# Made in SADC

## sold in South Africa

*Claire Horton looks at the impact of capital flows from South Africa into neighbouring countries, particularly in the textile and clothing industry.*

In August 1996 the SADC countries signed a historic trade agreement to turn southern Africa into a free trade area through gradual elimination of tariff and non-tariff barriers.

As predicted by the South African trade unions, this has resulted in a growing number of South African manufacturing enterprises relocating to neighbouring countries where the cost of labour is lower because of different labour standards and lower levels of social protection.

The South African Reserve Bank approved a total of R2,9-billion for investment into SADC in a range of economic sectors from March 1995 to May 1998.

### South African women lose out...

The textile and clothing industries together account for approximately 205 000 jobs or 2,5% of total employment in South Africa. These two sectors are important employers of black women. Women make up approximately 76% of clothing workers and 34% of textile workers compared with an average of 31% for the entire manufacturing sector.

As many as 53% of full-time clothing workers in South Africa are on short-time, working a three or four day week and are therefore earning below the collective bargaining wage agreement. Workers state that while they were working short-time the employer would sub-contract Cut, Make and Trim (CMT) work to Malawian or Mozambican operations.

### ...to relocation

Many clothing firms have relocated to Malawi or Mozambique. Productivity is lower in both Mozambique and Malawi than in South Africa. Nevertheless the poverty wages and other factors still make it profitable to manufacture in these countries.

Preferential trade agreements between South Africa and Malawi, and South Africa and Mozambique benefit South African manufacturers in a number of ways.

- ❑ Wages are lower and, because there is less unionisation in these countries, there is less pressure on wages.
- ❑ The trade agreements enable producers who supply the export market to manufacture in EPZs which allow them to make use of imported fabric without paying duty on it. This can result in savings of up to 50%.

- Provided that at least 25% and 35% of value-added production takes place in Malawi and Mozambique respectively, the agreements allow firms to export clothing back into South Africa at 0% tariff duty from Malawi and 3% from Mozambique.

Foreign processing by South African firms in other SADC countries takes place in one of three forms

- Sub-contracting work to a foreign-owned firm on a CMT basis, where fabric and design are supplied by the South African operation
- Partnership production, with South African firms forming partnerships with existing foreign-owned enterprises
- Wholly-owned concerns, where a South African company owns a foreign production unit

Currently foreign processing only takes place in a limited range of clothing items and household textiles, commodity-type items, items targeted at the lower economic end of the market and items with long production runs such as denim jeans Most of what is produced is destined for the South African market

## Estimated monthly wage comparisons for a qualified machinist (June 1998)

| Country | Cash wage | Index to South Africa |
|---|---|---|
| South Africa | R1 474,47 | 100 |
| Lesotho | R448,06 - R589,10 | 30-40 |
| Malawi | R119 - R190 | 8-13 |
| Mozambique | R176 | 12 |

*(Interviews with employers, SACTWU and Natal Clothing Manufacturers Association)*

## Working conditions

Wage and non-wage benefits paid by South African employers are lower for workers employed outside of South Africa. South African employers in general abide by legislated minima, in terms of wages and non-wage benefits but even where wages are slightly higher than legislated minima they remain poverty wages.

The working week is longer for workers employed outside of South Africa. Clothing workers in South Africa work an average of 42,50 hours per week compared with 45 hours for workers in Lesotho and Malawi In the case of a textile company which has operations in South Africa and Botswana, workers in the South African plant are expected to work a 45-hour five-day week compared with a 48-hour six-day week for workers in the Botswana plant.

Maternity benefits, over and above the legislated minima, are determined on a discretionary basis by individual companies Maternity benefits are far lower than those for South Africa as can be seen from the table on the following page. One South African employer operating in Lesotho makes provision for three weeks paid maternity leave, with the balance being unpaid

Even in companies that have operated outside of South Africa for a number of years, expatriates perform almost all managerial functions. South African employers are apparently not committed to training and career development. All decisions relating to design, marketing, distribution and retail are handled by head offices in South Africa.

## The international experience

Closer regional integration, together with differing labour standards presents a number of challenges for South African workers, particularly those in commodity-type production While it is too early to speculate

## Maternity benefits

| Country | duration | cash benefit | who pays |
|---|---|---|---|
| Botswana | 12 weeks | 25% | employer |
| Lesotho | 12 weeks | 0 | |
| Malawi | 8 weeks | 0 | |
| Mozambique | 60 days | 100% | employer |
| South Africa | 12 weeks | 45% | UIF |

*Source: World of Work, 1998 International Labour Office, No 24, April 1998.*

what the net effect of regional integration is likely to be, the experiences of the North American Free Trade Agreement (NAFTA) do indicate areas for concern.

The trade liberalisation of NAFTA has not resulted in increased employment The US Department of Labor certified that, by February 1997, 107 632 workers had lost their jobs as a result of increased imports from Mexico or Canada or because production shifted to one of these countries. These workers are able to qualify for the NAFTA Transitional Adjustment Assistance (TAA) The NAFTA-TAA helps dislocated workers by offering an array of retraining and re-employment services

NAFTA has depressed wages Displaced workers who are able to find new jobs have had to accept over a 16% reduction in average earnings Many of these new jobs have been located in the service sector with average compensation only equal to about 77% of that in manufacturing

A further outcome of NAFTA is that employers threaten to relocate in an attempt to influence wage bargaining. In the US employers have won wage and benefit concessions by threatening to relocate Furthermore, the percentage of firms that move rather than continue to bargain has tripled since the NAFTA agreement

The experiences of the European Community in regulating foreign

*Women make up 76% of clothing workers.*

processing may be useful to consider. In Belgium for example, firms may only use foreign processing provided that its employment level has fallen by less than 5%,over the previous year This helps to ensure that foreign processing does not merely lead to the displacing of local jobs. Another example is that of Italy, where trade unions must approve foreign processing agreements In this way the unions are in a position to ensure that foreign processing only takes place in those countries with fair labour practices

## What can unions do?

SACTWU acknowledges that the undermining of reasonable wage rates, labour standards and labour laws in the region are major problems SACTWU's strategy has been to develop links with other trade unions in the region organising clothing, textile and leather workers The union suggests that building solidarity links with other trade unions is the key to improving labour standards in the region. Only through developing strong, independent trade unions in each of the SADC countries will the unions be able to improve labour standards in the region.

SACTWU has, for instance, developed close links with the Lesotho Clothing and Allied Workers Union (LECAWU) Its primary objectives are to assist LECAWU with recruitment, training and legal support

## Where to from here?

Most countries within SADC, with the exception of South Africa and Zimbabwe, have a narrow industrial base producing similar goods It is important that trade integration amongst SADC countries leads to industrial development and diversification of production The recent wave of relocation to neighbouring countries is apparently largely in response to tariff liberalisation and to make use of the preferential trade agreements between South Africa and Malawi, and South Africa and Mozambique. While lower wage costs are also an important determinant in the decision to relocate, employers suggested that the bilateral trade agreements between South Africa and other SADC countries were more important.

There are significant differences in wages and benefits across the region. Differing union strengths and levels of union membership make it difficult for unions to bargain for equal employment conditions and benefits and possibly the indexing and convergence of wage rates. Critical to this is the need for effective independent unions who have extensive rights to organise workers.

The ability to relocate higher value-added parts of production in the future is directly related to training and skills development within the region. Investment in human resources through training and skills development, as well as investment in infrastructure can play a key role in improving labour standards in the region. Such investments will help ensure that relocation does not rely solely on low wage labour and preferential trade agreements and will also improve the trade balance between South Africa and the rest of the region ★

## References

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*Claire Horton is a researcher at Naledi*

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