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Policy Brief

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TEXTILES IN SOUTH AFRICA

This brief is based on a study* that explores the relationship between international pressures of globalization and the patterns of competitiveness and innovation in one segment of the manufacturing sector in South Africa. It is based on a survey of over 100 textile and clothing firms conducted in 1997 in three South African provinces (Gauteng, KwaZulu-Natal, and Western Cape). South African policymakers should pay attention to workforce development, access to capital, general policy stability, and more industry-specific export promotion efforts in order to increase the competitiveness of the country's textile and clothing industries. More broadly, insisting that the textile-clothing pipeline be viewed as one integrated value-chain with common commercial and strategic interests is erroneous. The other caution is with respect to the informal end of the clothing sector, a kind of safety valve for the sector. In the interests of job creation, zealousness with respect to enforcement of Wage Board guidelines to informal CMT shops should be moderated cautiously.

RESEARCH OBJECTIVES

The authors of this research on the competitiveness of South Africa's textile and clothing firms sought to develop typologies of South African textile and clothing firms, identify best practices with regard to strategies for enhancing competitiveness within each firm type, compare the financial and economic costs of assembly, and analyze all of the above in the context of evolving competitive advantages in global textile and clothing markets (B. Lynn Salinger, Haroon Bhorat, Diane P. Flaherty, and Malcolm Keswell, *Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa.* Cambridge, MA: Associates for International Resources and Development, 1999).

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APPROACH USED

Our work integrates several economic approaches to industry study. Descriptive statistics on production, trade, retailing, and employment outline the textile-clothing value chain in South Africa. Econometric analysis examines employment trends, output-employment elasticities, and investment and trade patterns in the sector. Qualitative information on the organization of firms and their product mix, and their strategies for exporting, labor utilization, investment, work organization, and industry level interactions, as well as quantitative financial and economic cost data, were gathered via structured surveys during firm interviews. This information is reviewed to identify best practices with respect to product mix, location of manufacturing, modernity of production and plant management, labor relations, relations downstream with retailers and upstream with informal assembly firms, and dependence on imports and exports. Finally, firm growth patterns are analyzed using structural characteristics and innovation indices. The latter are built around modernity of production techniques, product design, and inventory management, and innovation with respect to product mix, process reforms, and labor reforms.

PRINCIPAL CONCLUSIONS

There are several policy implications derived from the interview information:

• **Escalating tariff structures**, which protect domestic raw material and input manufacturers against imports, penalize firms preferring 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 strategies regarding competitiveness.

• 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 minimize 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**. Some firms are moving part or all of their manufacturing off-shore, elsewhere within southern Africa.

Other firms are introducing innovations in South Africa, such as new product lines, information management systems, inventory control methods, contacts with input suppliers and final clients in overseas markets, 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 emphasized among South Africa's public-private partnerships in the textile and clothing industries.

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. 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 Organization 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 liberalization 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 steps on training, reorganization, and modernization 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. If the progressive use of labour by management can lead to improved productivity and competitiveness, then there is some real hope that labour may share in the gains of export orientation as well.

***This policy brief is based on EAGER research *Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa by Salinger*, B. Lynn, Haroon Bhorat, Diane P. Flaherty, and Malcolm Keswell, Cambridge, MA: Associates for International Resources and Development, 1999.**

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