

CLOTHING AND TEXTILES PAPER

**An identification of strategic interventions at the Provincial
Government level to secure the growth and development of
the Western Cape Clothing and Textiles Industries**

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Acronyms used

AGOA	African Growth and Opportunities Act
ATC	Agreement on Textiles and Clothing
ATMI	American Textile Manufacturers Institute
CTFL SETA	Clothing, Textiles, Footwear and Leather Sector Education and Training Authority
DCC	Duty Credit Certificate
DCCS	Duty Credit Certificate Scheme
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement of Tariffs and Trading
GNP	Gross National Product
GSP	Generalised System of Preferences
ITMF	International Textiles Manufacturers Federation
KZN	KwaZulu-Natal
LDC	Less Developed Country
Mercosur	South American trading block, consisting of Argentina, Brazil, Paraguay and Uruguay
MFA	Multi-fibre Agreement
NAFTA	North American Free Trade Area
SA	South Africa
SACU	Southern African Customs Union consisting of SA, Botswana, Lesotho, Swaziland and Namibia
SSA	Sub-Saharan Africa
TDCA	Trade, Development and Co-operation Agreement
TRALAC	Trade Law Centre for Southern Africa
US	United States
WTO	World Trade Organisation
YTD	Year-to-Date

Introduction

This report has been compiled for the Western Cape Provincial Government's Department of Economic Development and Tourism as part of its initiative to better understand core dynamics within key manufacturing sectors in the province; and to define the responsibilities and possible roles of provincial government in relation to developing and growing these sectors. In this regard, the report focuses on two of the most important (and inter-linked) manufacturing sectors in the Western Cape - textiles and clothing¹. The importance of focusing on these two sectors stems not only from their substantial existing contribution to the regional economy, but also the fact that they have come under significant competitiveness and economic performance pressure over the last few years.

Given its purpose, the report consists of two parts. The first part comprises the bulk of the document, focusing as it does on the main textiles and clothing development trends nationally and in the Western Cape, as well as internationally. The purpose of this part is not to comprehensively review all of the research completed on the clothing and textiles sectors in South Africa, but rather to:

- a. Articulate the major international challenges confronting the regional clothing and textiles industries,
- b. Overview the national policy-framework in which the two sectors operate, and
- c. Identify major sector strengths, weaknesses, opportunities and threats

The first part of this report consequently draws heavily on existing studies, data and stakeholder interviews in the Western Cape. It is important to note in this regard that a number of overlapping studies on the regional industry have been undertaken – e.g. RALIS (2004) and the WESGRO (2002) reports on the Western Cape, as well as research work undertaken nationally by Peter Gibbon (2002), Myriam Velia (2002), and Peter Minor (2002). In addition, B&M Analysts has also been involved in researching the regional industry for the purposes of launching the Western Cape Clothing Cluster, which is presently in its pilot development phase. The report does not, however, attempt to duplicate and repeat the wealth of information already covered in these studies. Nor has any new primary research been undertaken. The report thus simply involves presenting a synthesis of the existing data and insights already generated through detailed previous research. Unfortunately, reliable data on the provincial clothing and textiles sectors is not uniformly available. As such, a substantial amount of effort has been expended to secure accurate, up to date statistics on the regional clothing and textiles sectors. A number of data gaps are still evident, however, highlighting the importance of more structured data collection processes in the Western Cape.

Whilst the first part of this report presents a necessary review of existing research material on the Western Cape clothing and textiles industries, the second part of the report represents an entirely fresh approach to analysing the extensive research already completed. As requested by the steering committee responsible for the study

¹ In defining the clothing and textiles sector it is important to note that the bulk of exports and production from the leather sector in South Africa is concerned either with car leather seats or the export of hides ('wet blues') and thus bears no relation to the clothing and textiles sectors. In addition, the footwear sector has been decimated by Chinese imports and as such has not been considered in this report.

and consistent with its terms of reference to think laterally, and hence ‘outside the box’ this part represents an ideas-piece focusing on government policy and strategy interventions required to support the two sectors. Most importantly it identifies the scope of interventions required at the provincial government levels to shift the present negative momentum of the two sectors, support their re-positioning in relation to export and domestic markets and facilitate their operational upgrading.

The importance of the interventions and approaches outlined in the second part of this report cannot be over-emphasised, particularly given the industry pressures articulated in the first part. It is clear that the provincial government has a meaningful role to play in relation to the development of the two sectors and that the activities outlined in the second part of this report could play a fundamental role in shifting the regional operating environment confronting textiles and clothing manufacturers. It is also important to note that in making the recommendations presented we are acutely cognisant of likely financial constraints on the part of the provincial government. As such we have only included those recommendations that we believe are absolutely necessary to support and develop the clothing and textiles sectors in the Western Cape.

1. Background analysis

1.1. International trends

Internationally, the clothing industry both expanded and shifted its course dramatically during the 1990s. In the current global context the ‘old manufacturing’ apparel industry has moved away from the developed countries and become dominated by the outsourcing of large parts of manufacturing to the developing world in new global value chains, leaving behind a ‘new’ apparel industry consisting of design, branding, the production of high value added garments, control of foreign production, liaising with customers, and the handling of logistics of garments and raw materials (Kaplinsky and Morris 2001, Gereffi 1994, Gibbon 2001). The commercial buyers in these global apparel value chains are very demanding. They insist on lower prices, better quality, shorter lead times, smaller minimum quantities and supplier acceptance of as much risk as possible (Flanagan 2003). Clothing is increasingly considered a perishable good where time to market matters. This will render producers in more remote locations at a disadvantage, especially in the fashion segments of the market (Nordas 2004).

Retailers increasingly manage the supply chain of both the textiles² and clothing sectors following a demand-pull system. Information flows directly from retailers to clothing manufacturers, but also to textiles plants in many cases, where decisions are made on patterns, colours and material. The textiles sector is traditionally far more capital intensive and automated relative to the clothing industry, consisting of spinning, weaving and/or knitting and finishing, with these functions often undertaken in integrated plants. The lead times in the textiles industry are generally quite long and the capital-intensive nature results in large minimum quantities and less flexibility (Nordas 2004). Although there are some textile plants that have seen the opportunity of short production runs and quick turnaround times as well as those who are able to increase capacity fairly substantially, the textiles sector is generally perceived as the being the bottleneck in the apparel supply chain. Given the commodity type nature of much of the fabric produced for clothing manufacturers, textiles firms in industrialised economies are increasingly producing household and other industrial fabric, which is generally a more technical and R&D intensive segment of the industry and subject to less frequent stylistic changes. Although there have been substantial losses, employment in the textiles sector in developed countries has generally held up much better than clothing employment (Nordas 2004).

It is generally perceived that the clothing industry is more suited to developing countries as it offers entry-level jobs for unskilled labour and that relatively modern technology can be adopted at comparatively low investment costs. Therefore, clothing is suited as a first rung on the industrialisation ladder in poor countries. However, it has been difficult for poor countries to create backward linkages in the sector and therefore the import content of the clothing industry is typically high in developing countries. Parts, components and semi-finished goods often cross the border several times before the final product reaches the consumer which means that tariff rates have a multiplicative effect on costs, rendering the industry very sensitive to tariffs.

² The exception to this is the industrial/technical textiles sub-sector, which is linked to downstream sectors, such as the automotive and mining industries, rather than the retailers.

Globally, textiles and clothing are closely related, both technologically and in terms of trade policy. The liberalisation of the sectors has been controversial because textiles and clothing contribute to employment in both developed and developing countries, but manufacturing in most developed countries has severely contracted and changed its focus. Currently, the US, EU and Japan are the largest consumers of textiles and apparel, yet the majority of clothing and textiles in these countries are imported. The Japan Textile Importers Association estimates that 87% of clothes on sale in Japan are imported, while the American Apparel and Footwear Association estimates that 89% of US clothes are imported (Flanagan 2003).

Between 1995 and 2002, the US share of world imports of textiles and clothing increased from 14% to 21%, while since January 2001, 344,000 jobs in the industry have been lost, indicating that clothing and textiles manufacture in the US has been declining. There is, however, still an apparel industry left in the EU, especially in Southern Europe, consisting of approximately 100,000 firms employing 2.5 million people with a turnover of US\$229 billion. In 2003, EU countries imported 37% of their garments from each other, and a further 7% from the 10 countries that were due to join the EU in 2004 (Flanagan 2003), while EU imports of clothing between 1995 and 2002 stagnated at 19 percent (Nordas 2004). Despite this trend, EU production has been declining, with nearly one million jobs lost since 1990 (Buck 2004).

1.1.1. The Multi-Fibre Agreement and the Agreement on Textiles and Clothing

In 1947 the General Agreement on Tariffs and Trading (GATT) was first signed, although apparel and textiles were not included in this agreement. In 1974 the Multi-Fibre Agreement (MFA) was signed ratifying countries' rights to impose quotas on textiles and apparel imports. Although intended to be temporary, this agreement was frequently renewed. However, in 1994 the GATT signatories signed the Agreement on Textiles and Clothing (ATC) committing to phasing out the MFA. Simultaneously, the World Trade Organisation (WTO) replaced the GATT. As a result, on December 31, 2004 the ATC will come to an end and with it all quotas on apparel and textiles between member states of the WTO (Flanagan 2003).

The objective of the MFA was to allow rich countries time to restructure their textiles and apparel industries before opening up to competition from poorer countries. Since there is already very little apparel manufacturing left in the US or Japan, the ATC is unlikely to have much effect on these countries' apparel industries (although there are major concerns in relation to their textiles sectors), but it is likely to effect the mass apparel industry in parts of southern Europe. While the ATC requires all WTO members to phase out quotas by 2005, it is important to note that no further phasing out of tariffs is required. Nevertheless, rich countries are now also under pressure to begin liberalising other trade protection schemes (Flanagan 2003).

While there is the risk that the EU may wish to become more protectionist in order to protect its apparel industry, no developed-country government has yet shown any intention of creating new barriers to replace the quotas that the ATC will abolish. This is despite severe pressure from the Global Alliance for Fair Textiles Trade, which represents over 90 clothing and textiles trade groups from 49 countries. The Global Alliance for Fair Textiles Trade is demanding an extension to the ATC and has held a number of high profile meetings where its concerns have been clearly articulated.

There are, moreover, a number of tools available to governments to protect their textiles and apparel industries after quotas are removed (Flanagan 2003), for example:

- a. **Import duties:** The US imposes relatively high import duties on apparel (averaging 17%), while the EU imposes lower duties (averaging 8.9%)³. However, it is unlikely that the US or EU will increase import duties as a result of the ATC. If anything, import duties are likely to decline. Both the US and EU put forward proposals for substantial reductions in import-duties overall, and both volunteered textiles and apparel for especially fast reductions.
- b. **WTO-sanctioned temporary measures:** Countries facing a surge of imports have the right to adopt emergency measures e.g. anti-dumping duties. Additionally, China's WTO Accession Agreement allows for countries to impose quotas on Chinese imports for 12 months. This special arrangement is applicable for three years from the end of the ATC (to 2008).
- c. **Non-WTO sanctioned measures:** A country that believes its economy will be harmed by imports is still able to impose temporary duties, subsidise its exports, or even ban imports. However, it does so knowing that other countries will retaliate.

Although 73 countries are subject to quotas by the EU, US or Canada, most countries with quota restraints do not use the full quotas they are entitled to. Flanagan (2003) illustrates that there are three main countries – China, India and Indonesia – who have shown the most consistent and widespread near-saturation of quotas for yarn, fabric and garments. Bangladesh has also used up most of its quotas for the US (it has no quota restrictions in the EU), but is constrained mainly in garments rather than fabric or yarn.

One of the major concerns is how countries such as China, who have become a looming threat to many textiles and apparel producing countries around the world, will behave once quotas are removed. China's exports of clothing have already increased to approximately a quarter of the world total since it joined the WTO in 2001 (Janquieres 2004), and in the first half of 2004 China sold \$42 billion worth of clothing and textiles (Beware Beijing 2004). Asian prices are declining, while exports are growing. China has the ability to produce a growing range of items, and has improved its capacity in order to overcome barriers of international quality standards. The availability of cheap, high-quality fabric, both domestically and in neighbouring Asian countries, is also a strong advantage (Robins et al 2004).

In the quota-free world after 1 January 2005, experts predict that China's share of world clothing exports will double in less than five years (Janquieres 2004), and that more than 80% of clothing production may move to China (Beware Beijing 2004). China's share of the US textiles and apparel market, which was about 22% in 2003, is predicted to increase to between 65% and 75% after quotas are removed (ATMI 2003). This prediction is based on China's 2002 strategy, which was to drop prices by more than 40% when quotas on a few product lines were removed, thereby undercutting many of its competitors and successfully (and massively) increasing its US market share. However, it is unlikely that China will have the capacity to follow this strategy for all clothing and textiles categories once quotas on all product lines

³ Various trade agreements between the US/EU and trading partners may reduce these duties under certain circumstances.

come to an end. Therefore, although it is very important to be extremely wary of (and responsive to) the threat posed by China, it may be overstated by these statistics.

Low wage rates are often cited as the reason for China's success. However, whilst wages in China are very competitive, they are certainly not the lowest in the world. There thus appears to be a number of other reasons for China's success in textiles and apparel. First, *The Economist* (2004) reports that China maintains at least a 15% under-valuation of its currency as it pegs the Yuan to the US dollar. This currency under-valuation has the effect of acting as an export subsidy to industry. Second, the Chinese government owns 52% of the textiles, and 25% of the country's apparel industry (ATMI 2003). The government subsidises the output of these industries by providing them with extremely cheap capital, thus allowing individual firms to undercut the prices of their competitors and increase their market share⁴. Many believe that these factors combine to provide China with a highly unfair competitive advantage in international trade.

Textiles and clothing are important industries and export revenue earners for countries across the world, particularly those that are still developing. China's increasing dominance is thus a concern for the USA, Mexico, the Caribbean countries, Sub-Saharan Africa and other countries/regions who are unlikely to retain their market shares in the short to medium term (ATMI 2003). In this regard, three possible solutions to China's competitive advantage have been identified:

- a. China special textiles safeguard: Since China only joined the WTO in 2001, its accession agreement allows other WTO members a transition period during which, and under tightly defined circumstances, these countries may re-impose import restrictions on China until 2008.
- b. The China special textiles safeguard is only a short-term measure. An alternative would be for WTO members to demand that the WTO continue to keep China under restraint after 2005, and until China removes its anti-free market methods.
- c. The only real long-term solution, however, would be to force China, through pressure from the US, WTO and IMF, for example, to abandon its currency manipulation and subsidy programs (ATMI 2003).

Although there is a major concern that the quota-free environment from 1 January 2005 will provide a platform for China (and a few other countries, for example, India, Indonesia and Turkey) to increasingly dominate the world textiles and apparel markets, the phasing out of quotas is expected to remove a large amount of cost out of the industry as a whole, and not just for China (Flanagan 2003). The annual cost of quotas to US consumers is, for example, estimated at \$70 billion, whilst barriers to textiles and clothing trade are estimated to have cut world income by \$137 billion. Moreover, the estimated cost of quotas to developing countries is \$40 billion in lost export revenue and 27 million jobs foregone (Janquieres 2004).

Despite the generally concerning global outlook, there is substantial scope for growth in exports, particularly to growing middle-income countries. Currently, almost all textiles and apparel trade is to the US, EU and Japan, and yet these countries only

⁴ A personal interview conducted by Justin Barnes with Greig Fleming, an Economist at the International Textiles Manufacturers' Federation (ITMF) in Zurich in July 2004, corroborated this view. It was noted that the bulk of new capital equipment in the global textiles industry was going to China and that this was strongly contributing to their market advantage, particularly when state of the art machinery is used to produce at extremely high volumes.

represent about 10% of the world's population. The wealth of their populations, and therefore their ability to buy clothes, is growing at a much slower rate than the world's middle-income countries. There are therefore many opportunities that exist in growing middle-income countries where the demand for apparel increases at a much faster rate than economic growth (Flanagan 2003). In addition, better access into the US and EU markets after quotas are removed may not be to the benefit of only a selected few countries. China does not have the capacity to supply the whole world in the short term. Japan, which currently relies heavily on Chinese imports, has already started to source its imports elsewhere. Japanese imports from Burma grew by 140% and its imports from Bangladesh increased by 15% in 2002, while its imports from China actually declined. Whilst this may only be a short-term aberration, buyers based in the Middle East, Russia and Australia, who all currently rely heavily on Chinese imports, may also wish to diversify their orders (Flanagan 2003).

1.1.2. The African Growth and Opportunities Act (AGOA)

The Generalised System of Preferences (GSP) program is authorised under GATT and is one whereby industrialised countries offer certain non-reciprocal tariff preferences to developing countries. AGOA is a US program that builds on the existing GSP program by expanding duty-free benefits to an additional 1,800 product lines (covering 6,000 product lines in total) and covers the period from October 2000 to September 2008. There are currently 37 Sub-Saharan African (SSA) countries that are eligible for duty-free exports to the US under AGOA. Textiles and apparel are products that are ineligible under both the GSP and AGOA.

There is, however, a wearing apparel provision governed by a separate set of conditions and rules of origin. AGOA eligibility does not automatically imply eligibility for the wearing apparel provision. To export apparel duty-free to the US under AGOA, countries have to have implemented a Visa system that ensures compliance with the AGOA rules of origin for apparel. By June 2003, 19 of the 37 SSA countries had fulfilled the provisions and were eligible to export apparel duty-free to the US. SA has been eligible for apparel exports under AGOA since March 2001 (Tralac 2004).

AGOA's rules of origin stipulate that apparel has to be made from US fabric, yarn and thread, or from fabric, yarn and thread that is produced in AGOA-beneficiary SSA countries. However, a special rule applies to LDCs (defined as countries that have a GNP per capital of less than \$1,500 in 1998) that allows these countries duty-free access for apparel made from fabric originating anywhere in the world for a four-year period until September 2004. All AGOA-beneficiary SSA countries except South Africa and Mauritius qualify for this rule. Therefore, while clothing exports to the US from SA require a triple-stage transformation (i.e. yarn to fabric to apparel) in order to qualify for AGOA, all the other eligible countries are only subject to a single-stage transformation (i.e. only the garment has to be made locally - imported fabric can be used)⁵.

Clothing and textiles account for 6.1% of total US imports from SSA, whilst the vast majority (78%) of US imports of clothing and textiles from SSA qualified under AGOA. In 2003, SA exported \$126.6 million worth of clothing to the US under AGOA, but was only the sixth largest exporter behind Lesotho (\$372.6m),

⁵ Mauritius is the only other eligible SSA country that does not qualify for the LDC rule, but in October 2004 Mauritius' application for a single-stage conversion process was approved.

Madagascar (\$186.3m), Kenya (\$176.2m), Mauritius (\$135m) and Swaziland (\$126.9m). Nevertheless, SA's AGOA exports of clothing to the US nearly doubled between 2002 and 2003, but even this was poor in comparison to some of the other countries. For example, Namibia's exports increased by more than 2,000%, Madagascar expanded its exports by 147% and Malawi by nearly 100% over the same period.

Table 1: US imports from SSA by product (US\$m)

	2001	2003	% of total	AGOA*
Agricultural products	836	1,138	4.5	21
Oil and gas	14,271	17,764	69.7	64
Clothing and Textiles	998	1,552	6.1	78
Metal and Mineral	3,082	2,995	11.6	14
Transport Equipment	399	823	3.3	89
Others	1,514	1,318	4.8	22
Total	21,060	25,470	100	55

*AGOA coverage; %

Source: Economics Intelligence Unit (2004)

Of particular significance is that only about 55% of SA's exports of clothing to the US were exported under AGOA. In contrast, the other eligible SSA countries exported an average 80% of their apparel to the US under AGOA. Mauritius (the only other eligible country that was subject to a triple-stage transformation until 2004) is also the only other country that exported a smaller proportion (50%) of its clothing to the US under AGOA in 2003. This seems to indicate that the reason for AGOA exports only accounting for just over half of SA's exports of clothing to the US may be because of AGOA's restrictive rules of origin that force SA to use only US or domestically sourced yarn and fabric in order to qualify to export garments under AGOA. Firms are thus forced to use inputs that may not be the cheapest available and therefore cost-efficiency and competitiveness is reduced. The large internationalised clothing producers source fabric globally and in large quantities and then allocate production amongst their different plants. Rules of origin restrictions in SA interfere with this process, thus placing SA in a less advantageous position, possibly inhibiting foreign investment (Kaplan 2003).

Table 2: AGOA qualifying clothing exports to the US in share of total clothing exports to the US, 2001 – 2003 (US\$m)

	2001		2002		2003		% Change (2002 - 2003)
		%		%		%	
Lesotho	129.2	60.1	317.7	98.9	372.6	94.9	17.3%
Madagascar	92.1	51.8	75.4	84.4	186.3	94.9	147.1%
Kenya	51.7	80	121.3	96.6	176.2	93.9	45.3%
Mauritius	38.9	16.3	106.5	41.8	135	50.2	26.8%
Swaziland	8.2	17.1	73.7	82.7	126.9	90.2	72.2%
South Africa	30.4	17.4	85	46.9	126.6	54.5	48.9%
Namibia	0		1.5	22.9	32.1	76.6	2040.0%
Malawi	4.7	41.8	11.4	99.7	22.4	96.6	96.5%
Botswana	0		3.7	58.4	6.3	88.5	70.3%
Ethiopia	0.16	40	1.3	99.2	1.7	95.5	30.8%
All AGOA eligible clothing exports			799	72.8	1197.2	79.2	49.8%

Source: US Department of Commerce, Otexa

Local fabric shortage is also a constraint retarding clothing exports to the US under AGOA. Exports have been expanding in areas such as man-made fibres and wool where local fabrics are more readily available, but the export of cotton apparel, for example, has been contracting because exporters have had difficulty sourcing local fabrics. The steady rate of price increases in the textiles industry is also suggestive of

considerable fabric shortages (Kaplan 2003). The shortage of locally produced fabric may be aggravated by the DCCS (see below) that makes it more lucrative for textiles firms to sell their fabric to Mauritian producers (for use in their AGOA exports), for example, than supply the local market (Financial Mail 2003).

Rules of origin tie the domestic textiles industry into the clothing production process and therefore any weakness in the textiles sector can have a marked impact on the success of clothing exports (Financial Mail 2003). Expanding the export orientated clothing industry should have a positive impact on the textiles industry – at least the part that supplies clothing production, which is about 48%. There is little likelihood that there will be significant growth in textiles without substantial expansion in clothing. But similarly, under the current environment, local clothing manufacturers need the textiles industry in order to expand. However, local textiles firms lack confidence in the future of the clothing industry in SA and are accordingly focusing on reducing fabric variety, and longer production runs of higher quality fabrics which further limits the potential of clothing exporters to acquire fabrics. The scepticism of the local textiles producers is thus rapidly becoming a self-fulfilling prophecy (Kaplan 2003).

On 13 July 2004, the AGOA Acceleration Act of 2004 (AGOA III) was signed into law. AGOA III extends AGOA benefits until 2015, and extends the third country fabric provision (originally set to expire in September 2004) until September 2007. This extension introduces an added measure of predictability and credibility to AGOA and provides business with greater confidence to invest in Africa. These changes may also mitigate somewhat against the effects of the ATC, which sees a phasing out of textiles and apparel quotas globally by 1 January 2005, providing producers in Africa with a better chance of competing with low-cost producers based in the Far East. However, these proposals may impact negatively on SA and Mauritius who are bound by more restrictive rules of origin that effectively translate into a triple stage transformation requirement. However, it is possible that AGOA will be superseded by a free trade agreement between SACU and the US. The terms of this agreement, which should be finalised in 2005, may provide SA with better access to the US market and more advantageous rules of origin for apparel exports (Tralac 2004).

1.2. The South African Textiles and Clothing Industries

In 2001 Sub-Saharan African (SSA) countries accounted for less than 1% of global exports of clothing and textiles. In terms of production, the SSA share of global production rose from 1% to 1.2% in the 1990s. The northern African countries increased their share of global exports of clothing and textiles from 1.2% to 1.3% over the same period. In clothing, North Africa accounts for 1.5% compared with 1% in 1990, well ahead of SSA, which increased its clothing output share from 0.6% to 0.8% over the same period (Economic Intelligence Unit 2004).

The production and export of clothing and textiles is concentrated in a small number of SSA countries, primarily Kenya, Lesotho, Mauritius, Madagascar and South Africa. Production in Swaziland and Namibia is increasing, but mainly due to AGOA. Exports from the five largest SSA suppliers were worth US\$ 3 billion – negligible compared to the US's US\$53 billion imports from China. Restrictive quotas are causing buyers and producers to look for non-quota constrained countries to supply the EU and US. Many smaller, higher cost, less developed countries such as those in SSA have been provided with valuable opportunities as they are shielded from open

competition (Minor et al 2002). SSA has therefore been expanding its exports where world suppliers are subject to quotas, but where SSA is exempt because of preferential trade agreements. As a result, exports from the region are mainly low-price basic items such as trousers, T-Shirts and sweaters that typically have long production runs, low labour content and few styling changes (US International Trade Commission 2004; Economic Intelligence Unit 2004).

Table 3: Clothing exports from Africa to the US and EU (US\$m)

	Kenya		Lesotho		Madagascar		Mauritius		South Africa	
	US	EU	US	EU	US	EU	US	EU	US	EU
1990	2.5	2.5	24.5	5.6	0.4	10.8	121.2	522.7	0	32.3
1991	4.5	6.3	27	18.2	0.1	15.1	97.7	536.5	0.7	72.7
1992	7.8	17.4	50.8	18.3	0.2	18.5	113.1	533.9	2.4	73.2
1993	22.1	10.3	55.1	14.7	1.5	46.3	161.2	501	12.7	75.5
1994	35.2	7.1	62.4	13.5	2.8	92.6	186.2	518.8	34.7	73.4
1995	34	6.3	61.7	12.6	6.7	122	190.3	573.3	16.6	66.9
1996	27.1	3.3	64.9	12.7	11	147.7	164.7	616	60.4	67.1
1997	31.3	2.6	86.5	4.5	15.3	177.1	184.4	658	70.9	62.3
1998	33.5	2.3	100.2	0.8	22	218	233.3	693.2	78.7	69.4
1999	39.3	2.5	110.7	0.2	45.7	213.9	231.6	625.2	96.9	68.3
2000	43.8	1.7	140.1	1.6	109.5	244.7	244.7	638.5	140.9	78.6
2001	64.4	1.7	216.7	3.2	178.2	238.3	238.3	591.2	173.3	69
2002	125.5	1.1	321.1	2.1	89.3	145.6	254.5	642.3	181	68.7
2003	188	na	392.7	na	196.3	na	269	na	232.3	na

Source: US ITC, US Department of Commerce, Otxea Eurostat

Note: US \$ exchange rates based on rates for 31 December in the relevant year

Lesotho is the largest African exporter of clothing to the US, exporting US\$393 million in 2003. Mauritius is the second largest exporter to the US with US\$269 million, followed by SA with US\$232 million. Mauritius is by far the largest African exporter of clothing to the EU (US\$642 million), followed by Madagascar (US\$146 million) and then SA again in third place (US\$69 million). As Table 3 shows, SA's exports to the US substantially exceed its exports to the EU. A disadvantage for SSA is that it is not a particularly low-cost location. Labour costs are relatively high, productivity is low, lead times are long and non-labour input costs are higher than in Asia. Further disadvantages include logistics (notably transport costs and longer lead times), unreliable telecommunication systems and inadequate physical and technical infrastructure. Many SSA firms will therefore find it difficult to compete in a quota-free environment after 1 January 2005. It is unlikely that AGOA and EU preferences will be sufficient to keep the industry competitive outside of the man-made fibre and woollen clothing sub-sectors where SSA is competitive and where US import duties are high (Economic Intelligence Unit 2004).

Historically, the SA clothing and textiles industries began with the manufacture of blankets in the 1920s and 1930s. After World War II the industry expanded into furnishings, industrial textiles and clothing, before moving into the production of synthetic fibres in the 1960s (Roberts and Thoburn 2002). Textiles and clothing are more labour intensive industries than manufacturing as a whole and therefore particularly important to the South African economy. However, the industry was built up under isolation with the domestic market driving production and was thus never able to achieve economies of scale. Furthermore, the industry was protected by an import substitution strategy and now that the economy is exposed internationally it is

comparatively inefficient, lacks capital, technology and innovation, and has high labour costs in relation to output (Wesgro 2002). By 1994, the sector was virtually completely closed with import penetration and export levels as a share of production both well below 10% (Gibbon 2002). Liberalisation and the restructuring of the industry in the 1990s has resulted in large decreases in employment, while productivity has increased through cost-minimisation and downsizing rather than production growth. Between 1996 and 1999 a total of 30,000 clothing and textiles jobs were lost (Roberts and Thoburn 2002), whilst 21,000 jobs were lost in 2003 (Ralis 2004) and a further 5,700 between January and June 2004 (Khumalo 2004).

Table 4: Tariff rates in the South African textiles and clothing sectors

Tariffs	1993 (%)	2000(%)	2000(WTO)	2002 (%)
Synthetic fibres	25	13	22	7.5
Yarn	35	20	31	15
Fabric	50	27	44	22
Household textiles	60	37	53	30
Clothing	100	54	87	40

Source: Roberts and Thoburn (2002)

Currently SA's clothing industry is protected by a tariff rate of 40% – one of the highest tariff rates for a SA manufacturing sector and higher than all of the textiles sub-sector tariffs. As highlighted in Table 4, there is a 7.5% tariff on synthetic fibres, 15% on yarn, 22% on fabric and 30% on household textiles. SA has an agreement with the WTO whereby it is committed to decreasing its tariff rates, although SA has reduced its tariffs at a faster rate than required by this agreement. For example, in 1993 SA had a 100% tariff on clothing. This tariff needed to be reduced to 87% by 2000 in terms of the WTO agreement, but by 2000 SA had actually decreased the tariff to a rate of 54% and now to its current rate of 40%. However, as Peter Gibbon (2002: 16) points out from his fieldwork interviews, “a common opinion in the industry was that, as a result of the inability of the Customs service to effectively police clothing imports, real levels of protection were around half of their advertised level”. What is clear is that reducing tariffs at a faster rate opens the SA economy to international competition more rapidly than required by the WTO, whilst ineffective customs control further exacerbates the situation.

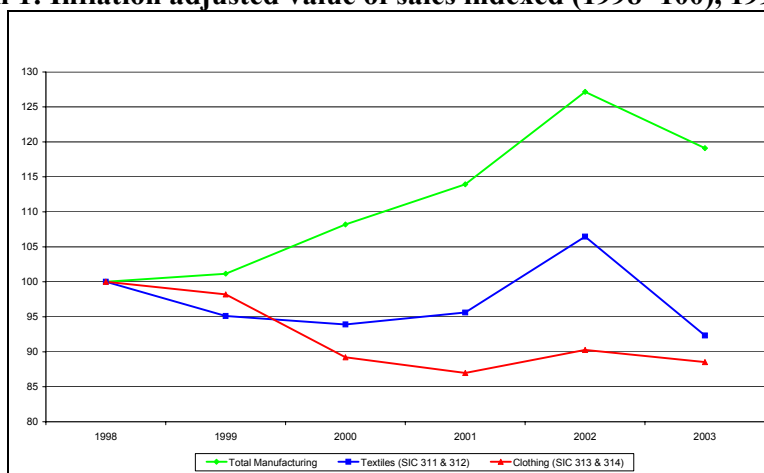
Negative growth, declining employment and increased competition from trade liberalisation globally, cheap and illegal imports and dumping, as well as a strong SA Rand has resulted in a decline in the competitiveness of SA's clothing and textiles industries. Meanwhile, competitor countries such as China, Pakistan and Indonesia have been investing in technology and improving their competitiveness dramatically.

1.2.1. SA Textiles and Clothing sales

The indexed value of inflation-adjusted sales depicted in the graph below, shows that total manufacturing sales substantially outperformed both textiles and clothing sales over the period 1998 to 2003. Real manufacturing sales increased rapidly from 1999 to 2002, but declined in 2003. Textiles sales (SIC 311 and 312) declined between 1998 and 2001, experienced positive growth between 2000 and 2002 (reaching its peak of R11.5 billion at the end of 2002), and then fell to R10 billion at the end of 2003. The nominal value of clothing sales (SIC 313 & 314) increased from just short of R10 billion in 1995 to approximately R13 billion in 2003, but the real value of sales has actually declined from R11.8 billion in 1998 to R10.4 billion in 2003. It is interesting to note that both total manufacturing and textiles sales dropped severely

between 2002 and 2003, most likely due to the appreciation of the Rand, while clothing sales only dropped marginally. Clothing sales are very price elastic and thus strongly impacted on by currency changes.

Graph 1: Inflation adjusted value of sales indexed (1998=100), 1998-2003



Source: Stats SA, SARB

1.2.2. Number of firms and employment⁶

The statistics on the number of clothing firms and employment in the clothing industry are unreliable because of the large number of informal and small clothing firms that are not captured and/or miscalculated. Furthermore, the ‘closing down’ of firms often results in the establishment of a new company elsewhere or an increase in the production capacity of an existing company that obtains the machinery and equipment. Unregistered companies only employ a small number of people, but because there are so many of them they account for a significant proportion of overall capacity. These companies are therefore important to the industry, particularly as they are flexible in terms of their production runs, lead times and wage rates (Wesgro, 2002).

Table 5 shows that the clothing industry in SA is concentrated mainly in three provinces, namely the Western Cape, KwaZulu-Natal and Gauteng. The location of these firms is largely rooted in the country’s history. Prior to the 1960s, the industry was based primarily in Johannesburg, with a small concentration of firms in Cape Town. However, in the 1950s and 1960s new apartheid statutes imposed limits on the use of African labour in urban areas. As a result, the industry contracted in what was then the Transvaal, and expanded in Durban and Cape Town where there was access to Indian and Coloured labour. Cape Town soon became the industry’s main centre focusing primarily on the large retail chains, partly because most of the leading retailers were located in the region. The Durban industry developed a broader, but more generally lower market segment customer base (Gibbon 2002).

There has been a decline in the number of clothing firms in each of the provinces, particularly over the period 1995 to 2001, with KwaZulu-Natal experiencing the greatest proportional decline of 13.6% over the period. As of June 2004 there are a total 827 clothing firms of which 327 are located in the Western Cape, 42 in the Eastern Cape, 219 in KwaZulu-Natal, and 239 in the Northern area (NBC 2004). The

⁶ Bargaining Council employment and number of firms by province is only available for clothing. The national Textiles Bargaining Council only has national data, and no historic data is available.

increase in the number of firms is the result of firms in non-metro areas being included in bargaining council statistics from 2003, and therefore these statistics are not directly comparable.

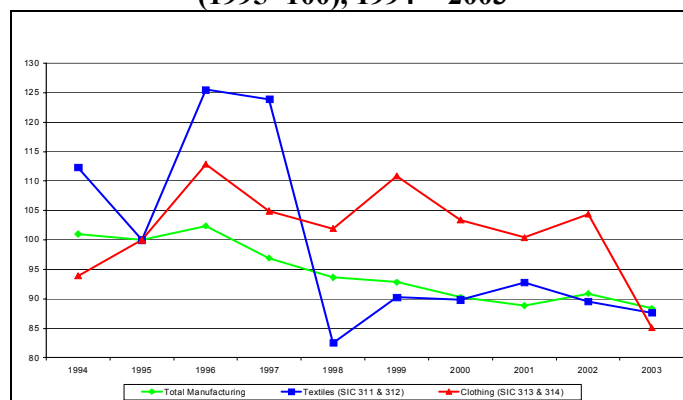
Table 5: Number of clothing firms by province, 1990 - 2001

Year	Western Cape	KwaZulu-Natal	Gauteng	OFS/N. Cape	Total
1990	448	445	347	8	1248
1995	404	385	268	7	1064
1996	410	420	261	7	1098
1997	379	355	239	7	980
1998	361	301	226	6	894
1999	350	214	201	5	770
2000	351	186	179	6	722
2001	324	153	171	6	654
Growth of firms					
Annual % 1990-1995	-1.97	-2.73	-4.98	-2.5	-3.08
Annual % 1995-2001	-3.55	-13.55	-7.16	-2.38	-7.64

Source: Flaherty (2002), own calculations

A comparison of the index of total manufacturing employment with official clothing (SIC 313 & 314) and textiles (SIC 311 & 312) employment shows that while employment in total manufacturing has declined at a steady rate from 1996, the relatively labour intensive clothing industry has experienced more employment volatility. Overall, official clothing employment has decreased from 125,181 employees in 1994 to 113,464 employees in 2003 – a decline of 9.4%. Textiles employment increased to its peak of 76,930 employees in 1996, but then plummeted from approximately 76,000 employees in 1997 to 50,596 in 1998. SA textiles employment recovered slightly in 1999, but by 2003 employment was down to 53,736. In 2003, clothing and textiles only accounted for 4.2% of total manufacturing sales, but 13.4% of total manufacturing employment highlighting the labour intensive nature and thus the importance of the sector to the SA economy.

Graph 2: Total manufacturing, textiles and clothing employment indexed (1995=100), 1994 = 2003



Source: Stats SA

The output per employee for total manufacturing increased from approximately R312,000 in 1998 to R394,000 in 2003. The output per employee for textiles actually fell from R214,000 to R186,000 over the same period, while the clothing industry's output per employee fell between 1998 and 2002, but increased to R92,000 in 2003. Therefore, on average, each job lost in the textiles industry costs a firm R186,000, and R92,000 in the clothing industry unless efficiency gains are made. In contrast, the TIPS South African Industry Standardised database shows an improvement in output per employee for the textiles industry. Output per employee increased from an average of R129,702 over the 1994 to 1998 period, to an average of R155,280 over the 1999 to 2003 period. However, these data also show a deterioration in the output per employee for the clothing industry of 11.9% over the two periods. Furthermore, each job in the clothing and textiles sector supports 5 people⁷ and therefore the 26,851 clothing and textiles jobs lost in 2003 would have negatively impacted on a staggering 134,255 dependents. However, the real impact of the loss of employment is uncertain as no socio-economic impact studies have been undertaken. Therefore, one of the recommendations of this report is to undertake a socio-economic impact study in the Western Cape.

Table 6: Output per employee for total manufacturing, textiles and clothing, 1998 – 2003 (R 000)

	Total Manufacturing	Textiles (SIC 311 & 312)	Clothing (SIC 313 & 314)
1998	311.91	213.97	86.85
1999	318.37	186.06	78.40
2000	350.20	184.56	76.37
2001	374.49	181.97	76.67
2002	408.49	209.90	76.52
2003	393.63	185.99	92.04

Note: Calculated using inflation adjusted value of sales

Stats SA

Table 7 provides a breakdown of bargaining council clothing employment by province. This table again shows that SA's clothing industry is concentrated in the Western Cape and KwaZulu-Natal, and also that bargaining council employment has declined, from 121,000 in 1990 to approximately 60,000 in 2001. In 2003, national bargaining council employment increased to 66,059 people. Similarly, this increase is due to non-metro area employment being included in the statistics from 2003, rather than actual employment increases.

Table 7: Bargaining council clothing employees by province, 1990 – 2001

Year	Western Cape	KwaZulu-Natal	Gauteng	Eastern Province	OFS/N.Cape	Total
1990	54,564	44,623	16,092	3,118	2,711	121,108
1995	46,980	34,720	10,888	2,423	1,432	96,443
1998	41,874	26,397	8,994	1,793	1,262	80,320
1999	37,918	21,331	8,176	1,415	1,311	70,151
2000	38,262	19,714	7,517	1,489	1,004	67,986
2001	34,655	15,693	6,626	1,291	1,315	59,580
Employment growth (annual %)						
1990-1995	-2.88	-4.58	-7.39	-4.68	-11.84	-4.31
1995-2001	-4.85	-12.1	-7.91	-9.58	0.27	-7.61

⁷ According to a prominent clothing researcher, SACTWU uses the ratio of five dependents for every clothing and/or textiles job.

Source: Flaherty (2002)

Wesgro (2002) has identified two major trends in relation to clothing industry employment:

- Formal employment has been fairly stable, while informal employment has increased. This is a result of formal factory downsizing and the establishment of micro-enterprises, home industries and unregistered firms.
- Formal employment under Bargaining Council jurisdiction has declined as formal enterprises relocate to decentralised areas; there are lower rates of unionisation due to unemployment pressures; and firms increasingly subcontract and change relationships from employees to independent contractors.

Table 8: Proportion SACTWU and Non-SACTWU employees in metro and non-metro areas, 2003 and 2004

	Metro	Non-Metro
December 2003	61.03%	38.97%
June 2004	57.38%	42.62%

Source: National Bargaining Council

South African clothing firms appear to be increasingly relocating to areas where they can pay lower wages to counter the price pressures from imports, which has contributed to the decline in employment. For example, wages in Ladysmith, KwaZulu-Natal are R263 per week for a machinist, compared to R495 in metro areas. In addition, employers in this area do not have to contribute to sick leave or provident funds, thus further reducing their labour costs. Employment is believed to have not actually reduced, but rather to have moved to these outlying and lower-wage areas (Flaherty 2002). Table 8 shows that in June 2004, a substantial 43% of bargaining council employees were located in non-metro areas. This is an increase from just less than 40% in 2003, although the increase is likely to be the result of the capture of more non-metro employees as the bargaining council begins to include non-metro firms.

Table 9: Labour costs: Hourly compensation: Selected countries 2002: US\$/hour

	Textiles Industry	Clothing Industry
Bangladesh	0.25	0.39
Sri Lanka	0.4	0.48
China	0.4-0.69	0.68-0.88
India	0.57	0.38
Kenya	0.62	0.38
Egypt	1.01	0.77
Mauritius	1.33	1.25
South Africa	2.17	1.38
Mexico	2.3	2.45
Taiwan	7.15	Na
Madagascar	na	0.33

Source: Economics Intelligence Unit (2004)

Many of SA's clothing manufacturers have been relocating to non-metro and decentralised areas where they are able to pay lower wages⁸. This relocation has

⁸ This was confirmed during the course of interviews with clothing manufacturers in Cape Town in September 2004. Two Cape Town based firms indicated that they had relocated significant portions of

occurred in an attempt to compete with cheaper imports as a result of global trade liberalisation and lower wage rates in competitor countries. As the table on the comparison of hourly wage rates for selected countries shows, SA has relatively high labour rates when compared to many of its competitor countries. SA's hourly wage rate for the textiles industry in 2002 was \$2.17 per hour, which is much higher than most of the other countries depicted. The wage rate for the clothing industry is arguably more critical because of the labour-intensive nature of clothing production. South Africa's hourly wage rate for the clothing industry of \$1.38 per hour does not compare favourably with Bangladesh (US\$0.38), Sri Lanka (US\$ 0.48), China (average of US\$0.78), India (US\$0.38) and Kenya (US\$0.38), for example. However, it is also interesting to note that China does not have the lowest wage rates, with wage rates in Bangladesh, Sri Lanka, India, Kenya and Madagascar lower – and yet this does not prevent China from being exceptionally competitive in international markets.

1.2.3. Skills development

There is a serious need to develop skills in the clothing and textiles industries. Currently there appears to be few new skilled people entering the industry to replace those who leave, and very little skills development taking place within firms. Without appropriately skilled employees, technical staff and management, the industry will not be able to become internationally competitive. Formal tertiary education for clothing and textiles has been very limited in South Africa. Most technikons offer courses in textiles or fashion design, but until January 2001 only the Durban Technikon was offering a course in textiles technology. Since January 2001 the Peninsula Technikon in Cape Town has also offered a national diploma in textiles technology, and ultimately plans to offer a Bachelor of Technology. Nevertheless, both Technikons are struggling to find sufficient students to make their courses viable. In Cape Town, this is despite the Peninsular Technikon investing very substantially in new clothing and textiles equipment to support the sector.

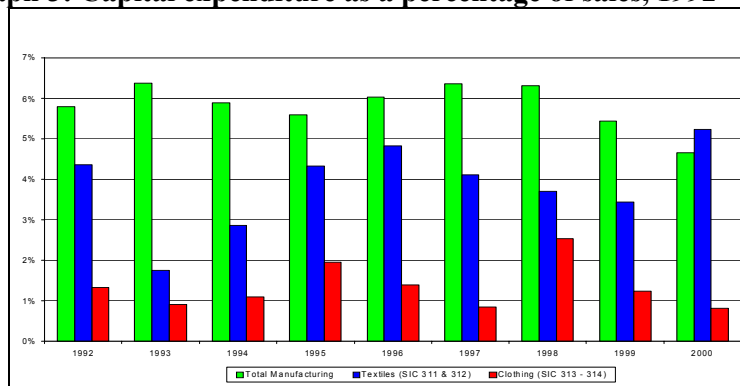
The Clothing, Textiles, Footwear and Leather SETA (CTFL) aims to develop and enlarge the skills base of all employed in the clothing, textiles, footwear and leather economic sector. Whilst the mission statement of the CTFL SETA is to promote and implement effective learning programmes and skills planning that will advance workplace security and productivity (Wesgro, 2002), its effectiveness thus far has been questionable. Work undertaken through the Textiles Industry Development Council in early 2004 suggested that the SETA lacks credibility amongst manufacturers and hence the support of the industry. As a result many programmes run through the SETA are not supported and hence rendered ineffective. This view of the SETA is confirmed by Robins et al (2004: ii), who note that firms and related institutions such as the SETA show little evidence of interaction and social cohesion, thus undermining the potential for collective action amongst key role players. Underpinning this negative cycle is the perception of clothing and textiles as 'sunset' industries and hence one to be avoided by bright youngsters and recent graduates. Longer term good prospects are required to attract the kind of people that are needed for the industry.

their production to lower wage areas in South Africa (Qwa Qwa and KwaZulu-Natal in these two instances).

1.2.4. Capital Expenditure

When compared to manufacturing as a whole, both the textiles and clothing sectors spend only a small proportion of their sales on new capital goods. Even taking into consideration the labour-intensive nature of clothing manufacture, capital expenditure in this industry is still very low. Being a comparatively more capital-intensive industry, the capital expenditure on new assets for textiles should exceed that of clothing, which it does, but the textiles industry still significantly lags behind the total manufacturing sector. Over the period 1992 to 2000, the manufacturing sector spent an average of 5.8% of its sales on new capital assets, compared to 3.8% in the textiles sector, and 1.4% in the clothing sector⁹. In order to become internationally competitive clothing and textiles firms need to invest in capital, technology and innovation, especially in light of the huge amounts of investment that has been directed to competitor economies, most notably China, India and Pakistan.

Graph 3: Capital expenditure as a percentage of sales, 1992 – 2000



Source: Stats SA

Note: Figures were calculated using actual value of sales and capital expenditure on new assets.

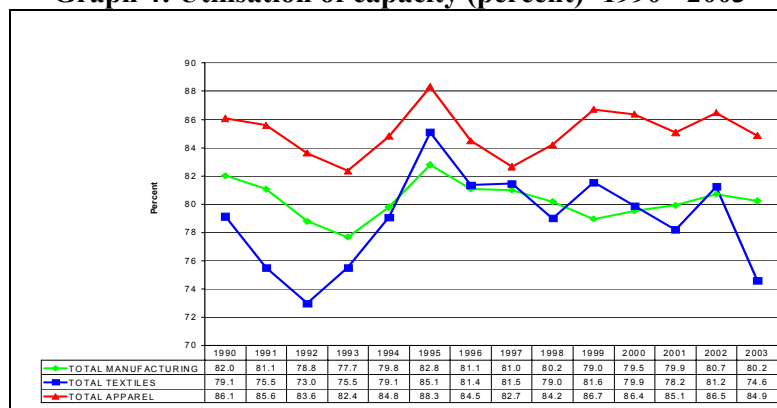
SA firms that have responded to liberalisation by upgrading their capabilities and fostering product differentiation and specialisation have apparently achieved more success. Roberts and Thoburn (2002) thus believe that SA firms should compete on quality, design and delivery rather than simply their price. This is not possible without investment in capital, technology, innovation and skills. Most capital goods are imported and therefore the exchange rate plays an important role, but investment in capital equipment is still vital, not only to replace capital goods, but also to upgrade capabilities. However, interviews with industry representatives did indicate that the threats facing the industry (e.g. China, illegal imports, dumping and the failure of the national government to confirm its national policy in respect of supporting the clothing and textiles industries) resulted in a lack of confidence in the future of South African clothing and textiles manufacture, which has contributed to the lack of investment.

⁹ The value of sales for clothing were calculated using SIC 313 and 314, while capital expenditure data for clothing is calculated using SIC 313, 314 and 315. The sales value for SIC 315 are not available and the capital expenditure data for SIC 313–315 is reported in aggregate form. These data constraints lead to an over-estimation of capital expenditure for the clothing industry. Firm-level benchmarks completed by B&M Analysts in the textiles and clothing industries through 2004 suggest that very little has changed in regard to capital investment in either clothing or textiles though 2001 to 2003.

1.2.5. Utilisation of Capacity

The graph below shows the percent utilisation of production capacity for total, textiles and apparel manufacturing from 1990 to 2003. Here the utilisation of capacity in the clothing industry compares favourably to both textiles and total manufacturing, with the largest contributing factor to under-utilisation being insufficient demand (Wesgro 2002). Although following a similar and somewhat volatile trend over time, the clothing industry has higher capacity utilisation than manufacturing as a whole. The clothing industry always operates at above 82% of its capacity, while total manufacturing only operates above 82% during peak years. The utilisation of capacity for the textiles industry has been much more volatile over the period and in 2003 dropped to 75%. On average, total manufacturing utilises 80% of its capacity. Similarly, the textiles industry uses 79% of its capacity on average, while clothing performs better with an average utilisation rate of 85%.

Graph 4: Utilisation of capacity (percent) 1990 - 2003



Source: Stats SA

1.2.6. International Trade

The export performance of SA clothing and textiles has generally been modest, focusing mainly on exporting to the EU (particularly the UK) for many years. Exports into the US market were completely unfamiliar until 1999/2000 due to AGOA. SA's participation in the EU market has been relatively limited and non-dynamic, exporting primarily into the lower or mass market. The US market tends to be more intensive and dynamic, but nevertheless, SA participation is again directed into lower or mass market segments (Gibbon 2002). Although export performance has improved since the early 1990s, it has declined from the AGOA impact period on the back of currency adjustments which have made domestically produced goods less price competitive in the international market. Firms that took maximum advantage of the opportunities provided by AGOA have suffered the most in terms of loss of orders and subsequent lay-offs (Robins et al 2004).

There has been an increase in both the export propensity of clothing and textiles firms in South Africa, as well as an increase in import penetration. Between 2000 and 2003 the export of clothing (SIC 313 and 314) increased from R1.5 billion to R2.4 billion (an increase of 54%), although a decline from the 2002 figure of R2.7 billion. Over the same period, textiles (SIC 311 and 312) exports increased from R1.8 billion to R2.5 billion (an increase of 40%), also despite a decline from the 2002 figure of R2.9 billion. Imports of clothing increased by 57%, moving the trade balance into a deficit

for the first time since 2000. Textiles imports grew by a lesser 25%¹⁰ between 2000 and 2003 increasing the trade deficit by nearly 6%. In 2003, clothing exports accounted for 1.4% of total manufacturing exports, whilst textiles accounted for 1.5%.

Table 10: SA manufacturing, textiles and clothing trade (R '000) by SIC

EXPORTS					
	2000	2001	2002	2003	2000 - 2003 % Change
3130 Knitted and Crocheted Fabrics and Appare	332,416	431,271	754,226	537,019	61.6%
3140 Wearing Apparel, Except fur apparel	1,207,740	1,604,498	1,999,014	1,841,405	52.5%
Clothing (SIC 313 & 314)	1,540,156	2,035,769	2,753,240	2,378,424	54.4%
<i>Clothing as % of total</i>	<i>1.3%</i>	<i>1.4%</i>	<i>1.5%</i>	<i>1.4%</i>	<i>10.4%</i>
3111 Prep and Spinning of Textile	1,159,610	1,362,038	1,772,029	1,496,539	29.1%
3129 Other Textiles	271,445	332,166	498,298	458,127	68.8%
3121 Made up Textile Articles, except Apparel	193,711	244,243	366,657	336,227	73.6%
3122 Carpets, Rugs and Mats	137,854	139,535	220,733	170,890	24.0%
3123 Cordage, rope, twine and netting	18,343	16,709	29,738	15,810	-13.8%
3112 Finishing of Textiles	0	135	0	10,236	na
Textiles (SIC 311 & 312)	1,780,963	2,094,826	2,887,455	2,487,829	39.7%
<i>Textiles as % of Total</i>	<i>1.5%</i>	<i>1.4%</i>	<i>1.6%</i>	<i>1.5%</i>	<i>-0.1%</i>
Total Manufacturing SIC	121,673,437	145,219,614	183,858,476	170,165,889	39.9%
IMPORTS					
3130 Knitted and Crocheted Fabrics and Appare	500,994	607,741	719,218	687,367	37.2%
3140 Wearing Apparel, Except fur apparel	1,298,110	1,367,621	1,755,274	2,140,940	64.9%
<i>Clothing as % of total</i>	<i>1.2%</i>	<i>1.1%</i>	<i>1.1%</i>	<i>1.3%</i>	<i>10.0%</i>
Clothing (SIC 313 & 314)	1,799,104	1,975,362	2,474,492	2,828,307	57.2%
3111 Prep and Spinning of Textile	2,020,425	2,250,784	2,969,698	2,500,128	23.7%
3129 Other Textiles	672,211	721,473	942,281	822,906	22.4%
3121 Made up Textile Articles, except Apparel	312,119	311,916	390,610	438,524	40.5%
3122 Carpets, Rugs and Mats	144,240	155,096	165,837	137,034	-5.0%
3123 Cordage, rope, twine and netting	35,887	30,530	36,644	32,872	-8.4%
3112 Finishing of Textiles	5	0	0	41,239	824680.0%
Textiles (SIC 311 & 312)	3,184,887	3,469,799	4,505,070	3,972,703	24.7%
<i>Textiles as % of Total</i>	<i>4.4%</i>	<i>1.9%</i>	<i>1.9%</i>	<i>1.8%</i>	<i>-59.0%</i>
Total Manufacturing SIC	71,946,844	180,184,261	232,235,255	219,074,035	204.5%
TRADE BALANCE					
Clothing (SIC 313 & 314)	-258,948	60,407	278,748	-449,883	73.7%
Textiles (SIC 311 & 312)	-1,403,924	-1,374,973	-1,617,615	-1,484,874	5.8%
TOTAL MANUFACTURING SIC	49,726,593	-34,964,647	-48,376,779	-48,908,146	-198.4%

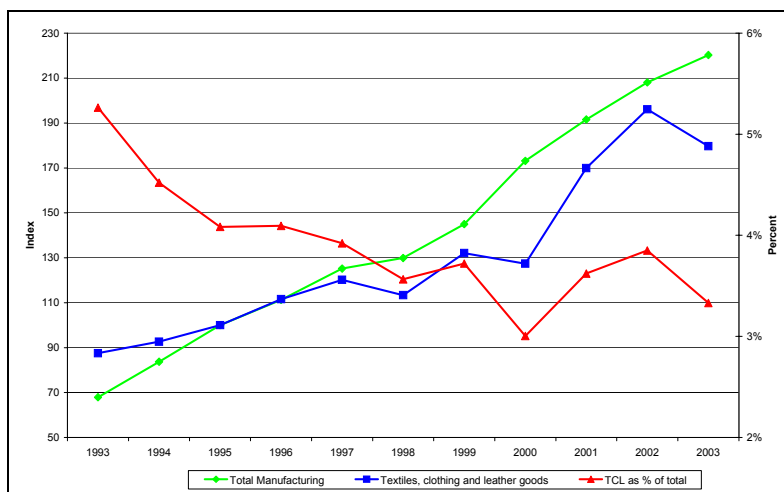
Source: DTI

Graph 5: Textiles and Clothing trade (SIC 311 – 314) R 000, 2000-2003



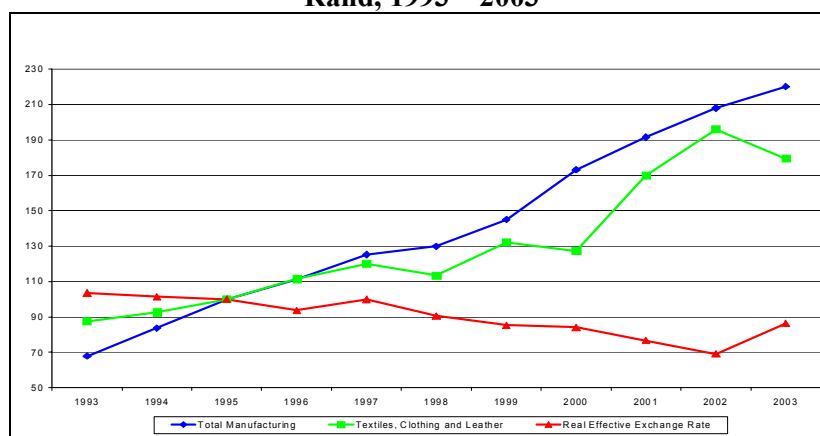
Source: DTI

¹⁰ This is despite falling prices into the SA market. SA Customs' data interrogated by the Textiles Federation, reveals substantial reductions in the price of fabric and yarns entering the domestic market. From 2002 to 2003 (January to June), the average price of yarn entering the South African market fell from R30.12 per kilogram to R22.19, whilst for fabric the price dropped from R37.38 to R26.71.

Graph 6: Manufactured exports indexed (1995=100), 2000 prices, 1993-2003

Source: DTI

Between 1996 and 2002 there has been a steady decline in the real effective exchange rate of the Rand (see Graph 7). Over the same time period textiles, clothing and leather exports increased indicating the expected relationship. However, the growth of textiles, clothing and leather exports exceeded the depreciation of the currency, which appears to indicate that the increase in exports is not just the result of the exchange rate (Wesgro, 2002). Nevertheless, as highlighted in both Graph 6 and Graph 7, the appreciation of the Rand from 2002 to 2003 has been accompanied by a decline in textiles, clothing and leather exports.

Graph 7: Exports indexed (1995=100) and real effective exchange rate of the Rand, 1993 – 2003

Source: DTI, SARB

Business Day (2004a) reported a 2% decline in SA's exports to the US in January 2004, as a result of the strong Rand. Clothing and textiles is cited as being hit the hardest with a 41% decline in exports of finished garments to the US. The clothing industry is believed to be particularly vulnerable to currency fluctuations because of the nature of exported garments. The bulk of SA clothing exports are basic items such as T-shirts, which can be manufactured and thus bought from virtually anywhere. SA exports these basic commodity items because of preferential trade agreements which

provide SA with tariff and quota-free access where other countries are restricted. However, with the end of the MFA these countries will no longer be constrained which places SA in a precarious position unless it is able to upgrade and improve competitiveness.

The value of exports of knitted or crocheted apparel to three out of South Africa's five top destinations (US, Italy and Mozambique) actually declined between 2002 and 2003 (see Appendix). There has been some growth in exports to the UK (7.1%) and almost 40% growth in exports to Belgium, but overall the export of knitted or crocheted apparel decreased by 24% over the period. At the same time, exports of not knitted or crocheted apparel to the US and UK declined, but increased to the UAE, Saudi Arabia and Ireland. Exports to Saudi Arabia grew by an incredible 1,116%, while exports to the UAE and Ireland increased by 119% and almost 50% respectively. Total exports in this category declined by just under 3%.

The value of imports from China between 2002 and 2003 increased by nearly 2,400% in the knitted or crocheted sector, and by 60% in the not knitted or crocheted sector. Imports from India and Italy have also been growing, while imports from Hong Kong and Malawi have been declining. Overall, imports of knitted or crocheted apparel increased by 18.6%, while imports of not knitted or crocheted apparel increased by 27.8% between 2002 and 2003.

The growth in exports in 10 out of 12 textiles chapters has been negative between 2002 and 2003 (see Appendix). In 2003, silk exports improved by 1.2% on their 2002 level, and exports of CH 53 grew by 887%, but both of these categories grew on the back of a very small base (R2.8 million in silk and R4.4 million in vegetable textiles fibres, paper yarn and woven fabrics of paper in 2002). SA's exports of cotton fibres fell by 13%, while exports of man-made staple fibres more than halved. The UK is one of the top 5 countries that SA exports textiles to in all of the 12 categories, with the US only featuring in 6 of the categories. Many of SA's other top 5 export destinations include other European and African countries, as well as Australia.

The Rand value of imports of textiles into SA declined in 10 out of the 12 chapters. Only CH53 and CH63 experienced positive growth between 2002 and 2003. However, this is due to a fall in the value of textiles imports due to global price reductions and the appreciation of the rand – the number of units of textiles imported has continued to increase. Data from the Textiles Federation of SA (see Appendix) shows a decrease in the rand/kg value of yarn and made-ups over 2001 to 2003 (although not for fabric, where the decrease only set in from 2002), and an increase in the import penetration of yarns and woven and knitted fabrics. China, India, Indonesia, Korea and Pakistan, who are considered a major threat to the global textiles and clothing industries, feature strongly in SA's top five import origins.

The majority of SA exports do not compete in higher value-added segments where product styling and marketing play an important role. Restrictive rules of origin, higher marketing costs, long lead times and employment objectives mandate that SA focus away from high fashion items. High fashion items are attractive, offering long-term potential, but they require considerable marketing and expense. To compete in the basic product range where most of SA's exports currently lie, the SA cost structure will have to be internationally competitive (Minor et al 2002). Therefore, Minor et al (2002) believe that SA should focus on the 'Fashion-Basic' segment which requires greater focus on delivery times, services, quality and product range

rather than price. Buyers in this segment are usually looking for the complete package where producers supply services such as design, quality control, cutting, sewing, sourcing of raw materials, logistics and labelling. Here suppliers will need to manage these services while controlling costs. In addition, close coordination with textiles producers will be required.

Further to these strategic observations, it is important to note the distinction between synthetic and cotton textiles and garment products in the US market. This is captured in Table 11, which shows the US customs duty rates and China-US quota costs. The lesson here is clear. Currently exports to the US are protected by two factors - the percentage duty rate (tariff) and the US dollar cost of buying import quota. When the MFA goes the latter will disappear and will no longer be an add-on cost to exports from countries such as China. Then the only defence countries with preferential agreements will have is the rate of duty added on to the price by the US government. As is clear from the table, in the case of synthetics (e.g. sweaters at 32% or men's suits at 27.3%) this still maintains a substantial rate of protection against cheap exporting competitors.

Table 11: US customs duty rates and China-US quota costs

Item	General duty rate	2003 quota price/dozen
Cotton garments		
Knit men's shirts	19.7%	\$32.50
Knit T-shirts	16.5%	\$32.50
Woven men's trousers	10.3%	\$39.00
Woven women's dresses	8.4%	\$30.50
Synthetic knit/woven garments		
Knit women's skirts	16.0%	\$35.00
Knit Sweaters	32.0%	\$23.50
Woven men's suits	27.3%	\$90.00
Woven women's dresses	16.0%	\$37.00

Sources: General Rates of Duty: Harmonized Tariff schedule of the US; 2003 reference prices for quota from China into US: www.chinaquota.com

Therefore Western Cape garment and textiles producers should be wary of depending on exports of products constructed of cotton. Even though AGOA allows for preferential access to such products if the cotton is sourced from Africa, the duty rate providing protection (on average only about 14% with peaks rarely exceeding 20%) may not be substantial enough to protect producers from competitors who will become the main beneficiaries of the dropping of the MFA. Developing the cotton pipeline either within South Africa or outside its borders may not yield the expected benefits that seem to spring from AGOA preferential treatment. In contrast after quota elimination in January 2005, peak tariffs on synthetic fibre apparel will still offer margins of preference of between 28 and 32 per cent on selected products. Maintaining, assisting and developing, through institutional support, the already existing synthetic fibre textiles and clothing sector in the Western Cape would therefore seem to have the potential to yield the greatest gains.¹¹

¹¹ A recent report to assist the textiles and apparel sector in Madagascar comes to a similar conclusion for diversifying the Malagasy industry away from its current dependence on cotton garments. (Nathan

1.2.7. Duty Credit Certificate Scheme (DCCS)

The Duty Credit Certificate Scheme is an export-incentive program for the textiles and clothing industries. It is designed to encourage the outward orientation of the South African clothing and textiles industries and is thus designed to support the phased integration of the two sectors into international operating environments. It has been extended on a number of occasions, and is presently set to expire on the 31st of March 2005. The DCCS allows firms to claim a remission of duty for proven exports. Alternatively the rebates earned can be sold to any other importer of garments or textiles. The level of support depends on the product exported, and there is also greater support for firms who export more than 15% of their turnover (Kaplan 2003), as highlighted in Table 12.

Table 12: DCCS scheme supporting the clothing and textiles industries, 2004

Product exported	Value of DCCS as % of proven export sales	
	Less than 15% of sales	15% or more of sales
Clothing/apparel and accessories	15	25
Household textiles	12	17.5
Fabric and other textiles	8	12.5
Yarn	5	8

Source: Barnes et al (2004); Kaplan (2003)

Presently, the DCCS operates at two levels. The first applies to firms who export less than 15 percent of their sales. At this level the value of the DCCS as a percent of proven export sales is 15 percent for clothing, 12 percent for household textiles, eight percent for fabric and five percent for yarn. The second level applies to firms who export 15 percent or more of their total sales, and here the value of the DCCS increases dramatically. Under this level the value of the DCCS as a percent of proven export sales is 25 percent for clothing, 17.5 percent for household textiles, 12.5 percent for fabric and eight percent for yarn. These figures indicate that the DCCS favours clothing over textiles exports, with most clothing exporters firmly believing that they would not be competitive internationally without the DCCS.

The DCCS can only be used for the rebate of duties on imported products for the domestic market, and it is not permissible to use these rebates for the importing of products to export. Duties on imports are required to be paid before the DCCS may be claimed, and the DCCS can only be used on the same stage product and one stage back, nor can the DCCS be used in conjunction with the 470.03 rule¹². This has limited the use of the DCCS by clothing firms, many of whom prefer to export using the 470.03 rebate. The reason for this stems from the fact that the 470.03 is a duty rebate permitting the importation of duty free fabrics. Firms do not, therefore, incur tariff costs when importing material, thus reducing their working capital. The DCCS, although potentially more lucrative to firms, works on a certificate redemption basis where duties can only be rebated once exports have been proven (or as more generally

Associates 2004) (Full reference: 'Diversification into man-made fibre apparel exports: a strategic option for Madagascar to maximise post 2004 preferential tariff margins', Nathan Associates, June 2004.

¹² The 470.03 rule is a duty-rebate system for the import of yarn, fiber or fabrics in order to produce clothing for export.

happens, the certificate converted into cash when sold to another party, generally a retailer). This places severe working capital constraints on clothing firms using the DCCS.

As a result of the restrictions on the use of the DCCS, as well as the tradability of credits, the majority of the DCCs are sold and it is generally the major retailers who are the main beneficiaries of the scheme. The retailers pay as much as a 30% to 40% discount for the DCCs which they then use to import garments and household textiles, reducing demand in the domestic industry and ultimately hurting the domestic textiles and clothing sectors.

The appreciation of the South Africa Rand through 2003 and 2004 has been placing an inordinate amount of pressure on textiles and clothing manufacturers, and despite the benefits of the DCCS, firms argue that they are generally no longer competitive in their principle export markets of North America and Western Europe. Additional pressure is being placed on the local market due to the surge in the importing of garments – facilitated in part by the access of garment importers to DCCS benefits, but primarily as a result of the international firms’ superior competitiveness and the substantial appreciation of the Rand, which has made the South African market increasingly attractive as an export destination.

The lower rebates available for the textiles firms under the DCCS makes these firms less competitive in the export market than clothing firms. Furthermore, the preferential access to the US market under AGOA also principally benefits the clothing manufacturers, as access is restricted to garments and not fabric. However, the rules-of-origin for garment exports under AGOA is a positive development for the textiles industry. The most substantial concern in the textiles industry is that imports into the South African market are having a detrimental effect. The import of fully assembled garments and household textiles, as well as the increasing amount of fabric being sourced internationally by clothing manufacturers is reducing demand for locally produced textiles. The duty-rebate mechanism of the DCCS is being used to offset the nominal rates of duty being incurred, thus exposing the domestic textiles industry to substantial amounts of international competition (Barnes et al, 2004).

Given the central role played by the DCCS in shaping the dynamics of the clothing and textiles sectors, it is important to note that the DTI has confirmed that the DCCS will not be extended beyond the 31st of March 2005. In response to this, the clothing and textiles industries have submitted a joint-proposal requesting that the DTI put in place a two-year Interim Development Program for the two industries, with the cornerstone of this program being the continuation of the core elements of the DCCS. The basic parameters of the DCCS as outlined in Table 11 may continue to the 31st of March 2007, although both industries have requested that the DTI not discriminate DCCS values on the basis of proportion of sales exported and that the common level be pitched at those firms exporting more than 15% of their sales. Additional elements requested by Clotrade and the Textiles Federation of South Africa (Texfed), the two national industry federations, include:

- The removal of all firm-specific dimensions to duty credits, with the focus of the program to be on products manufactured, rather than firm specific dynamics
- Adherence to the principle that duty credit benefits be used as far as possible within the clothing and textiles manufacturing industries

- The implementation of a review and monitoring mechanism via the Clothing and Textiles Industry Development Council, and
- The completion of a detailed clothing and textiles industry policy review by December 2005, with the clear brief of clarifying clothing and textiles industry policy post 1 April 2007.

Whether these recommendations are accepted by the DTI has yet to be confirmed, although it is clear that the preferred (albeit compromise) position of the national clothing and textiles federations is the implementation of the two-year interim programme. Given the extensive difficulties confronting the two sectors in their major export markets, it is our view that the national government should accept the joint submission of the clothing and textiles federations. This will give the two industries certainty on government policy to April 2007 and via the policy review in 2005 provide certainty on post April 2007 policy.

1.3. The Western Cape Textiles and Clothing Industries

Detailed information at a provincial level in SA is not readily available, and information that does exist tends to be outdated. Therefore much of the analysis that ensues is based on interviews with firms, customers and academic researchers, and consequently not quantifiable.

Table 13: Gross geographic value added for textiles, clothing and leather goods at constant 1995 prices (R 000)

	1996	1997	1998	1999	2000	2001	2001 % of total	2001 -2002 growth
Western Cape	2,404,347	2,544,170	2,328,838	2,463,059	2,211,029	2,117,516	34.5%	-4.2%
Eastern Cape	648,475	679,641	620,734	639,015	623,250	587,486	9.6%	-5.7%
Northern Cape	25,129	26,085	24,297	27,042	26,403	24,981	0.4%	-5.4%
Free State	169,785	172,586	155,763	148,254	147,906	134,988	2.2%	-8.7%
KwaZulu-Natal	2,286,656	2,358,557	2,168,553	2,112,831	2,058,202	2,071,924	33.7%	0.7%
North-West	110,770	113,777	104,771	103,457	106,407	102,049	1.7%	-4.1%
Gauteng	923,841	929,932	871,944	889,384	867,603	885,903	14.4%	2.1%
Mpumalanga	131,206	136,984	125,863	126,975	127,244	127,701	2.1%	0.4%
Limpopo	103,680	107,003	102,535	102,941	100,031	93,340	1.5%	-6.7%
TOTAL	6,803,890	7,068,735	6,503,299	6,612,959	6,268,075	6,145,888	100.0%	-1.9%

Source: Global Insight

The Western Cape textiles clothing and leather sector is central to this national industry as nearly 35% of gross geographic value added for textiles, clothing and leather goods originates from the Western Cape, followed by KwaZulu-Natal with 34% and then Gauteng with 14%. Unfortunately, the gross geographic value added of this sector in the Western Cape declined by 4.2% between 2001 and 2002, while KwaZulu-Natal and Gauteng experienced positive growth over the same period. This suggests that the Western Cape clothing and textiles sectors have struggled to a greater extent than the national average.

Table 14: Real CMA GGP (1995 prices) at factor cost R 000, 1996 – 2002

	1996	1997	1998	1999	2000	2001	2002	% change 2001-2002
Total Manufacturing	14,349,121	14,826,715	15,490,294	15,179,987	15,488,349	16,455,329	17,319,910	5.3%
Textiles and clothing	2,749,809	2,757,832	2,819,088	2,494,893	2,377,685	2,667,763	2,499,694	-6.3%
Total GGP	55,352,855	57,346,875	59,210,347	59,815,570	61,071,695	62,888,777	65,435,860	4.1%
Textiles and clothing as % of manufacturing	19.2%	18.6%	18.2%	16.4%	15.4%	16.2%	14.4%	
Textiles and clothing as % of total GGP	5.0%	4.8%	4.8%	4.2%	3.9%	4.2%	3.8%	

Source: City of Cape Town

The textiles and clothing industries in the Western Cape are also vital to the provincial economy. Here only CMA data is available, but textiles and clothing accounted for 14.4% of CMA manufacturing GGP, and 3.8% of total CMA GGP, indicating that textiles and clothing are significant industries in the CMA area. However, the contribution of textiles and clothing to CMA manufacturing has declined from 19% in 1996 to 14% in 2002, and its contribution to total GGP declined from 5% to just less than 4% over the same period. Furthermore, while manufacturing and total GGP experienced positive growth of 5.3% and 4.1% respectively between 2001 and 2002, the textiles and clothing sectors contracted by 6.3%.

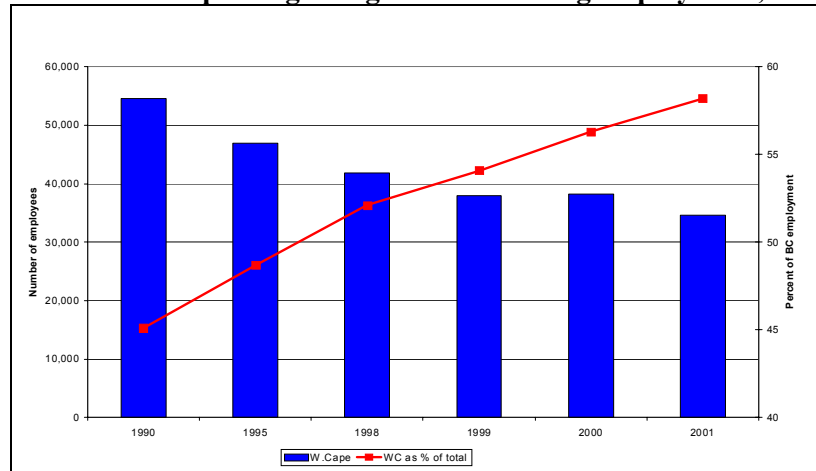
Looking at bargaining council employment in the clothing industry it is again evident that this industry is central to the national industry as more than half of all bargaining council clothing employees are located in the Western Cape. Employment in all of the provinces in SA has declined, particularly after 1995, but there has been a smaller percentage decline in the Western Cape when compared to other provinces, resulting in an increase in the proportion of clothing industry employees who work in the province. Employment in the Western Cape declined by 2.9% between 1990 and 1995, and by 4.9% between 1995 and 2001, while the proportion of national employees in the region increased from 45% in 1990 to 56% in 2001. However, bargaining council statistics are unlikely to provide an accurate reflection of clothing industry employment. In the Western Cape there are a greater proportion of firms who fall under the jurisdiction of the bargaining council, whereas in KwaZulu-Natal there are a larger number of decentralised areas resulting in a smaller proportion of firms (until recently) falling under the jurisdiction of the bargaining council. Furthermore, in KwaZulu-Natal many firms have left bargaining council areas and moved to decentralised areas where they are able to take advantage of lower wage rates and less regulations. This informalisation of the sector in KwaZulu-Natal would reflect as firm closures and a decline in employment in bargaining council statistics.

Table 15: Bargaining Council Employment by Province, 1990 - 2001

	W.Cape	KZN	Gauteng	Eastern Province	OFS / N.Cape	Total	WC as % of Total
1990	54,564	44,623	16,092	3,118	2,711	121,108	45.1
1995	46,980	34,720	10,888	2,423	1,432	96,443	48.7
1998	41,874	26,397	8,994	1,793	1,262	80,320	52.1
1999	37,918	21,331	8,176	1,415	1,311	70,151	54.1
2000	38,262	19,714	7,517	1,489	1,004	67,986	56.3
2001	34,655	15,693	6,626	1,291	1,315	59,580	56.2
Employment growth (Annual %)							
1990-1995	-2.88	-4.58	-7.39	-4.68	-11.84	-4.31	
1995-2001¹³	-4.85	-12.1	-7.91	-9.58	0.27	-7.61	

Source: Flaherty (2002)

¹³ More updated data, although available, cannot be used as the bargaining council began to include non-metro firms in 2003 and therefore these statistics are not directly comparable.

Graph 8: Western Cape bargaining council clothing employment, 1990 - 2001

Source: Flaherty (2002)

In the textiles industry there are currently 39 firms and 9,993 employees that belong to the national textiles bargaining council. The council was only formed at the beginning of 2004 and therefore historical data on the number of firms and employees in the textiles industry is not available. However, the council indicated that there is likely to have been an increase in the number of textiles firms over time as there has been a move away from a small concentration of very large firms (primarily in KwaZulu-Natal), to a larger number of smaller firms. These firms are spread fairly evenly between the Western Cape, KwaZulu-Natal and the Eastern Cape (mainly wool and mohair), with a small number of firms also located in Gauteng.

Although it is clear that the textiles and clothing industries are important to the Western Cape in terms of their contribution to GGP and (perhaps more significantly) employment, the impact of a loss of this sector is uncertain as no socio-economic impact studies have been undertaken. Therefore, in section 2 of this report we recommend that a study of this nature be conducted to fully understand the implications of a loss of clothing and textiles in the Western Cape.

Following international trends, research has shown that local retailers have become much more demanding in terms of price, quality, flexibility and variety – placing a huge amount of pressure on clothing and textiles manufacturers. Firms deal with a relatively small number of retailers, with the top five to seven retailers accounting for 60–70% of national sales (Robins et al 2004). Price pressures emanate from this oligopolistic nature of the retail industry, especially since retailers have increasingly easier access to cheap imports. The industry in this province, more particularly in the metropole, is focused primarily on short production runs for more high-end domestic firms. There has also been a move towards firms becoming more design orientated, which has resulted in formal factory downsizing, with many firms outsourcing the actual manufacture of garments to CMT operators.

BOX 1
THE CMT BUSINESS IN WESTERN CAPE

At the end of the 1990s, CMTs working for the domestic market constituted between a quarter and a half of all clothing firms in the Western Cape. CMT operations began emerging in the 1960s and 1970s when large retailers started sourcing directly from manufacturers, and some encouraged or helped set up CMT operations. Later in the 1970s, large manufacturers themselves started to use CMTs to cope with production peaks and/or more problematic styles and shorter production runs. In the 1990s, some manufacturers started transforming themselves into design houses and converted their technicians and machinists into formal or semi-formal CMTs. In a parallel process, informal CMTs emerged as a result of formal factory closures, with former employees re-employing themselves in small and micro enterprises. Finally, informal enterprises have also emerged in townships such as Khayalitsha and Mitchells Plain, amongst groups with no previous background in the clothing industry.

Currently, the CMT 'sector' consists of three different strata. The first is an elite group of CMT owners with two or more sewing lines, who can handle production runs of up to 5,000 pieces and are fairly specialised. This group serves the bigger retail chains, larger full manufacturers and/or best-established design houses on a near-continuous basis. The next stratum of CMTs are 'jobbers' whose customer base is smaller retail chains, less well-established design houses and hawkers. The output of these CMTs is relatively unspecialised. Lastly, there are a strata of CMTs that are all SMMEs with varying degrees of specialisation and stability. Co-operation both within and between these CMT strata is largely uncommon. Although there have been a number of politically driven initiatives to coordinate and upgrade CMTs and SMMEs, these have as yet not been very successful.

Source: Gibbon (2002)

Given the domestic retail focus of the Western Cape industry, retailers and manufacturers are often jointly involved in the design of garments for the local market. However, interviews with large retail chains indicated that some retailers have taken on the design function because manufactures do not have adequate design and marketing skills. Nevertheless, these retailers believe that design is not one of their core competencies and should not form part of their portfolio. Both the domestic and international markets are highly differentiated. Domestically, firms that service the lower-end of the market (some of which are located in the Western Cape) tend to simply 'copy' international designs for the local market. However, firms that service the upper-end of the market incorporate a greater design content. Furthermore, the global market is even more differentiated as tastes and style differ not only between continents such as the US and EU, but also between different countries within a common geographical region such as Europe. Since the Western Cape situates itself at the higher-end of the market domestically, and if it wishes to increase exports, then it is essential that design and marketing related skills are upgraded, and therefore this is also a policy recommendation in section 2 of this report.

The trend towards servicing the upper-end of the domestic market is partly a result of the higher cost structure in the Western Cape, including wages, and partly the higher

skill of workers here allow for this sort of production. In the 1980s, apartheid's Regional Industrial Development Programme (RIDP) offered substantial five-year subsidy packages to firms locating (or relocating) anywhere outside of Johannesburg-Pretoria and Durban areas. The delocalisation of firms was a much more pronounced trend in Durban than in Cape Town (Gibbon, 2002). Preliminary statistics from the national clothing bargaining council show that in the Western Cape approximately 96% of firms and 98% of employees are located in metro areas, while the remaining 4% of firms and 2% of employees are located in non-metro areas. These provisional statistics suggest that the proportion of firms and employees located in non-metro areas is much lower in the Western Cape than in other provinces. For example, in KwaZulu-Natal 30% of firms and 57% of employees are located in non-metro areas. Wage determination and bargaining council wage rates are considerably higher in metro areas than non-metro areas, thus affecting the labour-intensive clothing industry more significantly than the relatively capital-intensive textiles industry.

Table 16 shows that even in the metro areas wage rates in KwaZulu-Natal are much lower than the Western Cape. For example, a 'Grade A' employee can earn a maximum of R611 in the Western Cape, but a maximum of only R463 in KwaZulu-Natal. Although the wage rates of the non-metro areas are the same for the Western Cape and KwaZulu-Natal, the higher proportion of firms and employees in non-metro areas in KwaZulu-Natal suggests that overall there is a lower cost structure in that province. Interviews¹⁴ with large retail chains indicated that although they try to source locally, many firms are unable to compete cost-effectively with international competition. Retailers who supply to the lower-end of the market tend to source locally from KwaZulu-Natal because these firms are more cost-competitive – not only as a result of lower-wage rates, but also because of the attitude of the industry due to the large number of foreign owned firms (mostly Chinese, Taiwanese, Indonesian and Singaporean) located in the province. In contrast, many retailers who supply the upper-end of the market source from Western Cape firms. One of the primary criticisms from retailers of the Western Cape firms in particular, was that clothing manufacturers are reactive, rather than proactive to changing market conditions.

Table 16: National bargaining council wage rates for the clothing manufacturing industry, valid 1 July 2004 – 30 June 2005 (Wages per week)

METRO AREAS		
	Western Cape	KwaZulu-Natal
Head Cutter	978.10	R 829.55
Grade A employee	R 430.10 - R 610.95	R 359.65 - R 463.05
Machine mechanic	R 553.36 - R 987.30	R 411.35 - R 891.50
Factory clerk	R 402.32 - R 505.37	R 378.90 - R 557.20
NON-METRO AREAS*		
	Magisterial Districts**	All other areas
Head Cutter	R 678.14 - R 687.38	R 508.80 - R 517.97
Category A	R 279.05 - R 316.20	R 216.52 - R 244.56
Category B	R 282.34 - R 371.95	R 218.98 - R 282.76
Category C	R 315.33 - R 482.84	R 242.56 - R 371.32
Category D	R 315.33 - R 482.84	R 242.56 - R 363.83
Category E	R 337.01 - R 569.68	R 257.34 - R 429.27
Clerical	R 278.23 - R 461.39	R 138.33 - R 347.67

Source: National Bargaining Council

*Non-metro wage rates are the same in the Western Cape and KwaZulu-Natal

** Magisterial districts of Camperdown, uMzinto, Paarl, Stellenbosch and Uitenhage

¹⁴ These interviews were completed in August 2004, as part of the Cape Clothing Cluster pilot project.

The real value of clothing and textiles exports from the Western Cape increased from R908 million in 2001 to R1,183 million in 2002, an increase of more than 30%. Between 1998 and 2001, the total exports of clothing from the province grew by 29%, although most of this increase was due to the nearly 70% growth in the exports of knitted or crocheted garments. The export of woven garments actually declined between 1998 and 1999, increasing only slightly thereafter. Exports of clothing from the Western Cape to Europe declined by 17% over the period, while exports to NAFTA increased by 275%. Both exports of knitted/crocheted and woven garments to this region have grown substantially, but the exports of knitted/crocheted garments again exceed the exports of woven garments. In 2001, exports of knitted/crocheted garments from the Western Cape to NAFTA totalled R103 million, while exports of woven articles only reached R48 million.

Table 17: Cape Town export data from SARS (R million)

			Real value of exports		2001-2002 Real growth
	2001	2002	2001	2002	
CT manufacturing exports	7,572	10,798	5,355	7,019	31.1%
Textiles and clothing	1,284	1,819	908	1,183	30.3%

Source: City of Cape Town

Despite, the growth in exports of clothing (and textiles) from the Western Cape, interviews with industry representatives indicated that the export performance of the Western Cape has been less impressive than other provinces, especially KwaZulu-Natal. The Western Cape clothing industry in particular tends to focus more on the domestic, rather than the international market. The advantage of this is the close proximity to the head offices of a number of major retail chains. The disadvantage of supplying the local market is its comparatively small size and fragmented nature, which inhibits firms from achieving economies of scale.

Table 18: Exports of clothing from the Western Cape by HS chapters R 000, 1998 – 2001 (constant 2000 prices)

	1998	1999	2000	2001	Growth 98-01
Total exports					
CH61	142,084	185,698	228,773	239,723	68.7%
CH62	196,655	159,935	185,819	197,172	0.3%
Total	338,740	345,633	414,591	436,895	29.0%
Exports to Europe					
CH61	67,448	83,025	89,522	92,787	37.6%
CH62	140,594	106,796	100,133	79,125	-43.7%
Total	208,041	189,820	189,655	171,912	-17.4%
Exports to NAFTA					
HS61	27,888	57,009	87,894	103,037	269.5%
HS62	12,452	7,362	24,091	48,332	288.1%
Total	40,340	64,371	111,985	151,369	275.2%

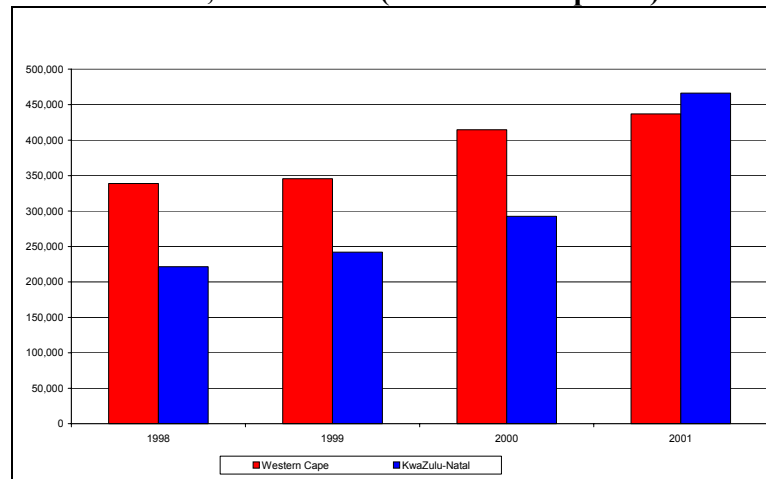
Note:

Source: Customs and Excise

CH 61: Articles of apparel and clothing accessories, knitted or crocheted

CH 62: Articles of apparel and clothing accessories, not knitted or crocheted (wovens)

Graph 9: Total exports of clothing from the Western Cape and KwaZulu-Natal R 000, 1998 – 2001 (constant 2000 prices)



Source: Customs and Excise

This viewpoint is supported by the data in Graph 9, which shows a comparison of clothing exports from the Western Cape and KwaZulu-Natal. In 1998, exports of clothing from the Western Cape totalled R339 million, exceeding KwaZulu-Natal's exports of R221 million in the same year. However, by 2001, KwaZulu-Natal had grown its exports by an impressive 111% to R466 million, exceeding exports from the Western Cape of R436 million. The Western Cape still dominates in the export of knitted or crocheted garments, while KwaZulu-Natal dominates in the export of woven garments. However, while the export of woven garments from KwaZulu-Natal exceed the export of knitted or crocheted garments, the province has still experienced substantial growth in both chapters. Between 1998 and 2001, KwaZulu-Natal grew its exports of knitted or crocheted garments by 131% and its export of woven articles by 101%. Furthermore, while exports from the Western Cape to Europe declined consistently over the period, KwaZulu-Natal's exports to the region actually increased between 2000 and 2001. Exports to NAFTA from both the Western Cape and KwaZulu-Natal have been increasing, but again the performance of KwaZulu-Natal exceeds that of the Western Cape (see Appendix)¹⁵.

Another constraint to the Western Cape clothing industry (as it is to the national industry) is the shortage of domestically produced fabrics as well as the variety of fabrics that are not produced locally. The textiles industry restructured rapidly during the 1990s, and in a way that did not always favour clothing firms i.e. the production of higher value-added goods in the areas of industrial and specialised textiles (Robins et al 2004). These factors inhibit the ability of firms to meet the rules of origin requirements for exports under preferential trade agreements, and forces firms to import fabrics that are not produced in SA. Furthermore, the domestic textiles firms have moved towards producing an even more limited supply of standard fabrics with large production runs, and to producing more household and industrial textiles. The textiles industry does not appear prepared to invest substantially to supply the clothing industry because of a lack of confidence in the future of clothing. **A significant**

¹⁵ It is important to note that the appreciation of the Rand since this data was collected is expected to have negatively impacted on exports from all provinces. Furthermore, interviews with industry representatives indicated that the current exchange rate had resulted in many export contracts no longer being profitable.

problem is that the clothing industry is not large enough to support a textiles industry that produces a wide variety of fabrics. Therefore it is likely that there will be a number of fabrics that will always need to be imported. However, it is not evident that the textiles industry has made any attempt to support clothing, and without this support expansion in the clothing industry will be constrained – especially in light of rules of origin requirements. It also needs to be noted in this regard that an expansion in the clothing industry will provide more opportunities for the textiles industry, with approximately 48% of textiles output in South Africa feeding into the domestic clothing industry¹⁶.

Where regional fabrics have been able to meet AGOA requirements, SA's export performance has been positive and comparable to other SSA countries. If SA is to reach its potential then it must gain access to export quality, competitively priced regional fabrics and yarn that meet AGOA requirements. Furthermore, it is essential that SA firms understand that the new export environment requires cooperation between textiles and apparel producers. Independence is not an option for either group to succeed – “whatever the rights or wrongs of AGOA rule of origin, SA must address fabric shortage above all else to meet its potential” (Minor et al 2002).

Given the domestic market focus of the Western Cape industry, it is possible that the end of the MFA will have a slightly less severe impact on the industry than in other provinces such as KwaZulu-Natal who have been more export focused. In fact, the short-term impact of the end of the MFA may actually be positive, as China, India etc. may focus on the US and EU markets where they have been constrained by quotas. This may provide SA will a small window of opportunity during which time firms can increase their competitiveness capabilities in order to compete more effectively. For the Western Cape, what is arguably more significant is the possible free trade agreements with China, India and Mercosur¹⁷ that will create greater competition with imports in the domestic market. These FTAs are likely to have a positive effect on SA's primary industries, but have a potential devastating effect on the textiles and clothing industries. Nevertheless, if the Western Cape continues to focus primarily on the domestic market then it will face a decreasing share of this market. However, if the industry upgrades and improves manufacturing processes and skills, and looks towards a larger export market then it may survive or even prosper. If the industry in the Western Cape is really focused on growth, then it is essential that it becomes more export orientated.

¹⁶ The amount of textiles supplied into clothing as a proportion of total domestic textiles output is highly contentious, with the Textiles Federation of South Africa arguing that the figure is roughly only 33%. Preliminary work undertaken by B&M Analysts on behalf of the Textiles Industry Development Council (involving detailed firm-level quantitative research) suggests the figure is substantially higher (at 48%). The difference appears to exist in the ‘double counting’ of yarn sales to fabric manufacturers as textiles sales, when this fabric is then subsequently sold to apparel manufacturers.

¹⁷ Mercosur is not widely perceived to be as severe a competitiveness threat as China or India, but evidence from the footwear, leather goods and automotive sectors reveal that the region is capable of manufacturing for global markets at extremely competitive rates.

1.4. SWOT Analysis of the Western Cape Textiles and Clothing Industries

To summarise the existing position of the Western Cape clothing and textiles sectors, a strengths, weaknesses, opportunities and threats (SWOT) overview of the two sectors is presented below.

1.4.1. Strengths

- One of the disadvantages for SSA countries is their unreliable telecommunications and infrastructure (Economics Intelligence Unit 2004). In contrast, SA has comparatively reliable telecommunications and infrastructure, which reduces costs and shortens lead times
- Many SA firms are very good at adhering to international standards, e.g. labour and social standards (Ralis 2004)
- Cheap utility costs, e.g. electricity, in comparison to competitor countries provides SA firms with an advantage (Ralis 2004), particularly in the textiles industry, which is a major user of electricity
- The industry has some government support programs, such as the DCCS (Ralis 2004)
- The Western Cape firms are in a better geographical position than firms in other provinces because of closer proximity to major export markets (i.e. shipping times from Cape Town to North America and the EU are shorter than from Port Elizabeth or Durban). Furthermore, many of the local retailers have their head offices in the Western Cape, and the majority of clothing firms are also located in the region
- Geographical clustering of textiles and clothing firms in the Western Cape
- Textiles and clothing firms that presently make up the industry have already proven their capabilities to a large extent as they have survived the trade liberalisation of the 1990s
- The textiles and clothing industries have well-established relationships with buyers in Western Europe (especially the UK) and North America

1.4.2. Weaknesses

- Many firms rely on the weak currency to be competitive in the export markets (Ralis 2004). The volatility and current strength of the Rand makes this a disadvantage for firms
- Labour rates and ancillary labour costs (e.g. overtime pay, sick leave, etc.) result in a higher labour cost in SA when compared to many competitor countries, such as China, India, Pakistan and Indonesia (Ralis 2004, Economics Intelligence Unit 2004)
- The physical infrastructure (e.g. Cape Town port) and institutional infrastructure (e.g. technological and government support) are also disadvantages for firms (Ralis 2004), largely due to endemic inefficiencies
- SA's geographical location (to the US market in particular) is a disadvantage as the proximity from exports markets increases lead times dramatically and hampers firms' ability to respond to customer needs (Ralis 2004)
- SA clothing and textiles manufacturers have relatively low productivity and inefficient manufacturing processes (Ralis 2004). This has been confirmed in pilot benchmarks completed as part of the Cape Clothing Cluster launched in June 2004

- There is a critical shortage of management, as well as technical skills especially pertaining to textiles, and a lack of training in both the textiles and clothing industries (Ralis 2004). A major problem is that there are no adequately skilled people to replace those who retire
- The industry has a negative attitude and is unwilling to change, invest and take risks in order to survive in the current economic climate (Ralis 2004)
- Co-operation amongst manufacturers in both industries, as well as along the value chain is not common (Ralis 2004)
- The clothing manufacturers' bargaining power with retailers is very poor
- A lack of capital expenditure has resulted in outdated equipment. Unless firms invest in capital, technology and innovation SA will not be able to be internationally competitive (Ralis 2004)
- Although there are some proficient textile firms, the quality and delivery of fabrics is often not satisfactory (Ralis 2004)
- The development of new fabrics is slow in the textiles industry and some high-quality fabrics (e.g. lightweight synthetics) are not produced in SA. Limited innovation is further hampered by the lack of co-operation and innovative ability of yarn suppliers (Ralis 2004)
- Locally sourced cotton is often poor with variable quality (Ralis 2004)

1.4.3. Opportunities

- SA has a higher cost structure than competitor economies and has not been able to achieve economies of scale. Lead times are also long. SA should look at developing better quality, more specialised niche markets (as at least part of their production) where longer lead times and higher costs are acceptable (Wesgro 2002, Ralis 2004)
- Growing middle-income countries such as Japan, the Arab countries, Australia, Russia and Asia are all experiencing massive increases in demand for apparel (Flanagan 2003). SA exports of clothing to Saudi Arabia and UAE, for example, have already increased dramatically
- Mercosur is a trade block in South America that was formally implemented in 1994. SA is not a member, but there is a treaty that provides for other countries to join the common market through free trade agreements. The largely untapped South American market could be an opportunity for SA (Wesgro 2002). Penetration into the SA market is, however, a major risk.
- The African export market should also be more actively pursued (Ralis 2004)
- Regional trade agreements (e.g. a SADC trade agreement) provide new opportunities in supply chain optimisation, as well as in trade (Wesgro 2002)
- International trade agreements allow for better access to cheaper inputs from abroad as well as technology and know-how, and increased trade opportunities (Wesgro 2002). There is a proposal for a trade agreement between SACU (SA, Botswana, Lesotho, Swaziland and Namibia) and the US under which barriers to trade will be removed, and textiles and clothing are likely to be included. This agreement requires negotiation of new rules of origin, which may be more advantageous to the SA clothing industry (but not the textiles industry) than those contained under AGOA. SA will push for a double transformation that will allow the use of imported yarn, but the conversion to fabric will have to take place in SA (Financial Mail 2003)

- There are still opportunities for export under the AGOA preferential trade agreement that has been extended to 2015. The stringent rules of origin contained in this agreement provide further opportunities for the textiles industry
- SA is not competitive in the manufacture of basic items such as T-shirts, but is competitive in the areas of man-made fibres and woollen articles. Furthermore, US import duties are still high in these areas and here SA can benefit from preferential trade agreements (Economics Intelligence Unit 2004)
- The development of a ‘Cape’ or ‘South African’ brand of clothing and fabrics with an African feel to export under can help increase exports (Ralis 2004)
- Strategic alliances across the value chain and a more symbiotic relationship with suppliers and customers will provide better opportunities for improvement (Ralis 2004)
- Clothing manufacturers could increase their supply into the local market by improving their relationship with customers and providing retailers with better responses, follow-up services and shorter lead times
- The clothing and textiles sectors have shown an increasing willingness to cooperate with one another (after years of antagonistic relationships). The submission of a joint proposal to the DTI on the introduction of an Interim Development Program highlights the opportunities for further cooperation

1.4.4. Threats

- Increased competition due to trade liberalisation globally
- China is a major threat, particularly in the quota free environment post 1 January 2005
- Low cost imports are a threat to local industry suppliers who compete with these (often under-invoiced) imports in the domestic market (Ralis 2004)
- Illegal imports and dumping are also a threat to local industry suppliers (Wesgro 2002)
- The inflexible labour market in SA constrains formal employment growth and inhibits flexibility and competitiveness (Wesgro 2002)
- Firms face various challenges relating to marketing and design when exporting (Wesgro 2002)
- Many clothing and textiles firms produce standard commodity based items where they are unable to compete effectively because labour costs are a key competitiveness determinant in these markets (Ralis 2004)
- The lack of product and process innovation constrains the ability of the industry to expand and compete internationally (Ralis 2004)
- The relationship between clothing and textiles is a serious concern because of the linkages between these industries. The lack of trust and co-operation between the various sub-sectors of the value chain hinders the ability of firms to compete effectively. The rules of origin of various trade agreements increase the interdependence of these industries, and therefore it is extremely important for clothing and textiles to work together to improve the competitiveness of the regional industry as a whole
- Failure to support locally embedded institutions, such as the Peninsular Technikon’s Centres of Excellence for the Clothing and Textiles Industries, resulting in their closure and the subsequent demise of the technical support infrastructure for the two sectors

1.5. Future Prospects

On the basis of the current trends, both internationally and domestically, the Western Cape clothing and textiles sector faces extremely serious challenges in the coming five years. We summarise these below, and in order to drive the points home convincingly, we cite examples from a number of recent special surveys in the Financial Times (July 2004):

- Unlike most other sectors, the clothing industry has globalised in response to closed, not open markets. As exports from one developing country hit their MFA ceilings, through their pivotal place in global value chains the predominantly Asian companies, who link high income country retail buyers to manufacturing enterprises in developing countries, have shifted production to others not yet covered by quotas. It is clear that the end of the MFA and hence the removal of quotas, which gave certain developing countries preferential treatment in relation to imports, as well as correspondingly keeping other developing countries' exports out of the competition, will create a massive shake up in the international clothing and textiles sectors. Even cheap labour clothing exporting economies such as Bangladesh – where monthly income of clothing workers ranges from the lowest level of \$20 to \$85 for highly experienced workers – are expected to lose as much as 40% of their export base. (FT 24th)
- The principal beneficiaries will be China and India (as well as a small number of other developing countries). Two examples of what is likely to occur in the future are instructive: When in 2001 baby clothing became exempt from the MFA, Bangladesh lost half of its exports to the US, with China increasing its sales from US\$80 million to US\$800 million. In 2002 the USA released 29 categories of clothing from quotas, Chinese companies dropped their prices in these categories and their market share jumped from 9% to 65%. Only India maintained its export share. (FT 24th, 21st). It might be argued, as has been the case, that one cannot extrapolate directly from these cases as it is unclear that China will be able to replicate this strategy for all categories covered by MFA quotas. However even if the impact is only 50%, the consequences for other producers like South Africa who do not have the same competitive advantages as China and India are still likely to be enormous. Preferential trade agreements such as AGOA which allow developing countries, such as South Africa, duty free access provide some export protection provided that they are competing in high tariff line items
- The major global clothing sourcing companies are intending to radically cut their supply base both in numbers and geographical region. The US retailer Liz Claiborne expects to halve both the number of countries from which it sources its clothes and the factories it uses around the world in the next three to four years and China's share of company direct overseas sourcing will go from 15% to about half (FT 20th)
- The impact will be felt not only in terms of the ability to export but also in terms of low value added, price based imports. The Australian example is instructive. According to Pacific Brands, Australia's largest clothing supplier, in the last five years the value of imports of clothing from China have doubled at the expense (a 30% drop) of other source countries. Most importantly in categories such as T-shirts and underwear, China's share of the market is as high as 95%. (FT 20th). The

only temporary but flickering light on the horizon is that as quotas are dropped and new large volume markets are opened up, penetrating new smaller markets (e.g. South Africa) may not be worth China's while in the immediate short term

- Apart from accusations of dumping and subsidisation, China's (and read the same to different degrees for the select group of other developing country producers likely to gain in the next era) competitive advantages lie in price, low wages, new machinery etc. However, and here is where opportunities lie, "China does not compete just on price: indeed, it is not the lowest-cost producer of some clothing items. Its biggest advantages are its industry's rapid response, reliability, business-like attitude and keen understanding of customer demand...." (FT 19/7). One possible answer therefore for middle income country producers (like South Africa) with reasonably high levels of knowledge intensive management capacity, is to focus on radically upgrading operational performance within this sector
- European and US producers are responding by focussing on measures to upgrade their clothing and textiles manufacturers in the following ways: improving 'supply chain management and tighten links between suppliers and customers' (FT 19th), focusing on 'fashion-sensitive clothing, where fast product turnaround and short delivery times are critical' (FT 19th), switching as much production as possible away from 'low-value bulk goods such as socks and T-shirts into... high end products such as high tech industrial and medical textiles, ... luxury products, ...and high quality garments with high design content' (FT 23rd), and finally 'protectionist western lobbies will also seek to use eco-labelling schemes, labour standards rules and other regulatory devices to keep out Chinese imports' (19th). Consequently, if middle income developing countries such as South Africa cannot compete on price alone in low value added, price based clothing segments, they will be forced to seriously consider whether it is possible to focus on raising the knowledge intensive aspects of the clothing and textiles sectors' operations, whether these be in respect of production operations, high technology inputs and outputs, supply chain relationships, logistics, design, customer focus, buyer relationships, etc.

Under these kinds of global conditions and if no interventions to radically upgrade and shift orientation and focus are implemented, the future of the Western Cape clothing and textiles sectors over the course of the next five years is certainly bleak. It is likely that the clothing sector's opportunities for increasing exporting will decrease substantially and that these opportunities will also become increasingly restricted to certain niches (synthetics and some woollens and men's wear according to Gibbon (2002) and Moodley and Velia (2002)). The clothing sector is also heavily oriented to the domestic market and if no interventions occur it is likely that import penetration levels will continue to increase over the next five years. In short, the clothing sector is likely to shrink rapidly in its export orientation and remain domestically oriented, but with rapidly diminishing market share. The implications of this are obviously severe: According to the Ralis report if recent employment trends continue the sector will disappear by 2012. This is clearly an overstatement, but the general principals are correct; without substantial upgrading of the industry, improvements in manufacturing processes and skills, as well as an increased focus on export markets then we will only be left with a few firms, employing a small number of people and servicing niche markets. In essence, we will have lost the sector. However, a large part of the future

of the industry rests on what happens to the currency. If the currency depreciates then the outlook for the industry will change substantially, but this does not change the fundamental need to increase competitiveness.

This analysis also covers the textiles industry insofar as it feeds into the apparel value chain. By and large, this also applies to the household textiles sub-sector, which is under very similar pressures to the clothing industry. However, the industrial/technical textiles sub-sector is in a potentially similar position to that of the Europeans and even if no interventions occur, is likely to survive and perhaps even prosper on the back of its own innovative development. The danger, of course, is that as the mainstream textiles industry disappears the technical institutional support on which it draws diminishes to the point where the sustainability of the sub-sector becomes threatened.

This analysis does not factor in exchange rate fluctuations, although a substantial appreciation or depreciation in the strength of the Rand will not change the need for interventions. The depreciation of the currency may provide the clothing and textiles sectors with short-term respite, but as the experience of the two sectors through 2003 and 2004 has shown, firms cannot expect to compete on the basis of price alone. Adherence to this approach will inevitably destroy both sectors with currency movements simply dictating whether this occurs in the short (further Rand appreciation) or medium term (Rand depreciation).

2. Clothing and textiles sector strategies for the Western Cape Provincial Government

2.1. Value chain dynamics

Before we can tackle the issue of the various policy and strategy options available to the Western Cape Provincial Government to support firms in the two sectors it is important to start with the following assumptions:

- One cannot view the clothing and textiles sectors outside the value chains – globally and domestically – that these firms are linked into. The sectors operate in a completely dissimilar manner to a simple commodity market, such as grain. Firms do not just export or sell in an open spot market arena. Successful firms in both the textiles and clothing sectors sell to specific and usually very demanding customers, produce according to specified parameters and protocols, have to meet deadlines and lead times set elsewhere, and hence most of their operations are determined by external forces which lock them into specific value chains. If they do not meet these requirements and demands then they are likely to find themselves marginalised as the lead firms in the value chain move elsewhere to meet their sourcing requirements.
- Firms therefore have to continuously learn how to operate according to world class manufacturing requirements and hence upgrade to remain as close as possible to the domestic or international frontiers. The greatest danger for firms in this situation is for their management to accept that they are performing well operationally and that they simply face certain external problems, which they need help with. Firms that follow this approach are likely to exist in a bubble of complacency, which can be popped with devastating consequences at some time in the future.
- This is unfortunately often the normal state of affairs, with the firm-level interviews completed by B&M Analysts during the course of the Western Cape Clothing Cluster pilot project emphasising the widespread existence of this outlook at manufacturers. The consequence of this is the failure to foster learning and upgrading (especially operational competitiveness) amongst local firms without some form of sectoral crisis, coupled with the shock of an external driver demanding that such manufacturers meet more onerous competitiveness parameters.
- In situations where economies have emerged from import substituting industrialisation (as is the case with almost all developing countries and certainly the situation pertaining in South Africa) this external driving role is usually played by exporting into demanding markets in the industrialised countries where firms have to meet the requirements laid down by the buyers or agents of lead firms. Sometimes however local firms can be fortunate enough to be producing for a sophisticated domestic market, which has demanding buyers and retailers that have similar technical, operational, and design requirements as pertains in global value chains.

Therefore in examining this regional clothing and textiles sectors we have to ask a number of key questions: What is the role of the value chains in which they are situated in driving competitiveness upgrading through the local firms in the Western Cape? What difference does it make if a substantial part of the local industry is more

locked into local value chains than export ones? Are demanding local retailers playing the same upgrading role as the internationally based lead firms?

2.2. Policy intervention framework

It is in this context that one has to view the various policy options and strategy levers open to the Western Cape Government to foster increasing competitiveness of the clothing and textiles sector in its province. In order to assess these options we have adopted the following framework of analysis (as set out in Figure 1) encompassing three different levels of competitiveness and four different areas of governance/institutional interventions.

It is important to note in this regard that individual firms are the smallest and most basic (that is to say foundational) level of competitiveness. Without firms raising their operational performance and moving towards a frontier of manufacturing excellence there can be no possibility of increasing competitiveness in any economy. Hence there are a host of competitiveness parameters that can be examined and influenced by various parties by altering prevailing conditions within the enterprises – i.e. at the micro or intra firm level. But enterprises, especially in this modern globalising era, do not exist in their own self-contained vacuums. They are increasingly locked into various supply and supplying relationships which make clear demands of a technical or social nature and impact decisively on their competitiveness. In the new operating environment outlined in Part 1 of this report, it is of no use a firm attempting to be an island of competitiveness in a sea of inefficiency. Hence inter-firm learning, cooperation and joint action – whether based on hierarchical value chain or horizontal networking relationships - have become important ways of raising the competitiveness levels of enterprises, especially at the regional level. But when we go beyond the enterprises, firms do not only operate at this meso level. They also have to function within the context of national economies with their own social conditions, histories and path dependencies. These are also shaped by a variety of macro economic policies and regulatory mechanisms, which are in turn also influenced in various ways by global economic and institutional forces. Where the national framework includes sector-specific industry policies such as the DCCS, these issues become even more important.

In terms of governance we identify four area of intervention that create the possibility for policy interventions and government strategy levers and impact on all of these three levels of industrial competitiveness in different ways. The global arena of multi and bilateral agreements and regulations (e.g. WTO, AGOA, etc.) or adherence to the various protocols (e.g. technical, social, health, environmental) driven by global lead firms down value chains, is increasingly of great significance but also the most difficult to influence and reshape to the advantage of a particular local environment. The national arena (e.g. macro economy, sector industrial policy, supply side measures, etc.), which should create an appropriate and conducive enabling environment for enterprises to prosper, is clearly easier to shape and influence. However from the perspective of governance below the national level such influence is often based on more indirect affect rather than being able to apply direct strategy levers. This does not make this arena less important for regional government to operate in. It just makes it very different and much more directly political. The regional level encompassing provincial or state government is much closer to the level in which most firms and enterprises operate. As such, it is a level characterised by the

possibility of being able to be more institutionally embedded, to have a greater institutional intimacy with local firms, and hence more able to understand and respond quickly to their needs and requirements. This characteristic of institutional intimacy creates the very real possibility for many more potentially effective levers to be exercised by provincial (or depending on the circumstances sometimes local) government, which fundamentally impact on the meso and micro levels of industrial competitiveness.

Although our framework delineates provincial from local/metro areas of activity we should include a warning note that in assessing and proposing governmental levers at these levels below national government, a key issue involves ensuring proper alignment of provincial and local/metro functions. And this will differ depending on the concrete situation on the ground. The critical thing to bear in mind is the relative capacities and resource bases of these two levels. Who takes the lead will in practice depend on the strengths and actual capacities that exist. In some situations the metro/local institutions may in effect operate as mini provincial authorities and hence be better placed to intervene, whilst in others the local institutions (especially in more rural areas) may be so depleted that provincial government has to take over functions not normally associated with it. To repeat, the most crucial starting point is to ensure alignment in the actual situation between these two sets of authority rather than insisting on a formalistic differentiation based on a static framework.

In addition our framework, in separating out the different roles for various spheres of government to act on competitiveness levels, also differentiates between direct and indirect levers, functions and institutional representation. This is particularly important for provincial government to understand, for at first sight it would seem that there is no role for lower levels of government when considering the macro spheres of competitiveness and national governance activities. Yet we delineate clear and important indirect influencing or lobbying or simply representational activities for lower levels of government to play. As should be clear from Figure 1 our framework enables provincial and local governance to be quite specific about its direct and indirect roles depending on which box these levers and functions are placed in. As is obvious from Figure 1 all indirect activities fall into the far right (i.e. national macro competitiveness) boxes. Using this framework we have also attempted to differentiate between existing roles that are being undertaken by the various layers of governance and roles/levers/functions that could be undertaken and are not, or are very weakly undertaken and hence to all intents and purposes not very effective. We have therefore distinguished existing and weak/possible roles and levers by highlighting the latter in red italics.

Figure 1 below thus sets out the different levels of competitiveness and attempts to delineate various roles, functions and levers for the different levels of government. It is complex but also self-explanatory and in the discussion that follows we have not attempted to repeat in the text every single function or lever isolated for every level of government. We have instead attempted to situate broadly the various key issues evident. However, given that this report is aimed at the Western Cape Provincial Government we shall set out in bullet points the possible policy options and strategic government levers for this area of governance. Critically, these should not be read in isolation from the overall framework.

Figure 1: Framework for sectoral policy and strategy levers

G O V E R N M E N T A N C E P T I O N S L E V E L S	Global	WTO, MFA, AGOA, EU Agreement, Internationally agreed certification standards (ISO, labour, fair trade, eco-labelling), Value chain technical operating performance protocols		
	GOVERNMENT	<ul style="list-style-type: none"> *Supply side (SS) policy (e.g. Competiveness Fund) *R&D/Innovation support 	<ul style="list-style-type: none"> *Sectoral stakeholder alignment (clothing/textiles) re goals/strategies *Supply side policy (e.g. SPF) *R&D/Innovation support <i>* Information on global, national sector issues for VCs/clusters/sectors</i> <i>* Resources allocation to appropriate government levels for SS programs</i> 	<ul style="list-style-type: none"> *Enabling Framework *DCCS *Industrial Policy formulation <i>*Review of industrial policies</i> *Data Collection <i>*Policy performance review</i> <i>*Evaluate/compare industrial policies internationally</i> <i>*Analyse global sectoral trends</i>
	APPROPRIATE	<ul style="list-style-type: none"> <i>*Export info - DCCS/4703</i> <i>*Conduit for SS measures e.g. funding, monitoring</i> <i>* Service provider directory</i> <i>*Assist firm competitiveness</i> <i>*Build a vibrant business service consultancy sector</i> 	<ul style="list-style-type: none"> <i>*DCCS credit clearing house</i> <i>*Market info on global buyers</i> <i>*Sector trade intelligence</i> <i>*Assisting supply chain operational performance – lead times, quality, etc</i> <i>*Language assistance for exporters</i> <i>*Cluster/learning network support for continuous improvement activities</i> <i>*Conduit for SS measures e.g. funding, monitoring</i> <i>*Interface with tertiary education institutions upgrading management and technical skills</i> <i>*Create/support Sector Centres of Excellence - tertiary institutions</i> <i>*Create design and fashion focus as central plank of regional industry</i> <i>*Profile/image building & projection</i> <i>*Inward trade missions to province – association to association/firm to firm</i> <i>*Create local data collection/analysis</i> 	<ul style="list-style-type: none"> *Lobbying <i>*Institutional participation in sectoral councils (clothing & textiles development councils)</i> <i>*Influencing central statistics for provincial sectoral data</i> <i>*Conduct socio-economic impact study on clothing and textiles.</i>
	LEVELO	<ul style="list-style-type: none"> <i>*Lower labour living costs</i> <i>*Optimise infrastructure</i> <i>*Logistics costs/assistance through harbour</i> <i>*Data collection/analysis</i> <i>*Ensure/promote attractive living conditions for management</i> 	<ul style="list-style-type: none"> <i>*Cluster/learning network support</i> <i>*Disseminate sector/trade intelligence information</i> <i>*Ensure alignment to provincial government strategy and initiatives</i> <i>*Skills development labour and lower management – SETAS</i> 	<ul style="list-style-type: none"> <i>*Lobby provincial government</i> <i>* Institutional participation in sectoral councils (clothing & textiles development councils)</i>
S		Micro level Intra-firm	Meso Level Inter-firm (Value Chain/Cluster)	Macro National
C O M P E T I T I V E N E S S L E V E L S				

2.3. Appropriate provincial government interventions

As is clear from Figure 1, there are a variety of global issues that impact severely at all levels of competitiveness. However national government is uniquely placed to directly interface with those global issues impacting on the two sectors. National government responds to, or interacts with (as a means to influence), the various institutional arrangements and agreements operating at global, multi or bilateral levels. This does not imply that lower levels of government do not have a role to play in this regard. But it rather means that they do so indirectly, via lobbying relationships with national government and national associations.

In regard to the role of governance in fostering industrial competitiveness at the macro level, there are a variety of tasks that are appropriately the rightful preserve of national government. Apart from setting up and regulating the enabling macro economic framework, national government also formulates and enacts industrial policy (whether this be general or sectoral, as is the case with the DCCS). However what national government does not do effectively, but clearly should be doing, is to review, monitor and evaluate the effectiveness of this industrial policy, and undertake international comparisons with other competing economies' industrial policies. In a similar manner, it is clearly the role of national government to ensure that national sectoral associations and stakeholders have clear strategic goals, plans and structures that are aligned both with government industrial policies, as well as with interlocking sectors (e.g. clothing and textiles). But once again we delineate an indirect role for provincial government in seeking institutional representation on such sectoral industrial councils or government institutions where particular sectors are of major significance in that region.

Whilst we believe that it is wholly appropriate for industrial and sector policy to be formulated at national government level, and this includes various supply side support whether at the macro (e.g. DCCS) or meso inter firm (e.g. Sector Partnership Fund) or micro firm (Competitiveness Fund) levels, we are not wholly convinced that the implementation processes should be located at the national government level. Provincial (or metro) government is often much better placed, more institutionally embedded, and displaying much greater institutional intimacy with the various key role players, to effectively implement these supply side support measures as well as monitor them through its ability to closely interact with the firms, facilitators and service providing consultancy firms themselves.

In a similar manner, our framework proposes that provincial government, operating within the overall DCCS sectoral policy, set up a DCCS clearing house which would perform a variety of facilitative functions for firms in the local region. A well-publicized concern relating to the existing DCCS is that the benefits are captured by retailers that have no vested interest in the manufacturing portion of the domestic clothing and textiles industries; to correct we propose that a mechanism be put in place to reduce the sale of duty credits to retailers. One clear possibility is the creation of a duty credit Exchange (as proposed by the clothing and textiles federations to the DTI) where clothing and textiles manufacturers who are unable to openly sell their duty credits to other clothing and textiles manufacturers sell their credits via an intermediary (clearing house) that endeavours to sell the credits to other clothing and textiles manufacturers at a pre-determined rate. The beneficiaries of the duty credits

would therefore largely be clothing and/or textiles manufacturers, rather than retailers as is presently the case.

Central government is clearly the key national data collection agency which acts to inform most sectoral performance trends and analysis. As is clear from the difficulty of compiling this report with inadequate data sources below national level, sound and targeted data collection is an absolutely critical function. As has been anecdotally noted, 'if you don't know where you are going you are sure to land up somewhere else', and to paraphrase, 'if one doesn't have adequate information how can one know where one is, let alone determine where one is going'. Unfortunately central data collection agencies are driven by forces other than regional needs and hence do not necessarily collect the most appropriate data from a regional perspective. Hence, in terms of provincial levers to facilitate sector competitiveness, there is an important indirect lobbying function for provincial government to ensure that this problem of data collection and analysis is done properly.

In addition there is no reason why provincial government should not itself be directly collecting additional regional and localised information cutting across a number of different areas. In this respect we have also isolated a variety of information sourcing roles – trade intelligence, global value chain buyer requirements, new export niches, the various protocols and certifications standards that firms have to align with in different market segments and language assistance for contracts to non English speaking EU countries. Such a set of information hubs would assist firms to learn and position themselves strategically with respect to global and domestic markets. Furthermore the fact of provincial and local government's institutional intimacy and embeddedness with enterprises in the sector makes it an ideal portal for information dissemination even if this collected at the national government level.

A significant influence on sector competitiveness lies in the richness of the surrounding institutional environment that firms are embedded in. This is particularly the case when high level knowledge intensive activities are required for firms within a sector to perform at the required frontiers. Key amongst these are creative high rent yielding activities such as design skills for niche clothing markets, high-order technical skills for textiles production, operational performance skills to ensure high level productivity within manufacturing, economic research and sector analysis capacity etc. These all require the existence and cooperation of tertiary educational and dedicated qualification institutions operating at a high level to provide graduate qualification to managers and technical personnel, as well as continuously interacting with the sectors. This is an area where provincial and metro government is well placed to have a direct impact on the sector in a variety of ways, such as creating specialised centres of research and technical excellence, building managerial degree programmes, encouraging R&D activities centred on textiles and clothing, bolstering the upgrading of the technical skills of the upper echelon of the labour force, ensuring that the region is attractive to skilled management personnel, building a high profile around such knowledge intensive activities for the region, assisting the growth of a well qualified business services consultancy sector specialising in a variety of support activities etc.

Finally nothing will make the slightest difference if firms do not significantly internalise the principles of world class manufacturing and recognise the importance

of upgrading. Part 1 of this report highlighted the clear threat confronting both the clothing and textiles sectors, particularly in low value-added, commodity-based sub-sectors. However this requires that firms be assisted to significantly upgrade their production activities and operational performance in line with manufacturing excellence requirements. To do so implies significant intra firm learning, as well as a high level of inter firm cooperation in order to build learning networks and clusters that can assist enterprises upgrade so as to meet the requirements set by demanding global and domestic value chains. Whilst demanding value chains may well assist in this process there is a direct role for provincial and metro government in ensuring that local service providers are funded and encouraged to stimulate inter firm cooperation and building learning and restructuring networks¹⁸.

2.4. Recommendations

In summary, it is recommended that the Western Cape Provincial Government focus on the following areas, as a mechanism for effecting positive, necessary change within the regional clothing and textiles sectors.

2.4.1. Indirect policy influence on national government

- Lobbying the national organs with respect to changes in industrial policy formulation
- Lobbying nationally for changes in the implementation of the DCCS
- Lobbying national organs to more effectively review industrial policy such as DCCS
- Lobbying national organs to monitor and evaluate various industrial policy support mechanisms on a continuous basis
- Lobbying national organs to provide international information and analysis on comparative industrial policies and possible incorporation into South African policy
- Lobbying national organs to set up effective information collection with respect to international trends, market intelligence for the sector
- Lobbying nationally for implementation powers with respect to supply side support measures
- Lobbying national organs with respect to provincial delegates institutionally participating in national clothing and textiles development councils
- Influencing central statistics to collect on a sustained and more detailed basis provincial sectoral industrial data.

2.4.2. Direct policy and strategy levers

- Set up a DCCS credit clearing house for the Western Cape clothing and textiles exporting firms
- Set up a clothing and textiles information hub which will provide the following sets of information:
 - Market information on global buyers to assist exporting firms to more effectively link into global value chains
 - Dissemination of sector trade intelligence to assist exporting firms in understanding changes in global trends, prospective customers, new emerging markets, etc.

¹⁸ Gibbon (2002), in his review of the clothing sector strongly advocated this position, as does the Ralis report (2004).

- Export information with respect to how measures such as the DCCS or 470.03 operate, etc.
- Service provider directories to assist firms make their supply chain operate more efficiently and to link customers and providers effectively
- Regional and local information on manufacturing trends, firm level data, analyses collected at either national or regional level
- Commissioned research on various aspects of the sector
- Specific information on different cultural markets firms are relating to – e.g. language assistance for exporters, legal systems, unique credit mechanisms
- Provide firms on an individual or collective basis with funding to engage in clear programmes aimed at raising their competitiveness levels
- Set up separate continuous improvement learning networks/benchmarking clusters with clothing and textiles firms aimed specifically at bringing their operational performance into line with world class manufacturing principles and techniques – e.g. quality, lead times, inventory control, supply chain improvements, etc.
- Become a conduit for implementing and monitoring the DTI's supply side support measures
- Purposefully interface with tertiary education institutions to ensure consistent and continuous provision of various programmes for upgrading management and technical skills in the sector
- Support Clothing and Textiles Sector Centres of Excellence, undertaking research and training in the provincial tertiary education institutions
- Commit provincial government to profiling and projecting the sector as a design/fashion high value added focus as the central plank and selling point of the regional industry
- Use Cape Town's existing image to profile it as the fashion centre of South Africa and create incentives to attract designers, fashion experts, high level management to the city and province
- Bring trade missions from other countries to the Western Cape and set up strategic firm to firm direct visits¹⁹
- Focus attention on eliminating logistic blockages in the freight and harbour linkages to cut down on lead and delivery times
- Facilitate collective agreements with freight forwarders to create a discounted uniform container freight rate
- Concentrate on ensuring that the SETA operates effectively, and demonstrably so, to raise the human resource and technical skill levels of lower management and labour

¹⁹ In this regard it is important to note that a key clothing industry representative suggests that it is essential to get SA's macro environment right before bringing out trade missions because uncertainty can put buyers off forever.

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Appendix

South Africa's top 5 clothing export destinations and import origins by HS code (R 000), 2001 - 2003

Country	2004 YTD	2003	2002	2001	% of total 2003	Annual Growth 02-03
EXPORTS						
CH 61: Articles of Apparel and Clothing Accessories, Knitted or Crocheted						
United States	17,999	586,982	903,456	800,335	61.1%	-35.0%
United Kingdom	6,327	162,592	151,828	113,211	16.9%	7.1%
Italy	45	19,328	23,129	9,745	2.0%	-16.4%
Mozambique	936	18,830	22,026	14,498	2.0%	-14.5%
Belgium	2,701	18,514	13,279	6,059	1.9%	39.4%
Total Countries	35,301	960,938	1,266,668	1,084,675	100.0%	-24.1%
CH62: Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted						
United States	30,715	713,604	781,396	435,141	54.5%	-8.7%
United Kingdom	13,706	291,359	324,880	191,599	22.3%	-10.3%
United Arab Emirates	1,962	47,231	21,551	49,505	3.6%	119.2%
Saudi Arabia	2,944	23,131	1,902	69	1.8%	1116.1%
Ireland	247	20,531	13,739	7,317	1.6%	49.4%
Total Countries	56,227	1,308,656	1,348,417	839,040	100.0%	-2.9%
IMPORTS						
CH 61: Articles of Apparel and Clothing Accessories, Knitted or Crocheted						
China	85,133	593,128	23,742	322,589	69.1%	2398.2%
Hong Kong	8,261	47,167	54,232	47,271	5.5%	-13.0%
India	2,582	35,534	21,189	19,808	4.1%	67.7%
Malawi	367	33,107	70,232	67,683	3.9%	-52.9%
Italy	5,356	23,815	21,501	29,714	2.8%	10.8%
Total Countries	112,521	857,817	723,284	596,971	100.0%	18.6%
CH62: Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted						
China	99,028	939,516	587,272	415,863	65.5%	60.0%
India	5,246	114,494	94,670	89,772	8.0%	20.9%
Malawi	2,605	94,972	168,591	97,155	6.6%	-43.7%
Hong Kong	5,853	65,118	66,212	67,694	4.5%	-1.7%
Italy	11,905	33,581	28,944	25,517	2.3%	16.0%
Total Countries	134,935	1,434,100	1,121,976	853,281	100.0%	27.8%

Source: DTI

South Africa's top 5 clothing export destinations and import origins by HS code (R 000), 2001 - 2003

Country	2004 YTD	2003	2002	2001	% of total 2003	Annual Growth 02-03
EXPORTS						
CH 50: Silk						
Mozambique	372	1,552	586	1,040	55.3%	164.8%
United Kingdom	25	332	537	71	11.8%	-38.2%
Zambia	34	167	320	184	6.0%	-47.8%
Malawi	28	161	756	299	5.7%	-78.7%
Canada	0	94	0	0	3.3%	na
Total Countries	522	2,806	2,773	3,056	100.0%	1.2%
CH 51: Wool, fine or coarse animal hair, horsehair yarn and woven fabric						
Italy	143,422	426,334	387,363	315,491	27.6%	10.1%
France	62,243	229,486	362,700	186,214	14.9%	-36.7%
Czech Republic	79,053	174,941	138,060	29,718	11.3%	26.7%
Germany	70,703	161,234	156,938	115,790	10.4%	2.7%
United Kingdom	26,805	81,738	107,618	77,370	5.3%	-24.0%
Total Countries	559,367	1,543,733	1,792,867	1,249,360	100.0%	-13.9%
CH 52: Cotton						
Mauritius	25,839	144,876	238,325	177,313	5.1%	-39.2%
United Kingdom	10,445	34,900	46,233	32,600	1.2%	-24.5%
Australia	4,760	17,419	21,810	14,553	0.6%	-20.1%
Zimbabwe	3,393	12,980	10,750	5,196	0.5%	20.7%
Cambodia	2,592	7,083	676	108	0.2%	947.8%
Total Countries	988,622	2,834,724	3,263,340	2,203,713	100.0%	-13.1%
CH 53: Other vegetable textile fibres, paper yarn and woven fabrics of paper yarn						
United Kingdom	15,582	32,364	15	1	73.2%	215660.0%
Japan	2,557	1,219	0	0	2.8%	na
Belgium	403	785	857	733	1.8%	-8.4%
Germany	249	341	838	147	0.8%	-59.3%
Australia	130	323	192	0	0.7%	68.2%
Total Countries	21,224	44,235	4,480	2,171	100.0%	887.4%
CH 54: Man-made fibres						
United Kingdom	21,681	70,711	67,221	50,721	9.4%	5.2%
China	9,939	67,322	29,859	3,656	9.0%	125.5%
United States	21,679	66,608	98,020	94,451	8.9%	-32.0%
Germany	15,112	64,426	67,096	29,761	8.6%	-4.0%
Indonesia	20,626	63,911	77,010	65,468	8.5%	-17.0%
Total countries	244,748	749,908	854,361	647,488	100.0%	-12.2%
CH 55: Man-made staple fibres						
United Kingdom	12,455	35,160	63,017	36,682	20.2%	-44.2%
Zimbabwe	11,780	20,651	27,724	32,466	11.9%	-25.5%
Germany	9,304	18,716	5,391	2,024	10.8%	247.2%
Malawi	5,692	17,576	21,296	9,486	10.1%	-17.5%
Mozambique	1,511	9,528	11,992	12,787	5.5%	-20.5%
Total countries	65,415	174,040	356,307	271,452	100.0%	-51.2%
CH 56: Wadding, felt and nonwovens; special yarn; cordage; twine; ropes and cables						
Belgium	20,329	52,696	48,967	2,440	28.5%	7.6%
United Kingdom	22,026	32,072	27,591	16,403	17.3%	16.2%
Zimbabwe	6,290	18,668	17,821	8,128	10.1%	4.8%
Spain	988	15,730	2,501	301	8.5%	528.9%
Mauritius	1,756	7,817	6,434	3,539	4.2%	21.5%
Total countries	74,113	185,034	189,934	104,496	100.0%	-2.6%
CH 57: Carpets and other textile floor coverings						
United States	2,197	30,746	42,890	30,843	18.0%	-28.3%
Australia	7,949	17,412	8,974	3,746	10.2%	94.0%
Ireland	9,922	16,689	23,457	11,739	9.8%	-28.9%
United Kingdom	5,985	13,565	13,973	5,462	7.9%	-2.9%
Japan	1,624	11,993	12,982	6,768	7.0%	-7.6%
Total countries	53,485	170,890	220,734	136,822	100.0%	-22.6%
CH 58: Special woven fabrics, tufted textile fabrics, lace tapestries, trimmings, embroidery						
United States	22,618	59,754	77,185	65,033	43.3%	-22.6%
United Kingdom	7,973	19,932	23,784	16,381	14.4%	-16.2%
Australia	3,015	10,796	8,551	5,770	7.8%	26.3%
Saudi Arabia	970	7,726	4,594	5,357	5.6%	68.2%
Germany	2,351	6,059	5,383	3,103	4.4%	12.6%
Total countries	51,734	138,150	159,382	125,414	100.0%	-13.3%
CH 59: Impregnated, coated, covered or laminated textile fabrics						
Zimbabwe	10,535	35,353	32,619	26,275	22.2%	8.4%
Belgium	2,464	14,085	12,958	6,686	8.9%	8.7%
United States	4,311	13,342	8,451	6,884	8.4%	57.9%
Mozambique	3,494	11,539	13,749	9,412	7.3%	-16.1%
United Kingdom	5,176	11,304	5,638	4,283	7.1%	100.5%
Total countries	50,245	159,113	190,239	125,791	100.0%	-16.4%

CH 60: Knitted or crocheted fabrics						
Canada	5,081	18,004	11,858	4	27.3%	51.8%
United States	3,465	9,608	7,816	0	14.5%	22.9%
Czech Republic	982	4,009	2,170	960	6.1%	84.7%
United Kingdom	171	3,626	5,699	15	5.5%	-36.4%
Norway	1,904	3,537	4,838	0	5.4%	-26.9%
Total countries	23,146	66,062	85,969	53,071	100.0%	-23.2%
CH 63: Other made up textile articles; sets; worn clothing and worn textile articles; rages						
United Kingdom	16,533	62,537	89,452	46,570	20.7%	-30.1%
United States	7,982	28,754	31,700	17,995	9.5%	-9.3%
Angola	6,466	17,615	30,973	44,773	5.8%	-43.1%
Mozambique	3,006	15,473	18,506	22,744	5.1%	-16.4%
Zambia	5,122	15,459	20,785	17,946	5.1%	-25.6%
Total countries	101,525	302,269	328,616	227,802	100.0%	-8.0%
IMPORTS						
CH 50: Silk						
India	7,506	17,630	17,690	13,943	61%	-0.3%
Germany	870	1,780	2,660	1,376	6%	-33.1%
Korea Rep South	283	1,586	1,455	2,855	5%	9.0%
China	826	1,434	996	732	5%	44.0%
United Kingdom	314	991	1,333	862	3%	-25.7%
Total Countries	12,402	29,084	33,874	28,319	100%	-14.1%
CH 51: Wool, fine or coarse animal hair, horsehair, yarn and woven fabric						
United States	15,909	41,792	46,362	18,074	31%	-9.9%
United Kingdom	12,197	30,252	43,438	27,006	22%	-30.4%
Australia	3,815	14,078	40,245	24,457	10%	-65.0%
New Zealand	3,423	11,939	14,180	16,373	9%	-15.8%
Italy	4,404	11,905	20,216	16,698	9%	-41.1%
Total countries	50,388	137,010	207,189	121,761	100%	-33.9%
CH 52: Cotton						
Zimbabwe	136,857	334,052	332,690	295,152	25%	0.4%
Zambia	88,424	258,067	350,742	135,864	20%	-26.4%
China	75,128	185,121	150,423	66,173	14%	23.1%
India	40,714	94,671	73,901	54,156	7%	28.1%
Pakistan	31,998	60,625	59,542	40,467	5%	1.8%
Total countries	525,696	1,317,321	1,443,155	1,000,134	100%	-8.7%
CH 53: Other vegetable textile fibres, paper yarn and woven fabrics of paper yarn						
Belgium	16,043	29,062	5,479	1,065	25%	430.4%
China	7,667	26,330	23,132	6,015	23%	na
India	4,739	12,837	14,006	9,195	11%	-8.3%
Bangladesh	2,703	10,835	17,700	9,045	9%	-38.8%
Hong Kong	3,018	7,945	9,698	4,304	7%	-18.1%
Total countries	42,509	114,517	104,246	60,300	100%	9.9%
CH 54: Man-made filaments						
China	108,892	267,166	211,359	121,601	20%	26.4%
Taiwan	81,938	228,006	300,026	226,450	17%	-24.0%
Korea Rep South	62,656	181,136	317,015	332,454	14%	-42.9%
Indonesia	31,612	109,448	149,079	112,519	8%	-26.6%
Germany	26,770	70,765	82,359	64,430	5%	-14.1%
Total countries	495,809	1,324,272	1,697,362	1,304,706	100%	-22.0%
CH 55: Man-made staple fibres						
Pakistan	54,662	138,274	128,939	115,212	13%	7.2%
China	59,529	128,329	133,210	86,934	12%	-3.7%
Japan	32,502	100,495	125,630	75,819	10%	-20.0%
Indonesia	32,024	89,716	87,749	53,584	9%	2.2%
Taiwan	37,003	89,180	128,903	121,109	9%	-30.8%
Total countries	400,792	1,027,419	1,275,027	943,520	100%	-19.4%
CH 56: Wadding, felt and non-wovens; special yarns; twine, cordage, ropes and cables						
Germany	32,054	64,712	59,679	48,150	23%	8.4%
Italy	11,842	28,525	26,844	20,368	10%	6.3%
United States	8,379	23,502	25,581	16,513	8%	-8.1%
United Kingdom	9,423	18,462	19,982	14,660	7%	-7.6%
Netherlands	5,449	16,282	17,182	14,001	6%	-5.2%
Total countries	123,925	279,795	298,070	234,021	100%	-6.1%
CH 57: Carpets and other textile floor coverings						
Germany	20,667	47,164	49,909	39,667	34%	-5.5%
India	12,002	19,209	27,046	25,373	14%	-29.0%
Belgium	10,378	16,182	29,435	30,121	12%	-45.0%
Pakistan	5,291	8,313	12,022	10,233	6%	-30.9%
Iran	5,220	7,750	6,978	7,330	6%	11.1%
Total countries	71,632	137,034	165,838	155,095	100%	-17.4%

CH 58: Special woven fabrics; tufted textile fabrics, lace tapestries, trimmings, embroidery						
China	53,437	82,582	93,576	43,557	39%	-11.7%
Hong Kong	8,140	24,275	27,230	12,113	11%	-10.9%
Taiwan	8,328	15,475	20,694	19,468	7%	-25.2%
Turkey	6,961	9,784	6,923	9,985	5%	41.3%
Germany	4,258	8,598	11,839	7,422	4%	-27.4%
Total countries	106,180	211,120	239,996	159,466	100%	-12.0%
CH 59: Impregnated, coated, covered or laminated textile fabrics						
Germany	46,161	151,021	128,151	83,115	28%	17.8%
United States	24,724	41,008	51,771	56,862	8%	-20.8%
United Kingdom	18,105	40,573	48,217	33,892	7%	-15.9%
Sweden	12,273	28,556	29,871	18,924	5%	-4.4%
Taiwan	6,648	28,470	34,794	28,902	5%	-18.2%
Total countries	217,945	543,478	646,529	499,748	100%	-15.9%
CH 60: Knitted or crocheted fabrics						
Taiwan	44,264	121,074	170,401	159,575	35%	-28.9%
China	31,708	49,317	36,454	22,833	14%	35.3%
Italy	10,591	25,485	32,938	25,306	7%	-22.6%
Korea Rep South	9,931	23,034	41,917	56,406	7%	-45.0%
Spain	7,797	14,953	21,087	19,875	4%	-29.1%
Total countries	142,811	350,893	446,008	381,437	100%	-21.3%
CH 63: Other made up textile articles; sets; worn clothing and worn textile articles; rage						
China	60,813	133,514	130,061	88,936	32%	2.7%
India	31,932	81,377	61,410	44,163	20%	32.5%
Pakistan	13,324	34,877	24,963	16,673	8%	39.7%
United States	7,942	20,915	24,788	28,963	5%	-15.6%
Netherlands	4,863	16,028	23,857	20,571	4%	-32.8%
Total countries	167,286	415,589	381,203	301,152	100%	9.0%

Source: DTI

Actual import prices and duties for textiles and clothing, 2001-2003

	2001		2002		Jan-Jun 2003	
	Price R/kg	Duty	Price R/kg	Duty	Price R/kg	Duty
Yarn	19.28	9.80%	23.95	9%	18.94	7.90%
Fabrics	23.2	15.30%	37.38	12.40%	26.71	11.40%
Clothing						13.40%
Made-ups	19.7		21.43		12.78	22.40%

Source: Textiles Federation of SA

Import penetration of textiles, 1998-2003 YTD

	1998	1999	2000	2001	2002	2003 YTD
Yarns	13%	12%	12%	16%	18%	23%
Woven fabrics	38%	43%	49%	56%	53%	59%
Knitted fabrics	22%	28%	35%	33%	32%	43%

Source: Textiles Federation of SA

Clothing exports from KwaZulu-Natal, 1998 – 2000 (constant 2000 prices)

	1998	1999	2000	2001	Growth 98-01
Total exports					
CH61	142,084	185,698	228,773	239,723	68.7%
CH62	196,655	159,935	185,819	197,172	0.3%
Total	338,740	345,633	414,591	436,895	29.0%
Exports to Europe					
CH61	3,471,912	27,223,093	30,532,675	31,623,309	810.8%
CH62	94,566,534	76,943,519	62,901,774	94,319,122	-0.3%
Total	98,038,446	104,166,611	93,434,449	125,942,431	28.5%
Exports to NAFTA					
HS61	61,908,181	30,152,036	52,602,949	117,443,943	89.7%
HS62	47,019,344	90,167,263	101,793,317	182,797,328	288.8%
Total	221,387,125	242,047,795	292,536,562	466,258,580	110.6%

Source: Customs and Excise