Jobs destruction in SA clothing industry

Undermining labour-intensive growth

Labour-intensive growth is not receiving support from government, bargaining councils and trade unions that are in favour of high-end decent work. As a result, this approach is causing loss of jobs in the clothing industry in places such as Newcastle, write **Nicoli Nattrass** and **Jeremy Seekings**.

Successive government plans emphasise the need for job creation in South Africa, yet industrial and labour market policies are biased against labour-intensive growth. Nowhere is this more evident than in the clothing industry, where employment has collapsed in the face of rising wage costs and intensifying international competition.

South Africa's most labour-intensive firms, which produce basic clothes for the mass market in direct competition with China and other low-wage countries, have survived by relocating to lower-wage regions and/or paying below the legal minimum wage. Some firms have relocated production to Lesotho, where minimum wages are substantially lower.

The existence of the rump of labour-intensive manufacturing in South Africa is now threatened by a 'compliance drive' launched by the National Bargaining Council for the Clothing Manufacturing Industry (NBC) in 2010. Firms that do not pay the minimum wage are pursued through the courts and eventually forced out of business. We estimate that about 16,700 jobs are directly under threat, with further job losses possible in other firms in the areas concerned. This has serious implications for labour-intensive growth as clothing is South Africa's most labour-intensive industrial sector, and the low-wage firms targeted by the NBC are its most labour-intensive.

The NBC was created in 2002. Resisted from the outset by several employer bodies, especially in KwaZulu-Natal (KZN), the NBC has never been representative of firms in KZN or in the country as a whole. Only about one quarter of the firms that are registered with the NBC (collectively employing less than half the workforce) are represented by employer associations and hence are 'party' to agreements concluded with the South African Clothing and Textile Workers Union (Sactwu). Nevertheless, successive ministers of labour have used the Labour Relations Act to extend wage agreements to all clothing firms in South Africa, whether party to the NBC agreement or not.

In June 2011, five small clothing enterprises from Newcastle, a low-wage region in KZN, initiated legal proceedings against the NBC and the Minister of Labour over the extension of minimum wages to them. The case was scheduled to be heard in January 2013.

At stake is the survival of 450 firms employing around 16,700 workers being targeted by the NBC in its compliance drive. This article locates the Newcastle story within the broader context of South Africa's clothing industry and related industrial policy.

MINIMUM WAGES IN CLOTHING INDUSTRY

Since the first national minimum wage agreement in 2003, nominal and real minimum wages have risen significantly in the lowest wage, non-metro areas of South Africa, including Newcastle. In 2000, when minimum wages were still set through the Employment Conditions Commission, minimum wages in Newcastle were half those in Cape Town. By 2011, after nine years of wage agreements in the NBC, they had reached two-thirds of the Cape Town level.

Employers represented in the NBC, who are largely located in metro areas, have gone along with the reduction of inter-regional differentials as this is of little consequence to them.

Although some of the firms that are party to the NBC agreements claim that they face competition from lower-wage producers, in fact they tend to produce for relatively protected niche markets (e.g. bespoke orders, promotional goods) or the 'fast fashion' end of the industry, where margins are higher and where longer-term relations can be forged with retailers.

These firms are not threatened by competition from low-wage, non-metro firms which produce different products for different markets, notably simple skirts, shirts and pyjamas aimed at middle- and low-income consumers for whom branding is less important.

The claim by the NBC and the umbrella employers' association, the Apparel Manufacturers of South Africa (Amsa), that the compliance drive is necessary to protect themselves against unfair competition is doubtful.

Amsa members have long co-existed in the presence of low-wage firms in South Africa, the destruction of which will benefit firms in China and Lesotho, not Amsa members. Amsa's support for the compliance drive should be seen rather as a means of putting pressure on government and Sactwu (because of the likely job losses involved) to agree to a new 'wage model' for the industry with more room for productivity linked pay.

Increased international competition, especially from China, caused in part by the appreciation of the rand between 2003 and 2011, has been the major factor behind the collapse of employment in South Africa's clothing industry. But this collapse would have been even worse if many of the low-wage producers in places like Newcastle had shut down due to an inability to comply with the minimum wages imposed by the Minister of Labour. Non-compliance, however, has resulted in chronic conflict with the NBC.

CHINESE FIRMS IN NEWCASTLE

The five applicants in the court case are so-called 'Chinese' producers in that they originate from Taiwan, Hong Kong or China. Originally recruited by the municipality in the 1980s and 1990s to create jobs, Chinese producers brought with them the skills and networks needed to operate at the most labour-intensive end of the clothing industry. By the 2010s they had come to form a settled 'Chinese' community. It is a community that has had to weather a number of shocks, the first of which was in 1991 when decentralisation incentives (including wage subsidies) came to an end, and minimum wages were set by the Wage Board.

Many ignored the wage determination and, by 1995, Sactwu had over 30 labour disputes with firms in Newcastle. Ebrahim Patel, then general secretary of Sactwu, was unsympathetic, saying that he would 'eat these fly-by-nights for breakfast'. Later, as minister of Economic Development (from 2009), he supported an approach to industrial policy which provides incentives for industrial upgrading conditional on compliance with legislated minimum wages. This, along with other aspects of industrial policy, has been intended to move the clothing industry towards the more capital-intensive, sophisticated end of the market. There is simply no place in this approach for lower-wage, more labour-intensive production.

The second major shock came when wage-setting through the NBC began. This coincided with the appreciation of the rand from 2003, which wiped out the large export producers. The remaining producers now concentrate on the low- and middle-income domestic market, competing directly with imports from lower-wage countries like Lesotho and China. Their relationship with the NBC has been fraught: many registered with it, but did not comply with the minimum wage agreement (although some raised wages in an effort to get closer to the legal minimum); others attempted to avoid the NBC altogether – an increasingly untenable strategy given the compliance drive.

The Newcastle Chinese feel betrayed by the transformed policy environment and by what they perceive to be racist slurs, such as calling them 'fly-by-nights' when they regard Newcastle as their home. They also feel that there was a failure to understand how difficult it is to compete at the bottom of the clothing market. Profit margins are very low, and tight deadlines are stressful for owners and workers. In this highly competitive environment, missed deadlines can turn a small profit into a major loss as penalties are imposed and orders cancelled. Some owners live on their factory premises, mobilising their family to work long hours in the factory if a deadline is in danger of being missed.

Mr Cheng, the owner of Lucky Industry, died of a heart attack late one night in 2011 as he worked five knitting machines while trying to complete an order. It is these pressures that have also sometimes resulted in labour practices that are clearly abusive, such as locking workers into the factory. In one infamous case, a worker gave birth to twins during a night shift, both of whom died because the

William Matlala

Textile factories used to employ many women.

owner could not be reached and relatives could not access the locked factory. This prompted the Department of Labour to inspect Newcastle clothing factories, finding other instances of abuse. It also prompted Sactwu to launch its 'operation clean-up' to end 'sweatshop conditions' in the area.

Some Newcastle firms still do not fully comply with the Basic Conditions of Employment Act or pay NBC-agreed minimum wages, but the situation defies simple characterisation. Some firms provide small payments to their workers during the off-season (a practice they might have to stop if they paid higher minimum wages). Others have experimented with worker co-operatives and various forms of productivity-linked pay. One model is to pay bonuses for production over and above a basic quota. Another is to offer low minimum wages plus piece-work payments. These practices can result in significant variation in earnings. According to wage records for 2011, take-home pay for workers employed by one of the applicants in the case ranged from 15% below the NBC minimum wage to almost double it.

There is therefore no simple correlation between minimum weekly wages and total earnings, and not all workers would necessarily benefit if minimum wages rose to the prescribed level at the cost of reduced productivity-linked pay. Indeed, when one of the applicants in the court case attempted to increase his minimum wages to 70% of the legal minimum, he could do so only by reducing his piece-work bonuses. His most productive (and best paid) workers resigned in protest at their reduced total earnings.

COMPLIANCE DRIVES & JOBS DESTRUCTION

By the end of 2009, the NBC was in the process of taking action against over 400 clothing factories, mostly in low-wage areas of KZN (especially Newcastle), Botshabelo and QwaQwa. Some owners engaged in elaborate cat-and-mouse games with the NBC as they begged for time to implement the minimum wage whilst completing their existing orders and simultaneously making plans to shut down their companies. Some opened new factories with machinery leased from elsewhere (to avoid having these assets attached), often in different locations, forcing the NBC to begin the process anew. Others downsized to micro-enterprises in order to obtain an automatic exemption from the minimum wage, or re-organised along co-operative lines.

In 2010, the NBC compliance manager drew up a list of 65 priority 'offenders', escalating their action against them. Employers and workers protested the precipitous job destruction, various meetings were held, and, in December, a 'moratorium' on proceeding with writs of execution against non-compliant companies was imposed. Minister of Economic Development, Ebrahim Patel, announced that non-compliant firms had 15 months to become compliant on a phased basis.

He also encouraged firms to make use of the government's productivity incentives. These, however, were conditional on compliance with minimum wages and, historically, the Department of Trade and Industry (DTI) support for the clothing industry has been aimed at large companies like Seardel (part owned, ironically, by Sactwu). Such support has not prevented further retrenchments in the industry.

It is difficult to estimate precisely how many jobs might be lost if factories are forced to comply with the minimum wages agreed by the NBC and extended to non-parties.

It is difficult to estimate precisely how many jobs might be lost if factories are forced to comply with the minimum wages agreed by the NBC and extended to non-parties. It appears that there are 16,700 workers nationwide employed at factories which pay at least some workers' wages that are below the existing minimum. While it is not possible to say how many workers' wages would have to be raised or by how much, many of these factories operate on razor-thin margins, and any pressure on costs might result in closure. If the cost of compliance includes both raising minimum wages and paying unpaid levies to the NBC, outstanding pension contributions, etc., the likelihood is that many factories will be unable to absorb the costs and will close.

The closure of the highly labour-intensive firms in Newcastle and elsewhere will have other consequences. The loss of clothing jobs in Newcastle, for example, would undoubtedly affect the viability of other businesses in that community. In addition, some of the compliant factories in Newcastle draw staff from non-compliant firms who act, in effect, as training institutions. If these factories are closed, training costs in compliant firms might rise, affecting their margins and viability, too.

There appears to be no grounds for optimism that the DTI/Sactwu vision of a high-wage, high-fashion, top-quality, 'decent work' strategy will create an employment growth engine anything like the low-wage, labour-intensive model currently under threat in Newcastle. Indeed, it implies that, if the industry is to exist at all, firms must compete only in the 'high fashion', technical/quality end of the business. The destruction of low-wage labour-intensive firms is thus explicitly part of the DTI and Sactwu's structural adjustment programme for the industry.

CONCLUSION

The struggle of the Newcastle clothing producers to remain in business highlights the difficulties involved in promoting labour-intensive growth in South Africa. The firms have to contend with minimum wages set in bargaining councils dominated by unionised businesses in metropolitan areas, producing for the higher value-added top-end of the industry, often with substantial support from government's industrial policies.

The Sactwu/DTI vision is that only 'decent' jobs should exist in South Africa, and that labour-market and industrial policies should actively prevent any low-wage, low-productivity production as this is supposedly a 'low-road' to growth. But the hoped for 'highroad' of substantial job creation through skill and capital-intensive growth has yet to materialise, and the costs have been borne by workers in labour-intensive industry and the unemployed.

South Africa needs a more differentiated approach to wage-setting that enforces basic standards of employment but tolerates low-wage employment. Allowing low-wage producers in places like Newcastle to continue to exist will not harm jobs in the upper end of the industry. Instead, it will accommodate the needs of low-skilled workers, the unemployed and poorer consumers who purchase basic clothing rather than the pricier, branded, fast fashion products.

The extension of agreements, the NBC's compliance drive, and resulting job losses puts paid to the argument that South Africa's bargaining councils do not affect employment. Indeed, the story illustrates how, under the hypocritical guise of promoting 'decent work', labour-market institutions and industrial policies can create an unholy coalition of the state, a trade union, and metro-based, relatively capital-intensive employers whose actions can inflict massive job-destroying structural adjustment on a labour-intensive industry. LB

Nicoli Nattrass is professor of economics and Jeremy Seekings is professor of political studies and sociology at the University of Cape Town. This article comes from an executive summary of a non-commissioned report they wrote for the Centre for Development Enterprise. The full report can be downloaded from www.cde.org.za.