

Clothing and textiles

ensuring survival of the South African industry

In the 1990s, few countries have managed to escape the effects of globalisation. The term *globalisation* describes the dramatic increase in the flow of information, goods and services, technology, investment, and the rise in multi-country production networks. This has fundamentally changed the context within which the creation and retention of jobs occur. Policy-makers tasked with job creation and sustainable development thus face new challenges, such as:

- using globalisation as a lever for economic development;
- containing the social and economic imbalances that result from globalisation.

Meeting these challenges requires:

- transforming the policy-making conceptual framework, and identifying the forces that shape the development of global networks of economic activities;
- a strategic assessment of the opportunities and constraints that these networks create for local firms and institutions;
- developing innovative approaches to promote economic development.

However, before we can suggest that globalisation can be used to South Africa's benefit, we need to understand the organisational processes that underlie globalisation and the growing functional integration of international activities

Augustine J. Williams and Stephen Hanival argue that business, labour and government must jointly strategise and act to ensure the survival and growth of South Africa's clothing and textile industry.

across industrial, and increasingly, service sectors.

Global production networks

One of the key consequences of the lower costs and increased speed of transport across the world has been the increased potential to develop multi-country production networks where specialised production functions are carried out in different countries. The clothing industry has become a particularly successful site for this, although the approach is increasingly applied to the footwear, autos and even service sectors.

In the clothing pipeline, the more labour intensive production functions, such as Cut-Make-and-Trim (CMT), are 'delegated' to developing countries while the functions requiring higher degrees of skill, such as design services, are allocated

to developed countries. This method of production tends to be used for mass produced goods as the quality required is generally fairly low.

The high skill component is often the highest paid. It is thus not surprising that the network is characterised by hundreds of relatively small CMT sub-contractors operating sweatshops in developing countries whilst the relatively well remunerated functions remain concentrated in the developed countries. As more and more least developed countries see the clothing pipeline as a source of low cost jobs, the competitive pressure across the labour intensive network builds. The source of competitive advantage then essentially becomes one of wage costs and labour flexibility.

Under these circumstances, South Africa will find it increasingly difficult to compete internationally. However, there is a second option. The demand for relatively customised, high quality fashion goods has

risen as income levels in developed countries have increased. These markets are not easily served by the type of production networks described above as they require higher quality and quicker response times. Whether SA can compete in these sectors remains to be seen.

Employment trends

The geographical distribution of production in the textile, clothing and footwear industries has changed dramatically in the past 25 years. This has resulted in sizeable employment losses in Europe and North America and employment gains in Asia and other developing countries. This has largely occurred as a result of increased competition from developing countries, which have been relatively successful in acquiring the limited skills and capital investments required in the clothing sector particularly. Moreover, developed countries have seen the benefits of

outsourcing the labour intensive parts of the production process to developing countries in an attempt to cut labour costs.

Table 1 shows the extent of some of these shifts in recent years, highlighting in particular, the increase in employment in Mauritius, Malaysia, Mexico and China.

The shift in employment from developed countries to a range of Asian, Latin American and even African developing countries has led to a further intensification of competition within these sectors. This competition has been characterised by a 'race to the bottom' in

Table 1: Percentage changes in employment in textile, clothing and footwear industries, 1980-1993

Finland	-71,7	Mauritius	344,6
Sweden	-65,4	Indonesia	177,4
Norway	-64,9	Morocco	166,5
Austria	-51,5	Jordan	160,8
Poland	-51,0	Jamaica	101,7
Syria	-50,0	Malaysia	101,2
France	-45,4	Mexico	85,5
Hungary	-43,1	China	57,3
Netherlands	-41,7	Iran	34,0
United Kingdom	-41,5	Turkey	33,7
New Zealand	-40,9	Philippines	31,8
Germany	-40,2	Honduras	30,5
Spain	-35,3	Chile	27,2
Australia	-24,7	Kenya	16,1
Argentina	-32,9	Israel	13,4
United States	-30,1	Venezuela	7,8

(Source: ILO)

terms of labour production costs. In some cases this involves only wage repression. In others, it involves the repression of worker rights, reduction of worker benefits, and the increased use of child labour and forced labour.

The response of developed country policy makers to these significant employment shifts has involved an approach that draws on primarily five strategies, although individual countries have weighted the relative emphasis of each strategy differently. These strategies include:

- erecting high tariffs and quota barriers;
- re-focusing production on high value/high quality niche markets;
- work intensification;
- re-training relatively unskilled workers;
- modifying production processes and structures of organisation and management.

These strategies have, in many cases, resulted in a stabilisation of employment in the textile and clothing sectors at a 'socially and politically acceptable' level. Whilst it is clear that protectionist sentiment remains in developed countries it is noteworthy that these countries continue to compete in the international market and quite successfully in their domestic markets, in specific niches.

Furthermore, there is little evidence that globalisation has led to a narrowing of the labour cost gap between developed and developing countries. Table 2 indicates that while developed countries may have

Table 2: Hourly labour costs

Germany	\$18,40	Mexico	\$1,70
Italy	\$15,70	Hong Kong	\$3,70
France	\$13,40	Korea	\$3,80
Japan	\$10,30	Taiwan	\$4,20
Canada	\$10,50	China	\$4,20
United States	\$10,00	Spain	\$9,70

(Source: ILO)

lost substantial numbers of jobs the labour cost differential remains very substantial.

Employment in South Africa

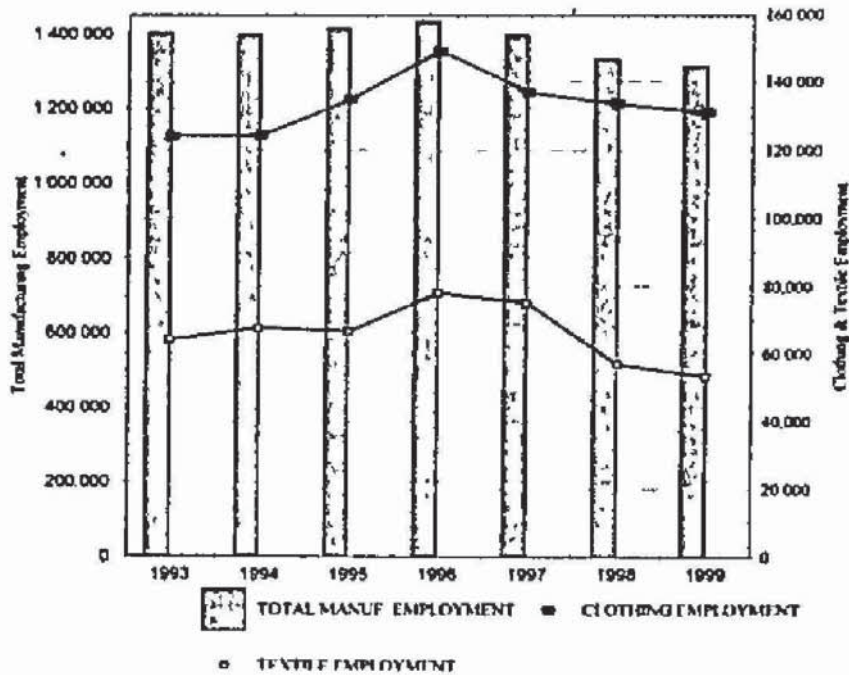
Employment in South Africa has generally been on a downward path since 1996. The last five to six years have been characterised by changes in government's industrial policy, including the phasing out of substantial export subsidies and investment subsidies. Moreover, the new government's industrial policy has been based on the view that many of South Africa's key consumer industries, having developed with substantial protective tariffs, need to restructure to ensure their long term survival and growth potential.

Restructuring's impact on employment

In the clothing industry in particular, substantial job losses have been seen in the formal sector over the period 1996 to the first half of 1999 (see chart on p 74). Whilst these job losses are in themselves cause for concern, it appears that a quite complex restructuring of companies production processes is also occurring. Anecdotal evidence suggests that there are essentially three stages in these restructuring processes. The first phase involves companies outsourcing peripheral services such as catering, maintenance and security functions as they attempt to reduce costs to meet international competition. However, the benefits of this relatively easy phase of restructuring are soon lost as international competition continues to reduce profit margins.

The second phase of restructuring involves a more substantial restructuring of the production process as companies begin to sub-contract the more specialised services that cannot be

Employment trends in South Africa



viably undertaken in-house. These services could include design services or processes requiring specialised (often expensive) dedicated machines or skills. If this restructuring does not lead to suitable increases in profit margins, it is likely that the firm will now be forced to consider a drastic restructuring of its production process. This, the final phase, generally involves sub-contracting a very substantial portion of the production process to small and/or informal manufacturers. This is usually accompanied by significant retrenchments.

Growth of the informal sector

The labour movement has, with good reason, brought the plight of these retrenched workers to government's attention increasingly forcefully over the last few months. However, Salinger *et al* argue that far from being helpless and disempowered, many of these retrenched workers rapidly become entrepreneurs or sub-contractors in the informal sector. In addition, others find employment with these informal sub-contractors. Salinger *et al* also argue that the very creation of

these informal producers, has a second round effect, evident through the flourishing of informal traders in the clothing sector. These informal producers range from 'backyard' machinists producing low quality tracksuits and school uniforms for neighbours to relatively sophisticated 'design houses' producing for the major retailers.

These informal production units have a number of distinct advantages over formal

sector manufacturers. For one thing, it is practically impossible for labour inspectors to enforce the legal Industrial Council wage rates. In addition, most of these informal operators do not pay their workers any benefits, and as the employment is dependent on the availability of work, labour flexibility is extremely high. Furthermore, as production often takes place at home the informal firm's overheads tend to be very low. Finally working hours are completely flexible, with the machinists working according to client deadlines. If need be, as one informal firm owner remarked, a 24-hour day can be worked.

This completely informal sector exists alongside the more formal labour brokers who have a very close link with formal sector manufacturers and indeed in some cases a direct link with retailers. These labour brokers, which are essentially CMT operators, pay Industrial Council wages and abide by most labour regulations. However, even these formal operators, which are themselves a result of formal manufacturers previous attempts to outsource production, increasingly sub-contract their surplus



Labour must strategise with government and business on the future of the industry.

production to informal operators. The main reason given by industry players for the rise in these innovative relations of production is the production *and* labour flexibility that they offer.

Policy implications

In this section we are concerned with the question: What implications do these employment trends hold for economic development in South Africa. Put differently, what does this actually mean for labour, business, and government?

For labour, the current trend holds a number of dangers. Clearly the shift to informal employment, as it involves the retrenchment of workers, results in *reduced job security in the formal sector* and the erosion of SACTWU's membership base. Moreover, the difficulties of organising in the informal sector are well-known and it would require a significant response from the union movement to make any inroads into unionising the informal sector at all. Until now, this response has not really been forthcoming. Furthermore, workers' rights and benefits are likely to come under increasing

pressure within the informal sector where the very absence or suppression of these rights essentially provides the competitive advantage for the sector. Formal sector workers are also likely to see their benefits and rights under pressure as the demonstration effect of companies who successfully shift production to the informal sector encourages more and more other companies to attempt it.

For business, who may at face value believe informalisation holds only positive spin-offs, the long-term effects may also be negative. For example, sub-contracting a part of the production process is unlikely to be an easy step. A whole range of crucial factors would need to be satisfied by the sub-contractor. For example, the subcontractor would have to be able to guarantee quality, reliable delivery, quick response to orders and more. The risk to both the subcontractor and the formal business is likely to be high. If the subcontractor does not, for example, maintain quality levels, the formal business could cancel its contract, spelling disaster for the subcontractors. Similarly, if the subcontractor does not deliver, the formal

business may well find its retail contract cancelled which, during a time of low demand, could also be disastrous.

Moreover, whilst a strategy of sub-contracting may win business a temporary respite from global competition, it is already clear that this strategy, applied by all our developing country competitors can have only one realistic outcome. This outcome simply involves the increasing pressure on informal operations to lower costs until the country with the lowest informal sector wage costs dominates.

For government too, informalisation holds significant risks. The most obvious of these is that as most informal sector businesses do not pay any form of tax, the existing tax base will simply become progressively smaller. This applies to a range of taxes including corporate tax, the Skills Levy, UIF, and PAYE. In addition, in so far as government is also responsible for the protection of worker/human rights, government is likely to find it increasingly difficult to police its various pieces of labour legislation. However, many would also argue that as the informal sector tends to use more labour intensive production and retailing methods, the net effect on employment has in fact been positive and people are being given the opportunity to become entrepreneurs. While this may have some truth to it, these arguments tend to romanticise life in the informal sector. The reality is that for many working in the informal sector, both as employers and employees, day-to-day life is more about survival than enjoying the fruits of being an entrepreneur.

If we accept that informalisation of production in the clothing sector is occurring and perhaps even accelerating, what then is the role of government, business and labour in this process? We would argue that if South Africa is to be successful in retaining at least some of the

clothing sector, strategic positioning of the industry is required. It is increasingly clear that South Africa cannot compete with low cost, labour abundant economies. Nor is South Africa willing to offer the kinds of incentives that encourage wage suppression such as EPZs. Almost the only strategy left then is to focus on the high quality, high skill end of the value chain. Notwithstanding protectionist sentiments in many developed countries, this is precisely the strategy they followed and we have shown that wage rates in these countries remain substantially higher than in developing countries.

However, to be successful here will require much more than simply extra training and market research. To successfully compete in these segments requires a commitment from all tripartite role players to think innovatively and act decisively in order to guarantee the long-term viability of the industry. This will require open-minded debate on a range of issues from work organisation to skills development to co-operation between exporting firms, and more. These discussions are long overdue but to wait much longer will doom the South African clothing industry and many hundreds of workers to a life of sweatshop labour with severely restricted worker rights in the informal sector. ★

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