputs and proved central to establishing the foundations of the country's manufacturing sector which became centralised in two locations: the former Pretoria-Witwatersrand-Vaal triangle and the Durban Functional Region (DFR).

The initial success of this economic development strategy was illustrated by the rapid growth of GDP, which peaked at 6 percent per annum between 1960-1965. In this period, the growth of manufacturing output and employment growth peaked at 9.9 percent and 6.8 percent respectively. However, while the strategy succeeded in producing consumer substitutes, it was dependent upon importing capital goods, which required the expenditure of more foreign exchange than was generated from the export of primary goods.

Owing to these structural factors, economic growth began to slow down by the early 1970's and entered a spiral of decline. At the same time, the country entered a period of increasing political turbulence and international isolation. In addition, a shift in policy was needed to unlock the foreign exchange constraint and a looming balance of payments crisis. The government of the time thus decided that this shift in emphasis should be towards an export oriented growth strategy and further import liberalisation.

Based on the recommendations of the Van Huysteen Committee, a new reinforced system of export incentives was introduced in September 1980. Essentially, this strategy sought to offer local producers incentives to penetrate overseas markets. However, its introduction coincided with the massive real appreciation of the Rand and the onset of world recession. These factors rendered the change in policy ineffective and actually resulted in a decrease in exports. Yet despite the highly unstable nature of the South African economy throughout the 1980's, substantial changes in policy were made (Bell, 1993). In an attempt to compensate exporters for the Rand's overvaluation, the government introduced the General Export Incentive Scheme (GEIS) in April 1990. This strategy was further augmented by other general schemes which allowed duty exemptions or rebates on goods imported for the production of exports (known as Duty Credit Certificates, or DCCs), accelerated depreciation rates, and subsidised loans.

Within this context, the general performance of the manufacturing sector in South Africa has been rather poor over the last twenty years, even after the introduction of GEIS. The early 1990s were an immensely difficult period for manufacturing with an average annual change in industrial output of -2,6 percent (Harrison and Morris, 1996). More conservative estimates of total factor productivity for 1981-90 are around -1.9 percent.

Total factor productivity growth (TFPG) in the South African manufacturing sector over the two decades since 1970 has been very poor. One influential study contributing to the debate over

explanations of this decline was the Industrial Strategy Project (ISP).<sup>1</sup> A key finding of the ISP was that South Africa's protective trade regime and the lack of international competitiveness in South African manufacturing were important barriers to TFPG over the 70's and 80's.

South Africa's Government of National Unity, elected in 1993, has had to contend with two new economic realities. The first is the result of the end of apartheid, which brought the international economic community once again to South Africa's door, ready to invest in and trade with South African firms. This enthusiasm has created particular macroeconomic pressures for South Africa's leading economic policy makers.

By 1995, increased portfolio capital inflows caused further appreciation of the South African Rand, and the competitiveness of South Africa's industries continued to suffer. Thus, the attack on the Rand which occurred in early 1996 by the international financial markets was welcomed in some quarters for enhancing the competitiveness of South Africa's industries. In its macroeconomic strategy announced in mid-1996 ("Growth, Employment and Redistribution," or GEAR), the Government recommended a conservative fiscal and monetary program to dampen inflation and stabilise the Rand. Although strongly supported within the government, the GEAR was criticised for raising domestic interest rates, curbing economic expansion, and thereby exacerbating unemployment, of particular concern in a country where employment patterns are already highly skewed.

The second new economic reality is South Africa's accession to the World Trade Organisation (WTO) via its signing of the Marrakech Agreement (referred to as GATT 1994). This treaty, signed by more than 130 countries, integrates for the first time a broad range of products and a wide community of nations into an international legal framework for trade. Previous international trade agreements under the GATT (General Agreement on Tariffs and Trade) had established rules of trade for a subset of manufactured products. GATT 1994 includes such products as agriculture, textiles and clothing, services, and investment-related measures. Moreover, membership in the WTO now encompasses most developing countries. Some of these in Sub-Saharan Africa have not been active traders to date. Many others in Asia and Latin America, however, have become important players.

The manufacturing sector is the highest contributor to South Africa's GDP at 24 percent (South African Reserve Bank, 1997), followed by trade (15 percent) and finance (15 percent). Hence, the levels of growth in the manufacturing sector largely influence growth in GDP. Although there has been a gradual increase in manufacturing production over the last five years, the pace of this change is still far too slow. Moreover, the effects of shocks such as the rapid liberalisation of tariffs, the resultant increase in foreign competition, the scrapping of exchange controls, and the decrease in the value of the Rand are now beginning to weigh quite heavily on the sector.

Within the private sector, manufacturing is the largest employer and accounts for approximately 42 percent of all private non-agricultural employment. However, the rate of employment growth

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<sup>1</sup> The ISP was initiated by the Congress of South African Trade Unions (COSATU) in 1990. A series of industrial sector studies was undertaken by South African researchers to contribute to the design of industrial policy for the emerging new South Africa. See Maree, 1995 and Altman, 1994 for studies of the textile and clothing sectors.

is very poor and the effect of the poor growth in manufacturing productivity has worsened this situation. Differential patterns of employment growth have been observed within manufacturing. Some industries have experienced significant absolute increases in employment, while others have had quite the opposite experience. Of those industries that have benefited, the largest absolute increases since 1990 have been in clothing and electrical machinery. By contrast, the food and textiles industries experienced major job losses between 1990 and 1996.

Certain sub-sectors of manufacturing are struggling to adjust to the rapid and extensive exposure to foreign competition. Trade liberalisation in the form of deregulation of local production and marketing, removal of import surcharges, and the reduction of import tariffs, has in some measure contributed to the present deficit on the current account of the balance of payments. Large-scale illegal imports have worsened this exposure, and this has resulted in many local manufacturing firms being unable to compete on a equal footing. This situation has been even further compounded by the change in the structure of South African manufactured exports from gold to non-gold merchandise, whereas in the past, high gold exports could act as a buffer against a negative balance of payments (NEDLAC, 1997).

The composition of South Africa's exports has changed substantially in recent years, with the consistent decline of gold and other precious minerals relative to other non-gold manufactures. Indeed, non-traditional manufactured exports are now seen as the key component of any export driven growth strategy South Africa may want to pursue. The key question however, is how to make these industries more internationally competitive.

Within manufacturing, the textile, clothing, and leather products and non-metallic minerals sectors have enjoyed the highest levels of nominal protection. These give only a partial indication of the effect of the trade regime, however. In order to take into account the full effect of protection on inputs as well as outputs, the effective rates of protection must be considered. At the two-digit level, the textile and clothing industry is afforded the highest level of effective protection. Such high effective protection acts as a bias against exports. In order to combat this, South Africa introduced several export subsidy schemes, mentioned above, including the GEIS. The value of these export subsidies increased with the level of beneficiation (value-added processing), the level of local content, and the value of the Rand.

Thus, the overall macroeconomic position of South Africa, with its sluggish growth and overvalued Rand, combined with low relative levels of investment expenditure and high effective and nominal rates of protection in the textile and clothing sectors, have greatly weakened South Africa's textile and clothing sectors with respect to their ability to penetrate export markets. An analysis of available secondary data of the clothing and textile sectors suggests that both industries have lost employment since the 1970s. Wage and productivity data indicate that while the textile industry has narrowed the racial wage gap, the clothing industry has not. On the other hand, while productivity levels have fallen in textiles, they have risen in clothing.

The trade data illustrate that both sectors, relative to other manufacturing sectors, are outward-oriented and are experiencing above-average export growth rates. The direction of trade statistics reveal that Europe and within it the United Kingdom are the primary destination for exports. However, foreign markets are the residual market for South African firms, for whom the domestic market is the primary consumer of local production. Qualitative factors affecting the ability of

these firms to compete globally and the strategies they are pursuing to improve such ability are explored below.

#### IV. THE DOMESTIC TEXTILE AND CLOTHING SECTORS

##### *Western Cape*

There can be no doubt concerning the challenges facing the Western Cape clothing and textile industries. The advent of cheaper legal and illegal import substitutes in recent times has crippled both industries. This was inevitable, given the industries' years of isolation and protectionism and South Africa's recent decision to integrate with the world economy. Competition from lower cost garments and fabrics, primarily from Asia, are one of the key reasons for the general downturn in clothing and textiles. There exists, however, a vast resource of experience and expertise in both sectors that may enable each sector to reposition itself in the next few years as a manufacturer of higher value-added, high quality fabrics and garments. This section evaluates the Western Cape textile and clothing industry in light of these new developments and the new directions for the industries that have been proposed.

The basis of the analysis that follows is a series of open-ended interviews with clothing and textile firms operating in the Western Cape. The sample of clothing firms suggests that an unexpectedly high degree of broad homogeneity exists amongst them. Most producers appear to be medium-sized and producing either in the middle or upper-end of the market. In addition they invariably make use, albeit in varying degrees, of assembly outsourcing (referred to as cut-make-trim, or CMT, operators). All employ a team of designers to assist in production. The only differentiating factor amongst the firms was the **degree of export orientation**. Just under half of the sample were exporters, with most of the other firms never having even considered the option.

One of the more prominent labour issues in the clothing industry relates to the **price of labour**. The concern of industry managers around the wage rate is reflective, more generally, of the national debate on wage restraint in particular and labour market flexibility in general. This study's survey revealed a significant variation in the contribution of wages and salaries, represented as direct and indirect labour, to total costs. The range for the sample was a low of 8.7 and a high of 37.1 percent. A rough mean of 23.4 percent suggests that on average, close to a quarter of total costs are represented by wages and salaries in this select group of formal sector Western Cape clothing firms.

Wages are viewed by managers as only one, and perhaps even a relatively minor, element in what they perceive as rigid labour market regulation faced by clothing firms. They contend there is no opposition to paying full wages and benefits to contract workers. This is not to say that employers are content with current wage levels, particularly in comparison to East Asian competitors. However, in the main, their concerns do not revolve around wage levels. Indeed, some employers feel that the union movement's wage demands has become more realistic in recent years.

Employers rank dilution of contractual obligations as more important for **labour market flexibility** than lower wages. Employers stress that rather than wage restraint, greater employment practice flexibility is needed, while continuing to respect prevailing institutional

arrangements such as negotiated wages and other conditions of employment. Firm owners believe that the inability to hire contract workers for longer than three months militated against greater hiring flexibility. The form of flexibility desired by the majority of firms is one which allows employers to hire workers for specific periods which they would determine. Employers view such autonomy in hiring practices as more important than being able to independently determine the price being paid for hiring these workers. Legal regulation of employment in South Africa obliges retention of inefficient and unproductive workers even in times of poor sales, when workers cannot be laid off. This rigidity in hiring and firing of workers is problematic for management in a volatile industry, which is highly seasonal and also subject to the demands of a dominant retail sector. Such employment flexibility is already being enjoyed by informal sector clothing producers, many of which, formal producers feel, are able to thrive precisely because of this lack of labour regulation in their sector.

A variation on the demand for hiring flexibility is with respect to **work category flexibility**. The example provided by one firm is the ability to reassign an employee, employed as a sweeper, to do another job, such as loading a truck. Many employers claim that this, at present, is not allowed. The ability to shift workers between tasks while on the job is one component within the overall demand of greater flexibility in hiring.

The above arguments on flexibility emanate largely from the clothing industry. Textile firms interviewed in the Western Cape did not present any forceful arguments for enhanced flexibility in hiring practices. In textiles, firms incur large costs each time machinery needs to be started up at the beginning of a new shift. Thus, public holidays and other work stoppages induce large daily starting-up costs to the textile mills. For textile firms, greater labour market flexibility would enable them to move full capacity utilisation, operating 24 hours per day, 7 days per week, with a 360-day work year as the most optimal for increasing turnover and reducing fixed costs. East Asian mills operate thus, and global competitiveness requires that South African textile mills enjoy this flexibility as well. Such an increase in operations would also increase employment levels.

A common labour problem raised by almost all the clothing manufacturers and to a certain extent the textile owners is the **high rate of absenteeism**. The legislative provision for ten days of paid sick leave, which has only recently been negotiated between the Clothing Federation and SACTWU, has the effect of increasing the rates of absenteeism as workers ensure they take the full quota of paid leave days per year. Figures gleaned from the survey show that rates of absenteeism range from 4 to 18 percent. Production time is foregone, during which overheads have to be paid, resulting in higher unit costs and hence lower productivity. If a machinist stops work in the middle of producing a garment, and the garment has to be finished by another worker, the substitute is often not as good and the quality of the garment is forfeited. Thus higher rates of absenteeism can upset production patterns and may also reduce the quality of the final garment.

Since most clothing workers are female, and thus responsible for home and children, sick leave is often the time taken by clothing workers to deal with home duties. The costs to the firm, though, cannot be doubted. One firm has started an **incentive scheme** linked to attendance rates. The firm offers two weeks of pay at the end of the year to any worker that has been on leave for less than three days. This offer is probably indicative of the strain placed in firms through high rates of absenteeism.

Incentive schemes have been in place at some time or another in most clothing firms interviewed. There is a general consensus that these schemes are difficult to manage and often induce negative reactions from the workforce. One clothing manager eloquently pointed out that for a bonus scheme to be effective, it has to be valued at between 20 percent to 25 percent of the worker's base wage. Twin pressures of poor sales and wage competition oblige his firm to offer a lower bonus, equivalent to 10 percent of the base wage, resulting in a failed incentive scheme because its value was not sufficient to induce greater effort from the workforce. Some firms opt for an annual bonus based on a composite set of indicators. One firm, for example, provides a discretionary bonus that is weighted according to attendance records, performance, length of service, and the number of jobs regularly handled by the worker. Other incentive schemes are based on output, but are difficult to implement, given variations in the difficulty of production of various garments. The harder the garment is to produce, the less likely will machinists working on the harder patterns achieve the targets required for a bonus. A related problem is the free rider phenomenon when incentives are team-based. Such complexities have led many firms to abandon bonus schemes.

An ongoing issue in the clothing and textile sectors, and indeed in the national economy, is that of **training and skills**. In most factories, a period of in-house training follows initial hiring, with a close link between the intensity and length of this training and the type and range of garments being produced. Hence producers of high-quality garments offer a longer period of in-house training than producers of low-quality or relatively basic garments. Training is a risky investment, however, because a skilled worker can be poached easily by a competing firm.

The clothing and textile workers' union and employers are engaged in a debate concerning the recognition and development of skills. The union wants a workplace based on **multi-skilling**, i.e. qualifying an employee to handle multiple operations within the firm. While all factories understand the concept, very few have incorporated any form of multi-skilling into their shop floors. One firm has experimented with multi-skilling, wherein workers work in a team with no supervisor. Tasks are rotated regularly, which fosters the multi-skilling. In addition, the team approach makes workers feel more interdependent and helps to facilitate the production of higher quality garments. The experiment thus far has yielded a performance on par with the firm's upper-average production records, and expects to increase the amount of team work.

With regard to more specialised skills, many believe that South Africa's design skills are not globally competitive and could be improved. Firms complain of not being able to hire appropriate designers, and that domestic training programmes for designers are inadequate, obliging some firms to seek such skills from abroad.

Many managers pointed to the need to improve **management skills**. One textile firm spoke of experimenting with a team-based approach to management and had instituted the Top Quality Management concept, which relies on flattened hierarchies and working in problem-solving units. While there have been hiccups, the manager claims a great improvement in productivity and efficiency as a result of the new system.

While the clothing industry is relatively labour-intensive, there are significant **capital equipment investments** required. Most firms in the sample, however, have only made minimum investments in capital equipment in recent years. The view held by most manufacturers in the industry is that new machinery reduces unit labour costs by raising multifactor productivity. An example is the

purchase of a machine that automatically cuts off excess thread, thus avoiding the use of an extra individual to do the job. The result is an increase in productivity due to the purchase of the new machinery. Many firms claim that lack of capital investment is a major constraint to improved international competitiveness. New, more sophisticated machines would increase productivity manifold and would assist in reducing the costs of producing garments. The textile industry is more capital intensive than its downstream counterpart, and upgrading capital bases is required more urgently in this sector than in clothing in order to ensure competitiveness.

One of the most important considerations regarding investment is with respect to product price. **Real interest rates** in South Africa have arguably been very high, partly a consequence of the Reserve Bank's fight against double-digit inflation. Although one would expect firms to regard the interest rate as the primary obstacle to increased investment, the majority of survey participants do not view it as a significant barrier to investing. Many firms view the future potential in the industry, manifest in their own orders or the orders of competitors, as the primary determinant of whether or not to raise investments and improve technology. Those that do borrow money, do so from local banks. Accessing finance from foreign sources is non-existent, given South Africa's highly developed capital markets which provide supply, on the one hand, and a history of capital controls which constrain demand, on the other. While it may be an avenue through which to gain access to cheaper finance, South Africans are relatively inexperienced with foreign borrowing.

One of the consequences of the erosion of trade barriers and the resultant increase in legal and illegal imports of both clothing and fabrics has been the rise of informal sector firms in the industry, particularly at the bottom end of the clothing market. There are possibly two reasons for this **informalisation**. The first is the decline in formal industry employment, rendering many machinists jobless. Many of these retrenched workers go back into the only occupation they know, either as employers or employees, in the informal sector. A second possible reason is that of trade liberalisation, which allow informal clothing manufacturers to source fabrics independently either legally or illegally, and so challenge the dominance of formal sector producers. Of course, the very creation of these informal producers has a second round effect in the flourishing of informal traders in clothing, thus providing an ideal outlet for these manufacturers. Many informal producers are, more often than not, producers of relatively low quality and low value-added garments. An example of a garment widely produced in this environment would be tracksuits, which are relatively easy to sew and require cheap, readily available fabrics. This type of production has created a niche, at the margin, for informal producers in the Western Cape.

The distinct advantage enjoyed by informal manufacturers lies in employment and production practices. Given the near impossibility of detection by labour inspectors, it is claimed that most of these small producers are able to pay below the legal Industrial Council (IC) wage rates and do not pay benefits. Furthermore, employment is subject to availability of work, ensuring full flexibility in hiring practices. The informal firm's overheads are very low, given that very often production takes place at home, typical of cottage industries. Finally, working hours are completely flexible, with the machinists working according to client deadlines. If need be then, as one firm owner remarked, a 24 hour day can be worked when the need arises.

This completely informal sector coexists with the more formalised labour brokers who have a very close link with formal sector manufacturers and indeed in some cases a direct relationship with retailers. These labour brokers or CMT operators generally pay the IC wage rates and abide by most labour regulations. But they have no internal designers and sell only their labour, hence the term ‘labour brokers’. Labour costs at most CMT firms account for 70 to 80 percent of total costs.

Formal clothing manufacturers usually supply CMTs with contracts for surplus production, maintaining strict control over quality, delivery dates and so on, given the retailer’s stringent demands. One firm interviewed produces its own in-house brand and also does private label work for a major retail chain. This firm never outsources the private label work, but will do so with its own label clothing. This is as much a reflection of the dominance of the retail sector, as it is of the quality of work in many CMTs. Many firms also refuse to outsource what they perceive to be difficult or new designs, where supervision and the control over quality need to be tighter. With outsourcing, this kind of supervision is very often foregone. It is true that for those firms that outsource regularly, they need to employ quality controllers who continually supervise the CMT operators’ work.

Many firms admit an element of self-preservation in their relationship with the CMT operators. Should they outsource large portions of their work to the CMTs, then in the long-run the retailer may prefer to go directly to the source, thus avoiding the formal sector manufacturer. In many cases though, it seems that high quality CMT operators are hard to come by and retailers are willing to work via formal sector manufacturers who can handle these transaction costs. Nevertheless, the existence of a sizeable CMT sector offers an alternative to cumbersome production patterns and perceived labour market inflexibility in the formal sector. This issue will be explored again later on.

An important aspect of CMT operations is the seasonality of their operations, with no real steady or equilibrium production level. Some interviewees find it useful to consider the option of outsourcing to CMT operators in boom times. Such sub-contracting among formal sector firms, CMT operators, and the informal firms may create employment at the bottom end and help to close segmentation amongst these producers. Other interviewees believe that existing informal sector firms do not have the capacity to take on CMT work. CMT operators themselves do not find this an attractive option, believing that the principal contracts would eventually go directly to the informal producers and so omit them from the chain. Finally, some believe that the future of the industry will see increased proliferation of these informal producers, as higher clothing employment losses encourage many individuals to enter the informal sector. With less work coming to CMT operators, they will reorient themselves to the low-end of the market and the informal sector.

The **relationship between clothing producers and textile mills** is often beset with accusations from the clothing manufacturers that the textile mills are inefficient and often the cause for their delays in production. Clothing producers, under time pressure from retailers, argue that their failure to operationalise just-in-time (JIT) strategies is in large part due to inefficiencies and delays upstream in the supply chain. In response, one textile mill admits that his industry has a reputation for late deliveries, but argues that clothing manufacturers are naive about the process of fabric production, which is far more complex than that of clothing. To complicate matters further, the



stringent demands of the retail industry are leading to a more direct pipeline relationship between the textile mill and the retailer. Textile mills often must gain approval from the retailer before the fabric can be passed on to the clothing manufacturer, for example.

Within this environment of claimed inefficiencies, some textile mills have begun to institute **changes in production patterns**, moving away from the production of basic fabrics, where Asian competitors are able to offer fabrics at much lower prices, and toward higher value-added fabrics, with more complex dyeing and design requirements. This requires an upgrading of technology and equipment, an issue dealt with above. Mills also need to focus on smaller volumes where the turnaround speed is very quick. South African mills hope that geographical proximity to local clothing manufacturers will give them an advantage over the East Asians.

Probably one of the most salient features of textile-clothing industries around the world, and here the Western Cape and indeed the South African industry is no exception, is the dominance of the **retail sector in the pipeline**. Most clothing firms sell primarily to retailers, either chain stores or prominent independents. Clothing firms prefer business with independent retailers which offer more flexibility on mark-ups and thus greater profitability. Whereas the mark-up to a chain retailer may be 4 percent, it can be as high as 30 percent for an independent (although the latter tend to be more delinquent in payment).

Despite the lower mark-up and margin pressure, almost all clothing manufacturers have at least one chain retailer as a customer, given the high volume and large turnover they represent. The relationship is very uneven, however, as retailers often dictate all commercial terms. An indication of this power imbalance is manifest in the net returns in clothing as compared to retailing. Compared with 4 percent returns to clothing firms, retail returns are estimated at 150 to 210 percent. The explanation for this is quite simple: retailers control the consumer market. The five largest retailers in the country account for about 70 percent of total clothing sales. Given this high concentration, the clothing manufacturers inevitably depend on the business of a few, very large, retail chains. This gives retailers power to set prices and make stringent demands on quality and delivery dates. Some clothing manufacturers have opted out of the control from retailers, and entered the retail end of the market themselves. This is a risky option for most manufacturers. If they fail in retailing, closure is their likely fate, as other retailers would be unlikely to re-approach the firm. One major producer in the Western Cape has made a huge success of this move into retailing, enough to lead at least one medium-sized firm interviewed to consider the same route.

Some clothing firms argue that the retailing industry is destroying its own domestic supply base. However, much of the downward price pressure really emanates from increasing competition from East Asian producers. Some South Africans recognise that the future of global sourcing will witness buying agents for retailers active in all clothing producing centres of the world, to source the cheapest and highest quality garments for local consumption. The challenge for local manufacturers is to produce seasonal, high value-added garments, that can compete with the East Asians on price and quality.

A sketch of the possible **future of the clothing industry** in the Western Cape suggests that since non-seasonal clothing commodities, such as socks and underwear, are by and large more cheaply sourced from the East, seasonal or fashion garments, particularly at the mid- to high-end of the market, would seem to be the primary niche for clothing manufacturers in the Western Cape.

Within the next five years as the WTO agreement comes into effect and manufacturers feel the full brunt of the Asian producers, the firms that remain will be those producing at this mid to high end of the industry, together with those who are producing internationally recognised labels under licence of any type of garment. Over the next few years, marginal clothing producers at the low-end of the market will likely be forced out of the market.

Many clothing and textile firms, recognising the **changing competitiveness environment**, either intend to or have already instituted intermediate steps to transform their firms. There would seem to be three alternative paths to ensure this transformation: buying forward or backward into the supply chain, outsourcing all assembly work and existing only as a design house, or moving production facilities out of South Africa itself and into the Southern Africa region, the latter of which is already being pursued by some of the bigger clothing firms.

Buying downstream or upstream in the chain has already been discussed above in the case of clothing firms buying into the retail end. Some local textile mills have been considering buying into local cotton fields. This again creates economies of scale and also engenders certainty and efficiency in the supply base.

Re-creating oneself as purely a design centre has been seriously considered by numerous firms interviewed. Instead of having to deal with the added problems of labour inflexibility and managing an in-house factory, there is a temptation to hive off the entire production base and opt to become a pure design centre, outsourcing production to CMT operators. Such firms either work in tandem with chain retailers or create their own independent designs. All have full-time designers who travel abroad regularly to glean the best designs for each season. As a design shop, new problems present themselves, in the form of quality control and ensuring no delivery delays. The other danger is that retailers, who often have their own design teams as well, may opt to overlook the design teams of the manufacturer and go straight to CMT for production. However, design houses could offer to retailers not only their own designs, but also the ability to act as quality controllers over the CMT operators.

The final option of moving production “off-shore” into Southern African countries such as Zambia, Mozambique, Botswana, and Malawi has already been undertaken by some firms. One firm that has done so indicates that the benefits to moving are fourfold. Labour costs are at least 20 percent lower than in South Africa. Fabric duty in many of these SADC economies is zero, offering the firm a 22 percent fabric cost advantage relative to South Africa. In addition, direct costs to the firm work out to at least 20 percent less than those in South Africa. Finally, some host countries offer Export Processing Zone (EPZ) platforms, offering corporate tax exemptions.

Firms that have been operating in the region appear to be satisfied with the experience thus far. Some of the problems encountered include having to engage a workforce that, while cheap, is not as skilled or experienced as South Africans in producing garments. Hence, fairly significant training costs need to be accounted for when setting up in the region. Transport also appears to be a problem, with the poor infrastructure militating against easy and efficient delivery. In addition, the distances to South African ports are fairly long, making it hard to maintain a quick turnaround speed. Other additional costs include the maintenance costs of managers from South Africa that are in these countries in addition to the real difficulty of attracting adequately trained managers into these regions. Running costs of the factory can also be high, as inputs need to

come from South Africa. Should there be a machine breakdown, the required parts need to be flown in from South Africa. While the costs associated with moving production facilities into the region are high and seemingly difficult to reduce in the short-run, some large producers in South Africa and at least one in the Western Cape have made the move across the South African borders.

The South African clothing industry has never been **export-oriented**. Tariff liberalisation and the opening of potential export markets to these producers provides a new and largely unknown challenge to local manufacturers. Most sample firms intend, or have already begun, to export their products. Most exports markets are in the West, and to a certain extent, in the rest of Africa. Perhaps the foremost problem with entering into export markets is that manufacturers enter a market that invariably already has an established supply chain. One firm owner pointed out that although South Africa is about 5 percent cheaper than, say Morocco and Turkey, in producing garments, a foreign buyer is unlikely to change suppliers and opt for South Africans when there is nothing that assures him of the quality of these new exporters. Hence, the risk-averse route is taken and the original producers are maintained, with whom there have not been any significant difficulties in the past. Lack of information about new South African clothing exporters means that most foreign buyers are not aware of the experience and wealth of clothing knowledge in the country. If one combines this very closed international market with the reality of a depressed global market in clothing, the difficulties of breaking into export markets become more apparent.

**Problems involved in mastering export markets** include quality-, service-, and cost-related issues. Some manufacturers admit that their delivery runs are too long for some buyers. One producer of ladies fashion wear tried exporting to the U.S., but was informed that in addition to his price quote being too high, the six-month delivery runs offered were too long. The U.S. buyer opted instead to source garments from Mexico, another example of the importance of distance and regional trade agreements in determining trade flows. For many South African firms, the volumes demanded by foreign buyers are too large for them to meet. The argument that foreign buyers perceive South African FOB prices to be too high is all the more disconcerting given the low mark-ups which already exist on these products. The firms interviewed hold that the price disadvantage emanates from high costs of production of raw materials and labour.

An additional cost of trying to cultivate export markets is that of obtaining an effective marketing agent in the destination country. These agents are not paid purely on a commission basis, hence the costs to a firm that does not get any orders can be extremely high. For many of the smaller firms, these costs serve as a severe deterrent to accessing these as-yet untapped markets.

Many Western Cape producers manufacture internationally recognised label garments under license, providing a captured export market into Southern and Central Africa. Given the label and its reputation, manufacturers do not need to advertise the garment in any way. Producers have found, though, that exporting to the African market comes with its own problems. The most common complaint is that of delayed or lack of payment by banks in Africa. The second, more general problem is that of very low earning capacity in the region which limits the potential to expand and grow and export markets for label, high-end garments.

**Trade legislation** governing the clothing industry is severely criticised by both firm owners and union representatives. Firms are unanimous about the importance of GEIS and the DCCs to

maintaining their competitive edge in export markets. This logical reaction on their part fails to grasp that GEIS and DCCs were put in place to compensate for other economic distortions (import duties and Rand overvaluation) which are in the process of being dismantled. Still, many private actors fear that the termination of GEIS will jeopardise future export volumes. The uncertainty of the government's future trade and support policies also makes export planning difficult. Indeed the DTI's decision to extend the DCCs, while welcomed by the clothing industry, is indicative of this unpredictable policy environment.

The issue of **clothing and textiles imports** is one that unites the union movement and firms. Government trade policy is criticised both for its ineffectiveness in protecting against illegal imports and with respect to legal imports to which reduced tariffs are applied. Those producing at the low- and mid-range of the market are particularly hard hit. In the case of illegal imports the key problem would seem to lie with the Department of Customs and Excise (DCE), which is responsible for managing the entry of these imports. The DCE is perceived as extremely inefficient in controlling illegal import flows, partly due to their lack of autonomy. A further problem is that seized consignments of illegal clothing imports are auctioned off by the DCE. The same individuals importing the products illegally simply buy them again in the auction. Both firms and the union movement want this DCE practice to cease. The incentive for government to improve the enforcement in imports should be an increase in revenue by a substantial amount.

Administration of the DCCs, which have been abused by numerous local firms, is another imports-related concern. There are a range of issues relating to fraud, certificate of origin, and local content that render the monitoring of DCCs largely ineffective. Firms may claim to produce clothing in the Southern Africa Customs Union (SACU) in order to gain access to DCCs for this, when in fact no clothing is actually produced. For example, the volumes of clothing imported from Malawi outweigh the country's productive capacity, suggesting that clothing is being smuggling into South Africa via Malawi.

The final issue is the nature of import tariffs. Both clothing and textile firms feel that a more uniform, less complex, tariff structure is required. Some firms have called for a single flat tariff rate for both clothing and textile products. It is both simple and predictable. In this vein, interviewees view the government's policy on a tariff phase-down as both unpredictable and poorly handled with manufacturers and retailers.

### ***KwaZulu-Natal***

The clothing sector is the largest employer within KwaZulu-Natal's manufacturing sector. This, coupled with the relatively low barriers to entry in the industry, makes it a very strategic industry for development purposes. However, as in the Western Cape, the clothing industry in KwaZulu-Natal is a threatened sector. With government having agreed to a slower phase-down on tariff protection for textiles than initially envisaged as part of the commitment to the WTO, unanticipated negative consequences for the clothing industry may be felt.

Of the thirty-seven firms visited, fourteen are involved in **CMT production** only, while the remaining twenty-three specialise in **own production** of garments. Some CMT firms produce about 10 percent of their activities for their own account. Most of these express a desire to expand their own activities but cite lack of access to finance as the major obstacle. Another garment manufacturer now leases part of its floor space to a CMT operation. The idea behind this

is to ensure a constant throughput of garments, so they now have their own in-house CMT operation. Only seven firms do any kind of exporting. In most cases, firm size and type seem to be correlated, as many of the small firms are purely CMT operations. CMT operations tend to be sole proprietorships, while firms involved in own specialised production are either partnerships, large integrated holding companies, or family businesses. The bigger firms involved in own production seem to manage current risks in the industry more efficiently than smaller firms.

Many firms **outsource** work to other CMT operations. This is even true among CMT firms, with larger CMT operations outsourcing work, such as embroidery, to smaller CMT firms. Outsourcing is said to be an effective way to avoid labour problems and minimise overhead costs. This relationship highlights the effect of the pricing pressure which all firms experience. Chains place pressure on wholesalers and own producers, who in turn place pressure on larger CMT operations, who in turn place pressure on the smaller CMT to whom they outsource some work. Pressures on margins carry throughout the chain, but hit hardest at the smallest firms. Smaller CMT firms are not able to mark up their garments at all, and often produce goods at a loss just to stay in business.

The firms in the sample specialise in a range of different **product areas** (men's and boys' trousers, "upmarket ladies outerwear", children's wear, surf-wear, formal wear, knitwear). Firms involved in own production tend to be fairly specialised, pursuing niche markets as a survival strategy. Many firms involved in own production have a designer or design team. In most cases, designers travel overseas to source new fabric and ideas, although the frequency of this varies. For firms producing more standard garments (e.g., work-wear, men's trousers and shorts), designers travel less frequently and rely on local fashion shows and magazines for new ideas.

With respect to **short time and retrenchment**, most firms worked short time in 1997, although the extent of this varied. Firms with fewer than 50 employees worked more than three days of short time per month, while bigger firms worked less than 3 days of short time per month. Larger firms involved in own production estimate that labour costs are between 20 percent and 50 percent of total cost, while smaller, predominantly CMT operations estimate labour costs at between 45 percent and 80 percent of total costs. It is unsurprising, therefore, that smaller firms have a higher tendency to retrench employees. However, most prefer to work short time rather than retrench workers. There is a very strong sense of duty on the part of small employers, conscious of the fact that many of their employees (predominantly women) are sole breadwinners in their homes. Few of the bigger firms have had to retrench, but they are also the ones who can afford to relocate to outlying areas if necessary. One or two small firms indicate that if conditions in the sector do not improve, they will consider going underground and operating illegally, but still remaining in the central urban area.

The issue of **relocation** is an important one. Many firms operating in the Central Business District (CBD) area, where labour is regulated, complain about competition from relocated firms which face much lower labour costs. Wages in these outlying areas are unregulated and thus substantially cheaper (50 percent and 80 percent below urban standards, if one compares wage levels only). Benefits are usually not paid, representing further savings. Government and the unions are currently tolerating these relocations. The union is trying to organise labour in these areas but accepts that this will take time. The Government's Wage Board produced a set of policy recommendations regarding this issue (Wage Board, 1997). However, while urban-based

operations feel it is unfair that firms which relocate can take advantage of lower labour costs, they are not calling for a complete levelling of wages, but rather a narrowing of the wage differentials.

Most of the firms rely on on-the-job **training** and have not used the industry training programmes. Smaller firms (<100) say they cannot afford to send their workers to training programmes, while larger firms (>100) say that industry training programmes are unsuitable and too theoretical. Another concern is with respect to trained worker “poaching” by other firms.

Very few firms have any sort of **incentive scheme** in place, although all indicate that a piecemeal system would improve performance. Cost and complexity of management are cited as reasons for the lack of incentive scheme. A few firms are considering incentive schemes, but want to take their time in designing them carefully so that they are fair and efficient. Only the bigger firms have incentive schemes in place. One firm is trying to evolve from an individual-based scheme towards a group incentive scheme but said that this is being met with resistance by staff.

There is a fairly consistent attitude to **working conditions** across all firms. Hiring takes place on a word-of-mouth basis, and new workers are hired subject to a probationary period. Management style tends to be quite hands-on with managers spending a lot of time on the factory floor. Almost all workers are unionised and all firms pay wages as regulated by the industry. Several firms expressed concern that wage scales do not differentiate by length of experience, as a machinist with 30 years experience earns the same as a machinist with one year’s experience. Firms do practise job rotation, this being more prevalent among the smaller firms who feel it is a necessity to combat absenteeism.

**Machinery** tends to be financed on a hire-purchase arrangement or through a cash settlement. Bank credits are used reluctantly, especially by smaller firms. The age of the machine stock varies, but on average machinery is between three and six years old. Interestingly enough, smaller firms (less than 100 employees) tend to have relatively newer machinery than larger firms. There are two possible explanations. First, smaller firms (CMT mostly) are scrambling for business and have bought new machines in the last few years in an attempt to diversify into a new area to improve business. For example, they might have received an order for jeans, and to take on this work, have purchased new machinery. Second, because of the constant erosion of margins, bigger firms are emphasising operating profits, and as a result, have not invested much in machinery recently.

**Fabric sources vary** according to the kind of garments being made. Opinion concerning the quality of local fabric varies, but imported fabric is considered of standard high quality. Those not using imported fabric, mainly smaller firms, indicate that tariffs make the cost of imports prohibitive. The proportion of fabric cost to total cost ranges from 35 to 55 percent. Where fabric is a big component of cost, firms try to minimise their cost and use local fabric only. A few firms import some fabric and trims from the Far East, even for garments manufactured for the domestic market. Other firms indicate they make more use of fabric seconds to cut costs.

Annual **sales turnover** varies, as do profit and loss positions. In general, the turnover of smaller firms is declining, while bigger firms are experiencing moderate growth. All firms are experiencing “pricing pressure” from clients. All firms in our sample with less than 50 employees made a loss in 1996/7. Conversely, all firms employing between 50 and 200 staff recorded a profit. Firms

involved in own production are able to mark up their goods, while smaller CMT operations are not.

Even for those firms involved in **exporting**, foreign markets do not represent a substantial proportion of their business. Firms indicate they find local demand sufficient, and cannot yet compete with international prices. One firm expressed concern about regional trade integration, fearing that when the Southern African community finally agrees on trade in the region and barriers are removed, South African firms will not be able to compete with their neighbours. Some firms indicate that while their costs or run sizes are competitive for export, they are unsure of how to solidify contacts in overseas markets. Furthermore, exports are perceived by firms as being excessively complicated. Targeting exports is seen as requiring additional full-time staff to implement properly.

Few firms in the sample use **information technology** with any level of sophistication, making it difficult for them to track projects, materials, suppliers and customers in any kind of transparent way. Only the bigger firms have any sort of computer-aided manufacturing system in place.

In sum, the situation of the clothing and textile industry in KwaZulu-Natal needs attention by government. The days of a “one size fits all” policy need to be abandoned, as it is clear that smaller firms face very different challenges and constraints to larger firms. Yet the voice of smaller firms is often not heard in national bargaining forums. If policy is to play a constructive role, then it must take cognisance of the rich diversity of experience within the sector, and tailor strategies accordingly.

## V. STRATEGIC IMPLICATIONS

Most firms interviewed by our team are optimistic about the future of clothing manufacture in South Africa. The sample evidence suggests that there are many ingredients for success, some historical accidents, some favourable conditions external to the firm, and some directly the result of management practice. While no quantitative weight to the various factors is given here, a qualitative assessment of the nature of the successful firms finds a few salient features associated with good performance and dynamic plans for the future.

Combining the firm sample across the Western Cape, Gauteng, and KwaZulu-Natal provinces, growth patterns of firms are analysed according to a number of structural and strategic variables. It is hypothesised that firms may experience positive or negative sales growth as a function of their location, dependence on assembly outsourcing, age, size, market orientation, or input sourcing strategies. Moreover, plant modernity, design capacity, and inventory management systems can be indicators of management sophistication. Finally, innovations with respect to product, processes of manufacturing, and labour relations may also bear on the ability of management to grow its business. Management sophistication and innovativeness are assessed with indices derived from survey findings.

### *Comparative Firm Characteristics (Firms grouped by rate of growth of output)*

<i>(Number of firms in parentheses)</i>	All Firms (53)	All Growing (16)	High Growth (3)	All Contracting (8)	High Contraction (5)
Production in Central Area (%)	74.0	59.6	82.0	92.9	100.0
CMT Use (%)	51.5	39.7	56.7	56.3	64.0
Age	25.3	15.2	23.7	27.0	28.8
Employment	359.1	213.8	188.0	155.1	95.2
Sales (million Rands)	363.3	25.3	39.5	18.6	11.1
Exports (% of Sales)	4.1	3.7	10.0	5.0	0.0
Fashion Market (% of Firms)	77.5	85.0	100.0	75.0	100.0
Midrange (% of Firms)	70.0	81.3	100.0	66.7	100.0
Mass Market (% of Firms)	83.3	0.0	0.0	100.0	100.0
Fabric (% Imported)	44.1	36.9	22.5	37.5	50.0
<i>Indices</i>					
Capital equipment: Vintage	2.9	2.6	3.0	2.5	2.8
Capital equipment: Automation	2.8	2.9	3.0	2.4	2.8
Design: Vintage	3.0	2.7	4.0	2.8	3.0
Design: Automation	3.0	2.6	3.7	2.8	3.0
Inventory: Vintage	3.0	3.5	5.0	1.7	1.0
Inventory: Automation	2.7	3.2	5.0	1.0	1.0
Innovation: Product	2.5	3.5	3.7	1.5	1.0
Innovation: Large-scale Process	2.0	2.0	2.7	1.0	0.8
Innovation: Incremental Process	1.5	2.1	2.0	1.1	1.2
Innovation: Worker-Driven	0.5	0.6	1.0	0.0	0.0
Innovation: Labour Process	1.2	1.2	1.3	1.3	1.6

Notes: Analysis is based on the 53 firms for which direct observation of a range of types of innovativeness is available. "Vintage" refers to the use of traditional or outdated equipment, systems, etc., while "automation" suggests use of modern equipment or management practices. Indices are presented on a scale with 5 as the highest level, 1 as the lowest level, and zero for none. High growth and high contraction firms are those with rates of change of 25 percent or more in the last three years.

In trying to understand firm growth patterns, a range of structural characteristics for all 53 firms and for firms grouped by rates of output growth is presented in the first half of the table above.



Firms across the sample locate 74 percent of their production in central areas. Wages in these locations, usually urban centres, are the highest wages in the industry, ranging from 50 percent higher to more than three times the wages paid in outlying areas of South Africa. Other costs are higher as well, including rent and transportation.

Until the mid-1990s, firms in outlying areas were subsidised by the central government in an attempt to move jobs to the former South African homelands. Under provisions of the decentralisation laws, firms in outlying areas could receive subsidies up to more than 90 percent of their wage and transportation costs. Rent and investment subsidies were also offered. These subsidies are no longer provided, but firms in outlying areas are still exempt from national wage bargaining outcomes in the clothing industry. The resulting wage gaps are on the order of 50 percent or more (Wage Board, 1997). Since the average wage in clothing is only half that of manufacturing as a whole, production in areas not subject to wage minima are low-wage indeed.

Looking at the sample according to firms' output growth characteristics, the table indicates that firms which have grown in the past three years have the lowest concentration in the high-wage central areas (59.6 percent), while those firms whose output is contracting are more than 90 percent located there. The high contraction firms, i.e. those whose output fell by 25 percent or more during the three years prior to the interview, were entirely located in central areas. On the other hand, the high growth firms also located 82 percent of their production in central areas. Thus, the simple fact of location does not entirely explain firm performance.

A stronger result emerges for firm size. High contraction firms were considerably smaller in both employment and output than the average, while growing firms were also smaller than average but relatively large in size of employment. Smaller firms, then, are bearing the burden of adjustment in the industry.

Exporting firms also exhibit sharp differences in growth patterns from non-exporting firms, although only in the extreme growth categories. High growth firms export on average 10 percent of their sales, while high contraction firms on average export nothing. A similar distinction does not hold for market segment. All the firms in the high contraction group of firms produce for the high end as well as middle and lower market segments. The only difference between high growth and high contraction firms is that while all high contracting firms sell to the mass market, none of the high growth firms does. Thus, although selling in the upper end does not ensure success, selling in the lowest market segment does seem to be associated with failure.

Given the discussion earlier in this report of import penetration, both legal and illegal, this result is not surprising. It does, however, raise an interesting puzzle. Firms in the central areas are declining while those outside central areas are growing disproportionately. This suggests that a low-wage and presumably low-road strategy is being pursued and pursued successfully. At the same time, firms selling to mass markets are doing worse than firms eschewing this market segment. Thus the firms in outlying areas are either bucking the trend and growing by selling to the lower end or they are not pursuing the classic low road strategy. Evidence from the sample indicates that the latter is more the case than the former. It turns out that location in a decentralised area does not necessarily restrict a firm to a competitive strategy grounded in low-wage, mass production of standardised and cheap garments.

This interpretation is supported also by the varying degrees to which the different categories of firms depend upon imported fabric. It is common to hear complaints from clothing manufacturers about the high cost and low quality of protected domestic fabric. The survey data suggest that for this sample of firms, importing fabric is not a decisive factor in growth. High growth firms import an average of 22 percent of fabric, while high contraction firms import 50 percent. It is the uses to which the fabric is put, rather than the fabric itself, which must lie behind firm performance. In order to gauge the impact of firm management and innovation on growth performance, a number of indicators are developed.

Modernity of plant and management was assessed in several dimensions. First is the vintage of the capital equipment, which is assessed in the study both by the manufacturer's description of machines and of recent investment and by visual inspection during shop-floor visits. Firms are ranked depending on whether their equipment is dated or has recently been upgraded.

Design is a separate area in which modernity is assessed. The first design criterion is based on the general knowledge displayed in interviews of design trends world-wide and how frequently designers or other staff go abroad to trade shows or otherwise have contact with outside sources of design knowledge. Another dimension is the techniques used for designing and implementing the designs. This is judged primarily by the degree to which these functions are computerised.

Management modernity is indicated by management's familiarity with benchmark technology, products, and labour practices. It is evaluated in this study according to knowledge and/or implementation of such practices as just-in-time inventory, single item or bundle through-put systems, multi-tasking or multi-skilling, and labour practices such as quality circles or other participatory incentive schemes for motivation.

With respect to computerised order and inventory management, the use of advanced information systems is an important indicator of whether a firm is able to track the variables critical to its competitiveness. While many South African firms still use hand written style sheets to organise orders from clients and to sources of fabric and trim, schedules, production, inventory, and customer delivery, the most advanced firms are computerising these systems. Management information systems go well beyond computerised accounting records. The most advanced, usually custom-developed by the firms themselves, allow for integrated views of each stage of the design, production, and marketing process and give clients a view through the same window, via the Internet, so that customers can track the progress of their orders. Links to retailers' inventory and sales systems allows even tighter backward integration. Implementation of these systems, while costly and demanding in terms of worker literacy, numeracy, and computer skills, streamlines operations and facilitates integration into sophisticated world markets.

One of the basic defining characteristics is the degree of conflict in labour relations. While all firms are subject to common issues around SACTWU negotiations and actions, there is a wide range within our sample in both perception and reality of conflict between management and workers. To try to understand conflict, firms are also typed according to the internal labour relations practices, again using a mix of criteria. Firms are assessed according to the degree to which they train, educate, and/or multi-skill workers, the kind of bonus or other incentive scheme they use, the degree to which they promote from within, the openness of management to workers'

individual or group complaints or suggestions, policies toward discipline, and general attitude toward workers.

Some of the more cost-aggressive firms hire some portion of their labour from the informal market, by subcontracting production to smaller operations which do not have to abide by Industrial Council wage guidelines. In addition, labour in these firms is organised along assembly lines with each worker responsible for one operation only. The end result under this cost-minimisation strategy is a progressive “deskilling” of the workforce.

An interesting alternative strategy being explored in just a handful of firms we interviewed views assembly labour not simply as a cost line item, but rather as a potential source of process innovation. Labour, seen as a partner in the process of “learning to compete,” is organised in teams and workers are encouraged to share skills and contribute ideas for reorganisation of their work. This approach results in a more efficient use of labour by the firms, a “reskilling” of the workforce, as labourers master new skills and thus improve their productivity. It also results in an improved competitive position of the firm. This latter strategy offers the hope that labour may ultimately be able to share in the gains accrued from globalisation.

The degree of innovation evident in a firm, whether in terms of products or manufacturing processes, is another strategic element in its competitiveness profile. In this survey, innovation is divided into three main types: product, production process, and labour process.

In the clothing industry, the main type of product innovation comes from design or fabric choices.<sup>2</sup> Process innovations are divided here into two types, production and labour process. Production process innovations are those that arise from changes in the machinery producing outputs or organisation of non-labour inputs. Labour process innovations are those that involve changes in the organisation or use of labour in the production process. Introduction of a new machine or a new type of fabric glue would be construed as a production process innovation, while introducing group or team work would be considered a labour process innovation.

Production process innovations are further divided according to the nature of the innovation, large-scale or incremental. Large-scale innovations are characterised by new, expensive and technologically-sophisticated machinery, examples of which are automated cutting and stitching machines or automated conveyor systems to move and allocate work. Incremental innovation is based on adaptation of existing technology and/or machines. Examples are modifying templates to the specific stitching required for a particular style or adapting fabric spreaders to new types of fabric. These are innovations in the sense that existing capacities are changed to improve the quality or speed of production of the garment. Such adaptive innovation tends to occur gradually but continuously, hence the term incremental innovation. Managers, mechanics, and workers all may contribute to this process of adaptation and typically it happens on a small scale, without wholesale transformation of production.

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<sup>2</sup> No purely textile firms are included in this reduced sample. However, several included firms do produce some fabric, either knitted or specialized prints.

Comparing the nature of capital and levels of innovation across firm types, several characteristics are implicated in success. First, although differences in vintage or automation are not great between growing and contracting firms, high growth firms do exhibit much higher indices for modernity and automation in inventory and design capital. Second, growing as well as high growth firms are much more innovative in product. Looking at the indices related to the nature of the innovation process, we find that high growth firms are more innovative in both large-scale and incremental process innovations. The advantage, however, is greater in large-scale than in incremental process innovations, suggesting either that incremental changes are relatively strong in the less successful firms or that large-scale change is more effective than incremental.

Evidence on innovations in the labour process paints a more mixed picture. While innovation is more labour-driven in the growing than contracting firms, the opposite is true for innovations in the labour process itself. All indices of labour process innovation are low and differences across groups are very small, but the high contraction firms turn out to be the sample firms with the highest level. Again, there are several possible interpretations of this result. It may be that threatened firms are more willing to introduce more participatory workplaces, seeing it as the last hope (Flaherty, 1985). Firm size is also relevant, since small firms are more likely to have participatory practices. Firms introducing large-scale process innovations, which in the sample are disproportionately growing firms, are less likely to introduce participatory practices.

Two final indicators of innovation have been constructed from the sample data. Firms are classified according to whether the process of innovation is worker-driven. Worker-driven innovation occurs when workers suggest or initiate adaptations of processes. It would appear that firms which encourage worker-driving process innovations are higher growth than firms which do not. The second characteristic of firms included among innovation indicators is the effect of innovation on workers. Firms may be classified according to whether the innovations it pursues results in the deskilling or reskilling of its workers, or is neutral in its effect on workers. The survey results are inconclusive with respect to broader labour process.

## **VI. SUMMARY AND CONCLUSIONS**

There is not one route to success, and firms with almost any mix of the above characteristics can be successful. In this section, though, patterns are identified which point to the rules rather than the exceptions in successful firms.

Looking first at size, we have found that while more large firms are successful, there is wide variation within size categories. For large firms, the degree of success depends partly upon market segment, but also, and seemingly more important, upon the way the factories are managed. Small firms range from near sweat-shops to modern, flexible, relatively high-skill operations. Success for small firms depends upon knowledge of industry trends and upon investment, rather than upon low wages.

The most successful large firms we found share a number of characteristics with their less successful large brethren. They are able to exert some counter-pressure against large retail chains, so that their prices from the chains generally have not been as suppressed as those of smaller

firms. They are modest importers of fabrics and other inputs and modest exporters of their output. They have large in-house design and marketing staffs and do substantial in-house training.

Where the similarities end is in market segment, technology, and labour relations. Here a tale of two companies is instructive. To keep confidentiality, these two firms are stylised and not entirely real. The stylised unsuccessful firm is a combination of the features of two large companies interviewed and the second a combination of features of five factories of three large clothing and textile firms. Thus no real firm exhibits all of the characteristics of the stylised firms, but the real firms are nonetheless very close to this composite picture.

One large company (company A) produces for the mass market, has little computerisation of inventory, design or administrative functions, has not invested substantially in new machinery in South Africa, and quite explicitly views labour relations as purely a matter of discipline. A second large company (company B) has a more mixed market segment, ranging from up-market, relatively specialised products to more mass market items produced in long runs. This company also differs in its computerisation of design and administrative functions and in labour relations. Moreover, this company is informed of and experimental in implementing modern methods of organisation like just-in-time inventory control and flexible methods of moving work along the line. This company also has a policy of promoting through the ranks and of training for multi-skilling and multi-tasking. It rewards workers for suggestions that save money and it has a bonus scheme that increases the bonus percent as workers get closer to the target.

The first company, company A, has fallen on hard times and has downsized, with the ultimate goal of moving production out of the country all together. Company B is profitable and expanding. Although it has explored moving out of South Africa, it believes that there is plenty of opportunity to make money in South Africa and will stay.

Company A pays exactly the union-mandated wage, which it considers to be too high, and may have arrangements for overtime or weekend work which are not in compliance with contractually-mandated payments for this work. Company B pays a bit above the industry standard, even in formerly decentralised areas where labour is presumably lower-skilled.

Moreover, company B has found that even in decentralised locations, with presumably lower skilled labour, flexible production and just-in-time inventory control are possible, while company A relies on an organisation of production in line with the 'old competition'. This company practices just-in-case rather than just-in-time inventory, uses standard long production lines, and moves work in large bundles.

In internal conditions, then, the two firms are very different, one modern and one traditional. But the differences in product market may also be telling. The first firm may be unsuccessful due to bad market position rather than bad management or organisation. While a qualitative assessment cannot pronounce on the statistical significance of the various factors determining performance, it is true that company A has faced more significant problems with competition from illegal and legal imports than company B. A second key feature of this firm is that although it deals with a large retail chain as its major buyer, it does not feel that it has much clout with the retailer due to the availability of imports. Size in this case does not translate directly into ability to put as much countervailing pressure onto retailers as company B does. Thus, although company A has more

influence over retailers' payments for its output than does a small firm, it may have less than a similarly large firm in another market segment.

These external factors, however, also to some extent are pressuring the second firm. For several of company B's products, imports are becoming a threat. While their relations with chains continue to be more balanced than for the first firm, they have had to find other marketing strategies to reinforce their position. For example, company B firm has found processes which are unique and products which are branded under license to sustain its markets and hence its leverage over retailers.

The structure of the firm and the role of management also play an important role. Company B is either family-owned or, if part of a group, the manager is given considerable latitude in operational and even investment matters. Company A is more hierarchical and bureaucratic. It operates on the basis of profit centres, requiring each facility or division to be profitable, but does not seem to grant the divisional managers much autonomy. Rather, control appears to reside at the centre.

The degree to which the managers are outward-looking also varies between the two types of firm. Company B managers have studied and lived abroad and send their workers and staff abroad to be trained, as well as to technicians in South Africa. Company A managers may have international experience, but as ascertained from the interviews, interest in and on-going familiarity with foreign countries and their clothing or textile sectors is limited by comparison. Company B managers are active in pursuing foreign contacts and markets while company A's have given up on penetrating export markets (and even on defending their share of South African markets). More subjectively, company B's outlook is that apartheid-era policies stifled productivity while that of company A (often stated quite bluntly) is that conditions in the new South Africa preclude profitable clothing and textile sectors.

Finally, company A is looking toward vertical disintegration, while company B toward more integration. It may be that company A's previous level of integration was dependent upon the degree of protection and subsidisation given industry before 1992 and that disintegration is a rational response to changing circumstances. Nevertheless, it is striking that the company B approach emphasises several specific areas in which integration can enhance performance. Most often cited are the need for specialised printing or other kind of fabric treatment and for quality control in inputs.

A variation on this theme is the prevalence of outsourcing. While both companies, by virtue of being large, have substantial production facilities, company A does outsourcing and wishes to do more. Company B prefers to produce in-house for reasons of both quality control and efficiency of production.

The lessons from these two stylised firms are clear. While the first firm does have external conditions which are difficult, it has done little to respond creatively to the challenges. Its response is to continue to do what it has always done, only in a different location. It chooses locations which still look more like the South Africa in which it was for many years successful. The second firm, in contrast, is forward looking and flexible, changing its internal organisation and strategy in response to changing external conditions. A difference in spirit also emerges

strongly in the interviews. In company A there is an air of resignation, an implicit statement of an intent to give up. In the second company there is an enthusiasm for experimenting and an open-mindedness to solutions. For example, some changes which have improved flexibility in company B have involved simplifying and going back to old ways of doing things. There is no fetish made of achieving 'world class' production or introducing all of the components of what has come to be called 'new competition.' There is instead a willingness to introduce a fairly constant stream of small, incremental changes which taken together can yield large gains.

The main conclusion about size of firm from the interviews is not that size does not matter. Size does create opportunities denied to small firms. Size by itself, though, is not a substitute for the other factors highlighted above. Management education and spirit, the structure of the firm, and its labour relations swamp size as determinants of success. Market conditions obviously are important, but, as noted above, company A kinds of firms take the conditions as given, while company B firms try to change them.

If we consider small firms, the picture is somewhat different and not as clear-cut. By their nature, small firms are more varied. Some are simply CMT operations, some purely design studios, and others are integrated production and design facilities. Each type can succeed under some sets of external and internal conditions.

The more successful CMT operations we visited looked more like the large company B than the large company A, particularly in their labour practices. While management attitudes toward workers may be seen as paternalistic in these firms, there was a clear commitment to keep going because people depended upon these jobs. Moreover, there was an appreciation of the ability of workers to be flexible. While size makes it easier to develop labour relations based on personal relations between workers and management, the substance of these relations may still be more or less conflictual. The more successful firms were by their own characterisations less conflictual.

Labour relations are a critical factor in maintaining the success of these company B type CMT firms, since these firms also serve a higher-end market segment where quality determines continued work. These firms have regular, long-term customers, who also help sustain the CMT shops in slack times by sending them more routine work.

This symbiotic relationship between CMT firms and their customers stands in sharp contrast to the relations described by the less successful firms. The more marginal CMT operations complain bitterly about their treatment by their customers and have a very hard time making it through slack periods. They often impose extended short-time and as a result have high labour turnovers.

The company A kind of CMT firm also typically complains about both the quality and the cost of labour, while the company B type, although similarly squeezed by costs, sees the wages also in terms of the cost of supporting a family. The more successful CMT firms complain about the lack of flexibility of workers, but not about the level of commitment or diligence.

The experiences of small CMT firms thus reproduce to some extent those of large firms. Serving a higher quality market segment, achieving more harmonious labour relations, and having long-term relationships with customers all are associated with good performance, although none of these firms is highly profitable.

At issue is whether it is possible to disentangle these features linked to success and to weigh separately the contribution of each. There are obviously strong interdependencies among these three characteristics. Serving a higher quality and higher priced market segment presumably means serving more profitable customers who can better afford to support their CMT operators during slack times. Evening out slack in turn leads to less short time and hence less labour dissatisfaction and more commitment. Both these outcomes reinforce the CMT-customer relationship and support development of long-run relationships.

Within the framework of the qualitative information from the interviews, it is difficult to say which factors are more decisive. Historically, the more successful firms started with paternalistic but harmonious labour relations and evolved into their present market segments. Historical trajectory, however, is rather weak grounds for asserting the primacy of labour relations in CMT performance. A more direct connection is between the quality of the output and the reliability of labour. It is not possible to get work from the higher end chains or independents without adhering to strict quality and delivery standards, which depend upon willing workers. The more successful firms had very low labour turnover and absenteeism, adding to their ability to move quickly to satisfy retail chain demands.

One characterisation of how informal sector, low-end CMT operations achieve the same result provides a telling contrast. In describing the advantages of informal, neighbourhood-based production, an observer of the industry argued that there was never a problem with absenteeism in this set-up since “if the collar setter is absent, the boss can just go and haul her out of bed.” The likely difference in quality of work from the collar setter who works because she knows the firm needs to get the order out and from one who works after being “hailed out of bed” is all too obvious.

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In determining the policy implications of the survey data, a number of questions must be addressed. First, if it is true that firms of the company B type are indeed more successful, how can policy create or encourage company B behaviour? Will government or the private sector support such policies financially? If not, what policies may be consistent with government commitment to budgetary restraint? Second, is there room in the industry for many more company B firms? Can company B firms simply reproduce and avoid competing away each other’s profits? Should expansion of the clothing industry be encouraged or should policy be aimed at moving people and capital into sectors which world-wide are more dynamic?

Before this study can be used directly for policy, these broad questions need to be settled at the levels of both government and industry. Policies are interactive and a consistent package is required. Some suggestions do emerge, however, even from this qualitative information.

With respect to **human capital development**, central to firm performance is the education and skill levels of workers and managers. Government expenditures on basic literacy, adult education, and technikons will likely have the effect of “crowding in” private sector investment. An indirect effect may work through increasing the pool of trained black workers who can be promoted into supervisory positions (although this can be difficult for reasons related to shop-floor conflict



spilling over into communities). The firms we visited which promoted blacks through the ranks seemed to have less conflictual labour relations.

Changing managerial behaviour and attitudes is a more subtle problem. Attitudes toward the work force are deeply entrenched and will be difficult to change. The adult literacy programs being implemented now offer one avenue for increased awareness on the part of managers of the untapped potential of their workers. In one firm, the demand on the part of workers for more education has led to the creation of advanced courses and a greater willingness to send workers to technikons for further training.

**Access to working capital** is a second critical area, particularly if government is concerned with growing small firms. Something as simple as bridging finance for established CMT operations can help set into motion the virtuous cycle described above of avoiding slack time, having a more stable work force, and achieving higher quality and productivity.

On a longer term scale, investment capital is expensive in South Africa, with rates in excess of 20 percent, compared with international rates below 10 percent (in the U.S. and Europe). An inflation differential notwithstanding, this clearly constrains the enthusiasm of investors in new capital equipment in South Africa. Nevertheless, the textile industry in South Africa has invested heavily in recent years in new machines for spinning, weaving, and especially finishing in order to improve competitiveness.

Even more broadly, capital is technology. While other countries, such as the U.S., enjoy public-private research in the development of applied technologies to further the competitiveness of their textile and clothing sectors, we have found little evidence of this in South Africa.

**Policy stability** will be important to establish clear and at least medium-term policy parameters to minimise uncertainty about the macro, labour, and sectoral policy environments. A complaint frequently heard among company A type firms is that government changes its policies so often that planning is difficult. Policy stability will not necessarily overcome inherent risk-aversion in these managers, it will in any case be good as well for the more risk-taking firms. With broad changes in government now settled in South Africa, the private sector needs some assurances of stable, or at least predictable, exchange rates, interest rates, inflation rates, wage rates, tariff rates, and so forth.

**Export promotion incentives** is another area where increased intervention is needed, as revealed by the sparse use by firms of DTI support for trade-related travel. Programs to help firms become aware of and use the available export marketing assistance would be helpful to export initiatives. This would only support individual firm initiatives, however, and would have to be supplemented by more systemic efforts to market South Africa abroad. Here the CLOFED initiatives being developed through the organisation's export council are instructive. The most ambitious is the idea of an export clearing house, which would gather, disaggregate, and disperse export orders. This is also an idea which, from the interviews, would be a concrete contribution. Many firms expressed fear that export orders were too large for them to handle so not worth pursuing, yet they would mobilise for a smaller order.

None of these policies addresses the backward-looking propensities of many manufacturers. For these firms, no policy may be sufficient to induce them to change course. If so, there will be a natural clearing-out process after which the B-type firms will become a larger presence in clothing and textiles, which will perforce become more dynamic. The cost, of course, will be employment in a highly labour-intensive sector. This brings us back to the broader questions of policy raised earlier, about which government must decide. If clothing and textiles are deemed sectors worthy of intervention, this study can point out some potentially fruitful areas of policy development. If not, the study has found ample evidence of creativity and enthusiasm upon which these sectors can sustain themselves, albeit in a form which may be less socially desirable.

This report has presented considerable detail regarding the current state of competitiveness in South Africa's textile and clothing sectors. Broad policy implications have been drawn out of the qualitative assessments.

Several notes of caution are in order. This study has interviewed both textile and clothing firms (although the sample has been biased in favour of clothing firms) in the view that these are in many ways an integrated industrial pipeline. For analytic purposes, this view is appropriate. However, from a management or firm strategy perspective, there is nothing which necessarily binds these two subsectors together.

Internationally, there is great competition-cum-collaboration between textile and clothing firms, and there is every reason to expect the same in South Africa. Textile firms in the U.S., for example, in many ways take the technological lead in developing custom fabrics and finishes which give clothiers different apparel qualities to sell as part of their product images. On the trade front as well, outward processing traffic regulations are promoting textile firms as the dominant upstream corporate entity. In the U.S. market, for example, U.S. manufactured cloth is cut in the U.S. and sent to Mexico and the Caribbean for final processing into apparel. Textile firms, therefore, are becoming the pivotal link in the chain supplying clothing directly to U.S. retailers and circumventing the clothing firms.

Thus, in South Africa, too, firms at all levels of the pipeline must be encouraged to compete. South African textile firms may supply an increasing share of worsted woollens to the international market, for example. Household textiles is another broad segment which may find its way to foreign consumers. Changing the mentality about fabric exports may contribute to a changed mentality about fabric imports. Only when tariffs and duties on imported inputs come down further can South African textile and clothing firms operate on a more cost competitive basis in international markets.

The other caution is with respect to the informal end of the clothing sector. This segment of the pipeline is the safety valve, if you will, of the sector. As cost cutting becomes the mantra of the day, many larger firms are shedding some portion of their in-house production capabilities, preferring to concentrate on the design and market placement sides of the business, and leaving labour management to CMT firms. The CMTs, in turn, walk a fine line between offering lowest cost assembled product to their clients and not going under. The temptation to the CMT firm owner, because of his/her firm's smaller size in many instances, is to avoid compliance with wage guidelines of the Industrial Councils. The temptation to the government and union is to see this as

a flouting of economic principle, and to enforce new Wage Board guidelines. It is suggested here that in the interests of job creation, zealotry be moderated cautiously.

In conclusion, there is every evidence that many South African firms are learning to compete. While firms may complain of policy instability, one clear policy message is definitely getting through. This is that South Africa, having rejoined “the family of nations” on the political front, intends to integrate its economy and its body of economic regulation with international standards as well. Commitments have been made to the World Trade Organisation and other bodies that South Africa will eliminate quantitative barriers and reduce tariffs.

While the degree of tariff reduction currently anticipated is still quite protective, South African firms understand that liberalisation is the wave of the future, and are reacting to it in various ways. Some are quite concerned and fear they will not survive, others are taking the necessary training, reorganisation, and modernisation steps to prepare not just to react but even to shape their own futures within South Africa and on international markets. For those firms seeking assistance in export market penetration, several government programs now offer resources in a spirit of partnership with the sector. Thus, there is considerable optimism in the industry today that collaborative efforts are beginning to yield an export strategy that will be good for business in South Africa. To the extent that the message of the link between progressive use of labour by management and improved productivity and competitiveness can be communicated widely, then there is some real hope that labour may share in the gains of export orientation as well.

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