South African Garment Industry Subsector Study

by

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The ComMark Trust

Making Commodity & Service Markets work for the Poor in Southern Africa

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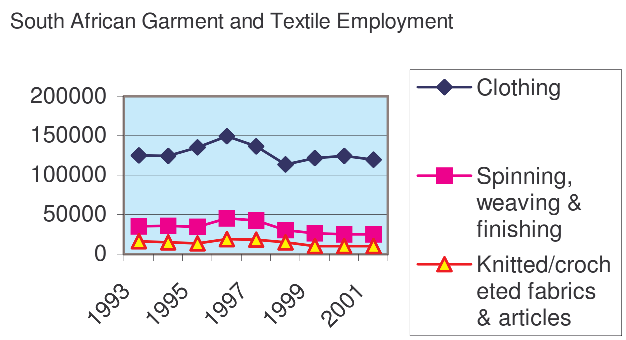
Executive Summary

Economic growth is fundamental to the reduction of poverty. The clothing industry is one of the largest employment sectors in the economy. Any increase in activity in the clothing sector directly impinges on the number of people employed. At an estimated cost of R3,000 per job, this industry provides one of the cheapest options for getting labour into active employment.

The South African garment industry is long established, diverse and sophisticated. It is integrated into a vertical value chain that starts with the production of natural fibres and ends with garment exports and regional retail outlets.

There is a lack of reliable garment industry specific data particularly in terms of employment numbers by region and by factory size making it difficult to determine sector trends accurately. There is sufficient intuitive knowledge within the industry to identify trends and to verify these by personal testimony.



Source South Africa Dept. of Statistics

The above graph shows the trend in formal garment sector employment that appears to be relatively stable in the past few years. There is evidence of strong growth in the informal sector and it is likely that this is where continued growth will take place. It is important that instruments for measuring the informal sector growth be designed and implemented. Without accurate information it will be difficult to measure the impact of interventions, trends and negative influences.

The diversity of South African garment products is matched by the diversity of production models within the industry. These range from vertically integrated publicly quoted companies to small informal sewing units located in the cities' suburbs. In between lie all manner of production units including large foreign owned factories pouring out commodity exports, companies exporting tailored suits and specialists units making high end boutique wear. Each model responds differently to influences on the markets. Never-the-less one is able to make an assessment of the constraints and opportunities within the sector.

The clothing industry supplies three major markets being domestic, European and Northern American. Of the R10 billion of garment production in 2001, close to 20% was exported with R1.2 billion going to the USA and R427 million going to Europe. Growth in trade with the USA and Europe is being driven by the preferences offered by the African Growth and Opportunity Act (AGOA) and the EU/SA Free Trade Agreement.

To compete globally and to export successfully South Africa faces two major constraints, the first is regionally produced fabric, and the second is the cost of labour.

There is insufficient regional fabric production capacity to sustain continual export growth nor is the investment taking place in the textile sector to meet this capacity requirement. If the LDC special privileges[1] are not extended there will be an immediate crisis in the clothing industry as there will simply not be enough fabric to sustain the industry. There is a fear that regional textile producers, already considered expensive, may respond to demand increases by raising prices and further stifling growth. Where new textile plants are being established, their capacity will only partly supply the demands of the countries in which they are being established. (Viz. Lesotho, Namibia and Swaziland.)

South African labour law has become an onerous burden to industrialists particularly in an industry where cost competitiveness is so critical. Mandatory pension, medical aid and provident fund contributions add some 20% to the labour bill in the metro areas of the country. This is leading to a casualisation of the employment relationship with a variety of models being attempted in an effort to avoid the costs and wage determinations within the formal industry. While the casualisation is probably necessary to maintain cost competitiveness it also opens the employment relationship to abuse.

Labour abuse and exploitation are no strangers to the clothing industry particularly in the decentralisation areas. South East Asian nationals who operate their factories without regard to South African labour law frequently perpetrate these abuses. It is obvious that these industrialists do not understand how to unleash the productive capacity of the regional workforce and that cultural and language barriers are the problems. The abuse, possibly considered normal practice in the Asian paradigm, is causing significant unrest on a regional basis and it needs to be addressed.

The traditional, metro based, South African industry is undergoing fundamental structural changes as it copes with globalisation pressures. It is fragmenting and subcontracting its production to satellite plants and CMT operators. At its core it is retaining and fostering very specialised skills that are not generally found in the SACU region. These are the skills of design and merchandising. The fact that the South African industry can offer an integrated approach to commercial fashion design and merchandising in markets that are as sophisticated as the export markets is a tangible benefit. This should enable South

[1] The ability to use imported cloth for garment production.

African exporters to develop close trading relationships with niche markets in Europe and America.

Commark can and should play an active role in the clothing subsector. It should provide technical assistance, participate in developing trade strategies and support projects that build the status, competitiveness and stability of the industry.

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List of Acronyms

ACP	African, Caribbean and Pacific
AGOA	African Growth and Opportunity Act
CLOFED	The Clothing Federation
CLOTRADE	Clothing Trade Council
COFESA	Confederation of South African Employers
CMT	Cut, Make and Trim
CTFL - SETA	Clothing, Textile, Footwear and Leather - SETA
DCC	Duty Credit Certificate
DFID	Department for International Development
DTI	Department of Trade and Industry
EBA	Everything But Arms
EU	European Union
ECDC	Eastern Cape Development Corporation
FDI	Foreign Direct Investment
FDC	Free State Development Corporation
GSP	Generalised System of Preferences
IDC	Industrial Development Corporation
LDC	Least Developed Country
NGO	Non Government Organisation
ROO	Rules of Origin
RSA	Republic of South Africa
SABS	South African Bureau of Standards
SACTWU	South African Clothing and Textile Workers Union
SADC	Southern African Development Conference
TIK	Trade and Investment KwaZulu-Natal
USA	United States of America
WTO	World Trade Organisation

1 Introduction

To understand the dynamics within the South African garment industry one needs to view it in its historical and economic context. The domestic clothing industry started to develop momentum soon after the Second World War and is therefore diverse both geographically and in its range of products. It is also intricately linked to the suppliers of its raw materials and to the retailers selling its finished goods.

The strongest industry grew up in the Western Cape in the industrial estates around Cape Town where a number of textile mills were established. The Eastern Cape, Durban in KwaZulu Natal and Johannesburg in Gauteng Province all became centres of growth for the industry.

Relatively high tariff barriers have protected both the clothing and the textile industry in the past. This has allowed the two industries to develop a diversity of product that would be difficult to sustain in an unprotected regime. South Africa's shopping malls pay testimony to the enormous talent, creativity and diversity within the country's clothing industry.

The industry has been built on responding to the needs of diverse and sophisticated domestic markets and is not comparable with typical clothing industries in developing countries where labour is virtually the only added value to the finished product in the country of origin.

The maturity of the industry, its long period of engagement with organised labour and the historic tariff protection has led to the cost of labour in the traditional garment centres reaching a level that is proving difficult to sustain under the pressures of globalisation and a regime of free trade. Recent years have seen a restructuring of the industry with many companies closing or moving out of the main centres to areas of decentralisation where the conditions of the employment contract are less onerous and wages are cheaper.

The Bantustans established under the apartheid regime were designed to keep rural Africans away from the cities leading to high concentrations of the poor and disenfranchised living in unsustainable "homelands". The Government of the time created decentralised industrial estates in these Bantustans, built factory shells on spec and enticed industrialists to relocate there with generous incentive packages. Many clothing factories took advantage of the incentives that were geared towards mass job creation. As the clothing industry is labour intensive, those companies that relocated or started satellite factories profited by the move at the expense of those factories left in the main centres.

The pressures of local and international competition have adversely affected the traditional clothing manufacturing areas and, unable to compete, some have all but disappeared. In many areas entrepreneurs, finding that they can not compete under existing wage and labour agreements, simply opt out of the formal sector and operate in a state of unofficial limbo. For this reason it is difficult to estimate the exact number of factories or employees working in the clothing industry at the present time. It is generally believed that around 130 000 workers are employed in the formal sector while an estimated 75 000 work in factories that are not registered. These figures do not include the home workers, dress makers and cottage industries which could employ as many as 100 000 people.

South Africa contains elements of First and Third world economies and this is very evident in the clothing industry. The mature industry in the traditional garment centres is characterised by high labour costs, diverse talents and skills and sophisticated merchandise. The decentralised and casualised industry is characterised by low wages, informal labour contracts, low skills and mass production of basic commodity merchandise. The industry, being as large and complex as it is, contains almost every conceivable shade of degree between these two extremes. It is important to distinguish between the two aspects of the industry when discussing the opportunities and constraints that confront it.

2 Overview of the Subsector

The South African clothing industry is in a state of flux as it responds to the pressures and opportunities of globalisation. Declining import duties have lowered protection barriers exposing the industry to international competition. Onerous costs of employment are causing the industry to fragment into smaller independent production units. The industry is well aware of the challenges it faces and is responding to these in a considered manner.

As the industry is focused on the domestic market it is sensitive to the trading conditions within this market. Consumer spending in clothing in the region has been adversely affected by a number of factors in recent years including high interest rates, the introduction of a national lottery and the consumer spend on mobile phones. These have combined to depress the local demand for clothing and has led to a decline in total output from R11.0 billion (US$1.8 billion) in 1999 to R10.6 billion (US$1.5 billion) in 2000. There was a marginal recovery to R11.0 billion (US$1.6 billion) in 2001.[2]

The industry is currently experiencing a period of growth as it responds to the opportunities presented by the EU-RSA Free Trade Agreement and the African Growth and Opportunity Act (AGOA). Exports of clothing have started to increase dramatically creating pressure on production capacity and backward linkages into the textile industry. There is a general feeling of cautious optimism in the clothing industry as it responds to the increased demands for its products. This view is not shared by many economic analysts who predict the complete demise of the industry following the liberalisation of trade quotas with the phasing out of the Multi Fibre Agreement in 2005.

[2] Paul Theron– *A statistical overview of the South African clothing industry* – Pursuit Clothing and Textile Magazine Issue 02 2002.

3 The Markets

3.1 The Domestic Market

The range of clothing products produced in the country is very diverse covering almost all sectors of the apparel market including raincoats, overcoats, windbreakers, suits, jackets, blazers, trousers, formal shirts, casual shirts, fashion shirts, pants, shorts, jackets, sportswear, swimwear, jeanswear, workwear, uniforms, protective clothing, underwear, sleepwear, dressing gowns, jerseys, pullovers, waistcoats, T-shirts, knitted sports shirts, belts, ties, hats, socks, braces, scarves, skirts, blouses, dresses, evening wear, lingerie, foundation wear, bras, women's hosiery, infant wear, maternity wear, ethnic wear, ceremonial robes, safari and outdoor wear, schoolwear, bridal wear, military wear, bullet proof vests etc.

The majority of the clothing industry's output has historically been absorbed by the retail sector within South Africa. This sector has been adversely affected by economic conditions in the country and in particular the squeeze on disposable income brought about by high interest rates, the national lottery and the introduction of mobile phones. Retail sales of apparel of R22.7 billion (US$3.7 billion) in 1999 increased only marginally to R24.8 billion (US$3.6 billion) in 2000 in Rand terms and declined in dollar terms.[3]

The retailers have always commanded a very strong position in the supply chain in South Africa. As the only viable outlet for product they were able to dictate terms to their suppliers which often squeezed the producers to the point where their viability was threatened. Downward pressure on prices forced many of them to restructure which ironically has positioned them more favourably to take up export opportunities. The opening of the export markets to South African manufacturers, discussed in detail below, now offers viable alternatives for the South African producers and this in turn is causing a shortage of supply into the domestic market.

There is currently growth in new production plants predominately in the CMT sector with the majority of these being used to service the demand in the domestic market while established plant is being used to service the export market. This is due to the working conditions compliance requirements of international customers being considerably more onerous than most of the domestic customers. The industrialists are better able to control the conditions in their own plants and so place the domestic production out to CMT.

The large retailers are frequently the buyers of the DCCs from clothing exporters. They then use these certificates to import clothing and reduce the duties payable by between 25% and 40%. In this manner the DCC scheme distorts the market by subsidising both the exports of clothing and providing tariff relief for clothing imports adding to the competitive pressures of those manufacturers dedicated to the domestic market.

[3] Paul Theron– *A statistical overview of the South African clothing industry* – Pursuit Clothing and Textile Magazine Issue 02 2002

3.2 The Export Market

3.2.1. The USA and AGOA

The African Growth and Opportunity Act (AGOA) was promulgated by the United States government in 2000 with the aim of assisting countries in sub-Saharan Africa to develop their economies by offering duty and quota free access into the USA. The removal of these barriers offers a competitive advantage to goods manufactured in qualifying countries, thereby stimulating the growth of exports. The current moderate growth in South Africa's clothing industry can be directly attributed to the advantages it derives from AGOA.

The price advantage that South Africa enjoys through AGOA is approximately 17%, which is the average duty on garments entering the United States. The absence of quota offers an additional benefit as, in many countries, quota has to be bought and this could add several dollars to the price of individual garments. This price advantage has to be balanced against relatively high cost of employing labour in the metro centres in South Africa, which is much higher than other qualifying sub-Saharan states. Twelve sub-Saharan states have thus far been accredited and there more will follow.

It should be noted that it is the buyers that benefit from the duty free access in that they can achieve lower prices. The benefit for South Africa is bigger orders resulting in bigger factories and greater employment. This benefit is dependent on South Africa remaining competitive in a global context.

It is apparent that the process whereby orders are placed by the large USA brands and retailers and are finally manufactured in South Africa is fairly complex and is based on long term relationships between suppliers and buyers. Only recently is direct purchasing taking place between buyers and the South Africa factories themselves.

All the major brands/retailers require that their goods are manufactured in factories that comply with Codes of Conduct that specify minimum standards of working conditions and labour rights. Without accreditation, either by in-house or independent monitors, the factories may not produce the orders.

The sizes of the orders are generally extremely large. Orders of 20,000 to 40,000 dozen units are common. The efficiencies and economies of scale that can be achieved on this calibre of order are enormous and international competition is extremely keen. "Price drives everything!" was a frequent comment of the marketing and sourcing representatives.

South Africa can best take advantage of AGOA by developing niche markets within the USA and building on its ability to offer First World design and merchandising talents which are lacking in many of the third world sub-Saharan countries with which it has to compete. While the bulk commodity type orders can be effectively made in the decentralised regions, the metro production areas are better suited to higher end, greater value-added merchandise.

It is important to note that all the manufacturers in the metro areas interviewed by this consultant indicated that they were selling their goods to the USA at cost and recovering their profit through the DCC scheme. This included goods being manufactured by their satellite factories in the rural areas. This is an unsatisfactory situation because the DCC is effectively an export subsidy that will ultimately run foul of WTO regulations and is not sustainable. As the trade preferences that South Africa enjoys fall away, such as the MFA in 2005 and the projected end of AGOA in 2010, this country will find it difficult to maintain its cost competitiveness on international markets.

3.2.2. The EU- South Africa Free Trade Agreement

The Cotonou Agreement is an extension of the Lome Agreements that formalise the trade relationship between the European Union and a large number of disadvantaged African, Caribbean and Pacific (ACP) countries. Under this agreement and the more general EBA agreement these states enjoy duty free status for all their exports into the EU. There are certain restrictions regarding the rules of origin pertaining to the clothing industry in that dual transformation must take place for the origin status to be confirmed. In other words it is not sufficient for the clothes to be cut and sewn in the originating country, but the cloth must also be produced in that country or another participating ACP state.

While South Africa enjoyed observer status to the Cotonou negotiations, it was not invited to become an ACP member primarily because its economy was larger than some of the European Union states such as Portugal and Ireland. A separate free trade agreement was signed between South Africa and the EU that incorporates a variable phase down of duty tariffs depending on the commodity. Clothing and textiles are subject to a six-year duty phase down to zero in 2007. South African textiles used in the manufacture of garments in other ACP states qualify those states to claim originating status. While this may be an advantage to the local textile industry it will exacerbate the predicted shortage of fabric raw materials for the South African clothing industry.

South Africa has closer ties with Europe than America and the EU market must be seen as a potential growth area for exports particularly once the tariff barriers are removed. There is already significant trade in higher end clothing into this market (R427 million in 2001) and this is continuing to grow at some 45% annually. Currently 78% of exports into the EU are sent under EUR1 documentation[4] implying that they are taking advantage of the free trade agreement. Those that do not use the EUR1 probably do not qualify as they may be using imported fabrics.

While the European market is potentially as large as the United States its structure is significantly different. At this point in time the EU does not have the same scale of retail

[4] Jack Kipling – Chairman – The Export Council for the Clothing Industry in South Africa.

chain stores meaning that single style orders, while relatively large, do not reach the massive scale of USA orders. In addition the European market is more fickle requiring faster turn around times.

The opening up of the European market to the former Eastern Bloc countries has provided readily accessible and developing manufacturing economies on the EU doorstep. Many of these countries have vertically integrated textile industries and, with shortened transport routes, they offer price advantages that render South Africa exported goods uncompetitive. In addition, countries such as Egypt and Turkey, which are renowned for their cotton and clothing production, have preferential access into the EU market.

Of South Africa's total exports of over R1.9 billion in 2001, about 25% or R427 million went into Europe. Of this some R217 million was shipped under the EUR1 documentation implying that it was taking advantage of the EU/SA Free Trade Agreement. The UK is by far the largest recipient of South African clothing importing R347 million or 81% of the total. The potential to increase sales into Europe is strong but requires the promotion of South Africa's key strengths and the penetration of niche markets.

Current growth in South African exports to the EU is in lower-end commodity type items such as T-shirts, polos and men's cotton trousers. As with the USA market, South Africa needs to exploit its unique strengths and advantages to build sustainable export growth into the EU.

3.2.2. SADC Market

The majority of South Africa's clothing exports into the regional markets takes place as stock transfers from the retail chains' warehouses to their regional stores. Most of the major retail outlets, including Edgars, Jet, Woolworths, Fochinis, Truworths own outlets in the SACU region and further afield. Manufacturers supply to the central buying office in South Africa and the garments are then distributed to the individual stores throughout the region.

Some independent stores do buy directly from South African manufacturers. Goods are supplied by road freight but the quantities are so small as to be insignificant. The biggest market for South African clothing sold to independents in the region is for safari and outdoor wear.

3.3 The Duty Credit Certificate Scheme

In discussions with key players in the garment industry it emerged that one of the key drivers of exports is the DCC scheme and any discussion of the export markets requires an understanding of how it functions.

The Duty Credit Certificate (DCC) Scheme grants exporters an import duty credit based on a percentage of their exports. Exporters who export more than 40% of their turnover receive a DCC equivalent to 30% of their exports. Those with less than 40% receive a DCC for 25% of their export turnover. Although not as flexible as previously, these DCCs are transferable and an active secondary market has developed in them. A clothing exporter, for example, who exports R10 million, may receive a DCC entitling him to import goods and receive a waiver of up to R3 million of duty. This certificate can be sold for from 60% to 90% of its value. This gives the original exporter a return from the DCC of anything from R1.8 to R2.8 million or 18% to 28% of the export value. The exporters interviewed indicated that they were exporting at cost and that this DCC scheme constitutes their profit.

4 Order Procurement

One of the keystones for the success of any garment industry lies in the procurement of orders in sufficient quantities so that the production process is uninterrupted. To ensure that orders are received, complex relationships and loyalties are developed between the buyers and the manufacturing companies. The buying departments of the major brands and retailers exercise an enormous amount of power within the industry. They need to be serviced, entertained and feted close to where they are located. This applies to all the markets serviced by the South African clothing industry.

4.1 Domestic Market

Despite the complexity of the clothing industry in South Africa it can be roughly divided into two distinct branches. Those producers that finance their sales, buy fabric and trims, manufacture garments and supply them to their clients on credit terms, we will refer to as clothing manufacturers. The companies that simply take in fabric on behalf of their clients and cut, sew and finish the garments we will refer to as CMT operators.

A typical clothing manufacturer will offer a wide range of services to domestic clients from style development to complete fashion research and merchandising services. Chain stores expect the larger suppliers to give them advice on new seasonal fashion trends and to interpret these trends specifically for the chain stores' traditional consumers. To do this effectively the manufacturers must either invest heavily in researching the trends in Europe and the USA or they must buy this information from professional researches. The skill and experience that the local manufacturers have developed in this area is highly valued and builds customer loyalty assuming that the three essentials of the manufacturing process, *quality, delivery and price*, remain on track.

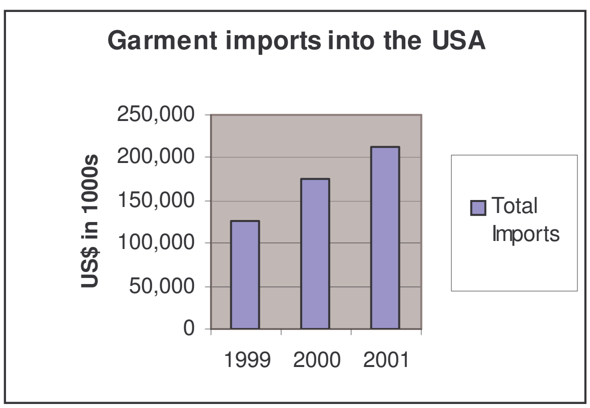
As with most aspects of the clothing industry in South Africa, the manufacturers consist of many different sizes and configurations from publicly traded vertically integrated companies to small high-end boutique manufacturing specialists. Many labels developed by South African manufactures have become internationally successful. Manufacturers, in most instances, will design and sell on ranges using their own labels (the open range) and design ranges for chain stores using the chain store label. Goods designed under the house label will be sold into the smaller chains and individual retailers. Most manufacturers handle sales to large customers in-house, while commission agents service smaller and regional customers.

Some of the larger chain stores such as Edgars, Pep and Woolworths have strict quality standards that the manufactures must adhere to. In-factory quality inspections are the order of the day and this has equipped the local manufacturers to cope with international quality standards, which they encounter when exporting.

The CMT operators generally work for the clothing manufactures. The manufacturer is the ultimate designer and seller of the merchandise and the CMT operator specialises only in manufacture. Some chain stores run their own procurement departments and will place orders directly with CMT operators supplying them with cloth and specialist trims in the same way as manufacturers do. Procurement agents are a recent development and they provide a link between the large retailers and the CMT operators. Procurement agents may finance the orders and provide design and merchandising inputs or they may operate purely on a commission basis.

4.2 The USA Market

The buyers for the major brands and chain stores in the USA inevitably look to Asia to source their products. The major players in the garment producing industry have representatives with close ties to the USA buyers. This has made it difficult for many South African based factories to penetrate the USA market with most of the initial exports under AGOA being completed by companies with strong South East Asian links.



Source: Dataweb

There are two major sources of orders from the USA; the orders placed directly by the major brands and retails stores and those placed by direct importers. The major brands and retailers, for the most part, have their own design and range development departments. These departments design their own merchandise and allocate sales budgets to the various categories of clothing. Many of them also view and buy from ranges produced by independent importers and manufacturers. The major brands/retailers and the importers source the manufacture of their merchandise in much the same way. The importers design and sell to the brands and retail stores and also act as stockholders for them.

In order to negotiate style purchases the buying departments produce technical specification sheets for each garment to be purchased. These “tech sheets” specify the size of the order, the size breakdown, delivery date, fabric, trims, seam measurements, tolerance measurements, printing, embroidery, washing, packaging and a host of other data.

Selling price points are decided for each category of merchandise. The buyers then approach sourcing agents with technical specification data for each style asking them to bid on the various articles of merchandise. The sourcing agents then pass the tech data on to the manufacturing holding companies for them to quote prices. The manufacturing facilities of these holding companies must be accredited by the buyer for capacity, quality and compliance with their Code of Conduct.

While a number of South African manufacturing companies are currently producing very successfully for the mass USA market, it is questionable whether their business is sustainable after 2005 when quota restrictions fall away and the possible withdrawal of the DCC export incentive. For this reason it is critical that South African manufacturers work on identifying niche markets and specialised services that they can offer USA buyers to build unique trading relationships that are not driven by price alone.

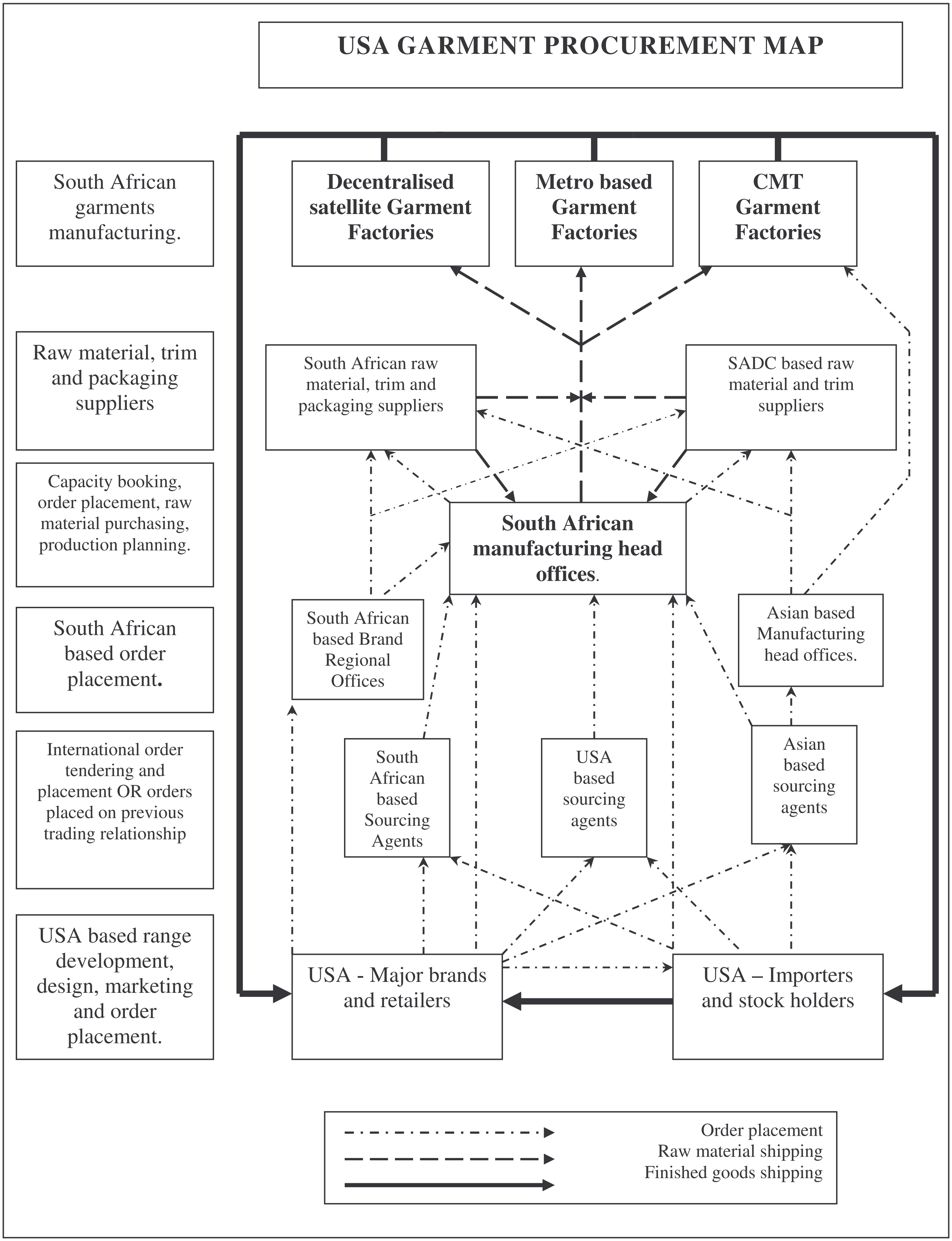
4.3 The EU Market

The European market is fragmented into the constituent countries and there is very little few European-wide buying retailers except in the very high fashion end of the market. Some of the larger brands do buy for their entire European retailing operations and when this occurs the buying pattern would be very similar to the USA’s.

In general each European country would have its own retail chains and there has only been limited cross over of these chains into the European market in general. Selling of branded merchandise in Europe normally requires an agent in each country and participation on the relevant clothing shows that are hosted through the region.

For this reason South Africa’s clothing exports to Europe tend to be concentrated in the UK which receives 81% of European imports from South Africa.

Order sizes are smaller in Europe than the USA. In addition South Africa tends to exploit niche markets in this market such as tailored woollen suits, rainwear, waterproofs, sailing wear etc. As with AGOA, South Africa must use locally produced fabric for its garment to qualify for preferential access to the EU. It is better able to handle this dual processing than most other countries in the region as it already sources its export raw materials from mills in the region.



USA GARMENT PROCUREMENT MAP
South African garments manufacturing.
Raw material, trim and packaging suppliers
Capacity booking, order placement, raw material purchasing, production planning.
South African based order placement.
International order tendering and placement OR orders placed on previous trading relationship
USA based range development, design, marketing and order placement.
Decentralised satellite Garment Factories
Metro based Garment Factories
CMT Garment Factories
South African raw material, trim and packaging suppliers
SADC based raw material and trim suppliers
South African manufacturing head offices.
South African based Brand Regional Offices
Asian based Manufacturing head offices.
South African based Sourcing Agents
USA based sourcing agents
Asian based sourcing agents
USA - Major brands and retailers
USA – Importers and stock holders
Order placement
Raw material shipping
Finished goods shipping

5 The Subsector Map

5.1 The Structure of the Industry

The subsector map is a visual representation of the conversion of raw materials into manufactured garments within South Africa. The map is divided into the different functions that are carried out from the procurement of the raw materials through the different production processes to the final shipment of the finished product.

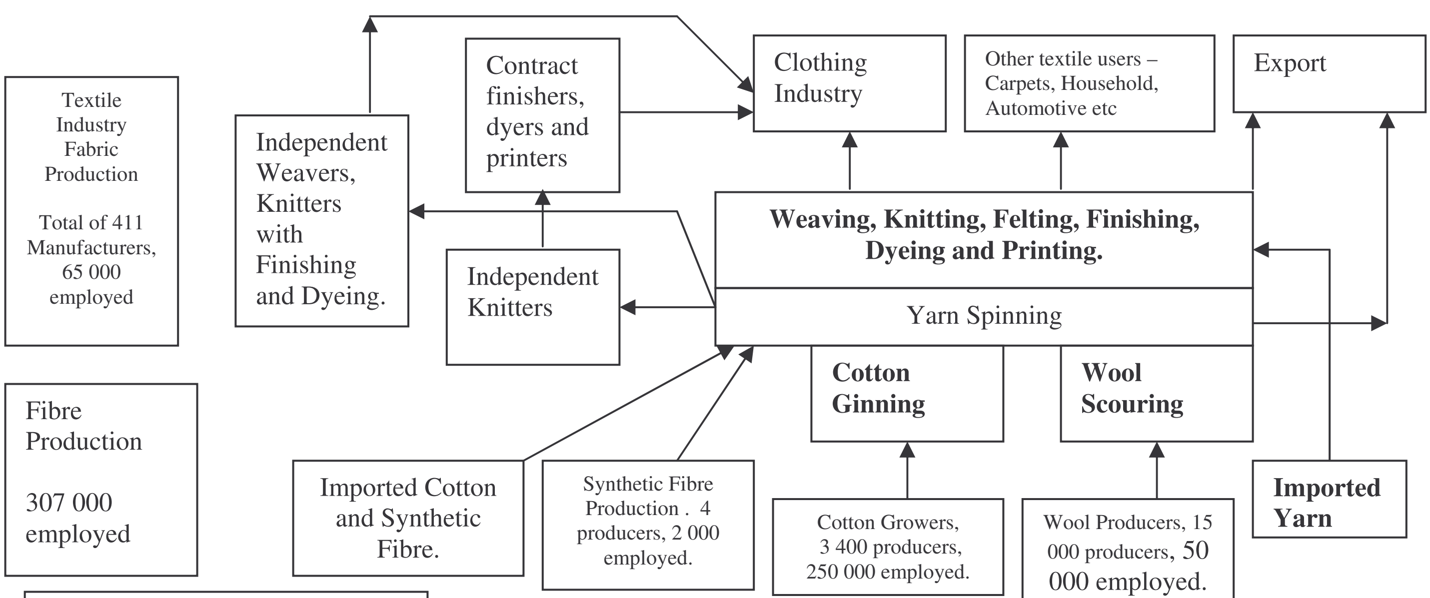
The garment industry exists as an integrated element in a complete value chain within South Africa that starts at raw cotton and wool production and ends at retail clothing stores and exports.

There are currently 3 400 cotton producers employing 250 000 workers in South Africa. While cotton production has declined in recent years along with international prices, cotton production is a cash crop that is suited to small producers and the potential for growth in employment and production here is large and worthy of further investigation particularly in the light of regional textile requirements.

Wool prices have been steadily increasing on world markets and the Southern African region is a net exporter of raw wool. Some eight- percent of regional wool production is spun into yarn locally and incorporated into woollen fabrics.

South Africa produces in excess of 100 000 tons of yarn annually of which just over half is made from pure cotton. While some synthetic fibre is produced in South Africa, it is insufficient for the country's needs and significant tonnages of synthetic fibre and yarn are imported.

It is estimated that only 30% of South Africa's yarn production is taken up by local (SACU) garment production. The balance of the yarn is either exported or used in the manufacture of fabrics for other end uses such as household textiles, automotive industry, industrial fabrics etc.



TEXTILE SUPPLY MAP

5.2 Diverse Manufacturing Channels

The physical production of the clothing manufacturing industry starts with the receipt of fabric into the fabric/rebate store. Prior to the receipt of fabric a host of activities will have taken place including fashion research, design, range development, merchandising, sales, order processing, raw material purchasing, pattern production and grading etc.

There are a number of publicly traded companies in the clothing and textile subsectors. These vary in their level of vertical integration but some of them include both textile plants and retail stores in their organisations. The obvious advantage of vertical integration is that the supply chain is dedicated and guaranteed through the production processes. It is interesting that even in these large corporations, expansion in garment manufacturing capacity will be through building relationships with CMT operators and not through in-house expansion.

The range of manufacturing channels is enormous with differentiation in terms of size, technology, financial resources, ownership and geographic location.

There are a few smaller vertically integrated industries that combine fabric knitting plant with garment manufacturing facilities. In this channel there is invariably excess fabric production which is sold on to other garment manufacturers.

The third channel would be medium and small garment manufacturers who provide a design and merchandising service to their major customers and would also produce a range of own label branded clothing. These manufacturers would have their own machine rooms that may vary from a small sample machinist set to a machine floor with hundreds of operators. Most of these manufacturers would use CMT operators to handle their excess production.

Cut, Make and Trim (CMT) operators can be found in all sizes and virtually anywhere that the garment industry is concentrated in the country. Many CMT factories are owned by PDIs (Previously Disadvantaged Individuals), particularly in the Western Cape and Natal where “Coloured” and “Asian” entrepreneurs, respectively, predominate. These operators will receive cloth from their customers and cut, sew, finish and package finished garments. CMT operators do not own their work in progress and payment for work done is traditionally settled within seven days of delivery of the finished goods. CMT operators do not carry the heavy costs of skilled design and merchandising practitioners and the other staff associated with a clothing manufacturer.

A unique class of manufacturing operation is that of the South East Asian investors who produce commodity type merchandise for the mass USA market. In many cases all raw materials are sourced from the Far East and labour is virtually the only element purchased in South Africa. Within this model there are many different grades of employees from very poor to reasonable. Access to these factories is never easy and the owners are often inscrutable making it difficult to form clear opinions on the reality of conditions in their industry. These manufacturers are the most sensitive to the competitiveness of South African produce on the global markets.

5.3 Backward Linkages

Unlike most other countries in the region South Africa's clothing industry is well integrated into the economy and all manner of local suppliers have developed to service its needs. There are over 400 manufacturers listed producing a diverse range of products for the garment manufacturing industry. These would include textile weavers and knitters, fabric processors and printers, producers of threads, labels, swing tickets, sewbars, software, interlining, buttons, buckles, studs, fastenings, zips, spares, hangers, poly-bags, cartons etc.

Other than textiles where employment numbers are known, the employment in the supplying industries is very significant and obviously subject to the fluctuations in the clothing industry. It is interesting that few of these industries have managed to supply the burgeoning clothing industries in the other countries in the region. In Lesotho, for example, the only clothing industry supplies bought from South Africa in any significant quantities are poly-bags and cartons. Hundreds of tons of sewing thread are imported into Lesotho from Asia every year despite the fact that the supplying factory in Asia is the same multinational that operates a large thread producer in South Africa! The reason is price.

It is obvious that the garment industry suppliers are simply not as cost competitive or as reliable as Asian suppliers even given the enormous shipping distances. Because these inputs have a direct bearing on South Africa's own cost competitiveness and their inclusion does not affect the Rules of Origin (ROO) requirements, it is essential these industries restructure to become globally competitive and/or the tariff barriers protecting the inefficiencies of these industries are removed.

From an employment standpoint it is preferable these industries survive and prosper and they should be included in any comprehensive plan to enhance efficiencies and build cost competitiveness within the clothing sector.

5.4 The Production Process

As discussed earlier a clear distinction needs to be made between CMT factories and Clothing Manufacturers when discussing the activities involved in garment production.

Clothing manufacturers operate as any other trading businesses do. They design a range of goods, take orders from customers, buy in raw materials, convert these into finished goods, dispatch them to the customers and collect the payments. The overhead costs of running a design department are heavy, particularly in the fashion industry where trends must be identified and exploited in a limited time frame.

The industry in South Africa services both the exclusive boutique trade and the lower end chain store merchandise and many businesses would have different ranges catering to the various sectors. Prior to the production process the activities of research, design, pattern cutting/digitising, prototype, sample production, merchandising, sales, order collation, raw material ordering, pattern grading and specification have to be performed. These are complicated functions requiring highly developed skills that are, in South Africa, for the most part, indigenous skills. This is an important distinguishing feature when comparing South Africa with other regional economies where clothing industries are developing. The exploitation of these skills will assist South Africa to successfully build and maintain its export market.

The production process is similar for all factories with minor differences. The basic activities of cutting, panel processing (embroidery, print etc.), sewing, trimming, laundry, pressing, order collation and dispatch are fairly constant throughout the industry.

Imported raw materials are shipped by sea and then delivered by road to the industries. Domestic fabric raw materials are generally shipped by road transport.

The receipt of imported raw materials is subject to a customs inspection prior to the goods being unloaded and placed in the factory's rebate store. Materials are then drawn out of the store against specific orders and laid up on the cutting tables to be cut into garment parts.

Each cut piece is ticketed and then collated with corresponding pieces from the same lay ply and size to make up bundles of cut work. If the garments need printing or embroidery, this will generally be done at this stage either in-house or sent to external subcontractors. The cutwork is then loaded into the sewing floor for manufacture into garments.

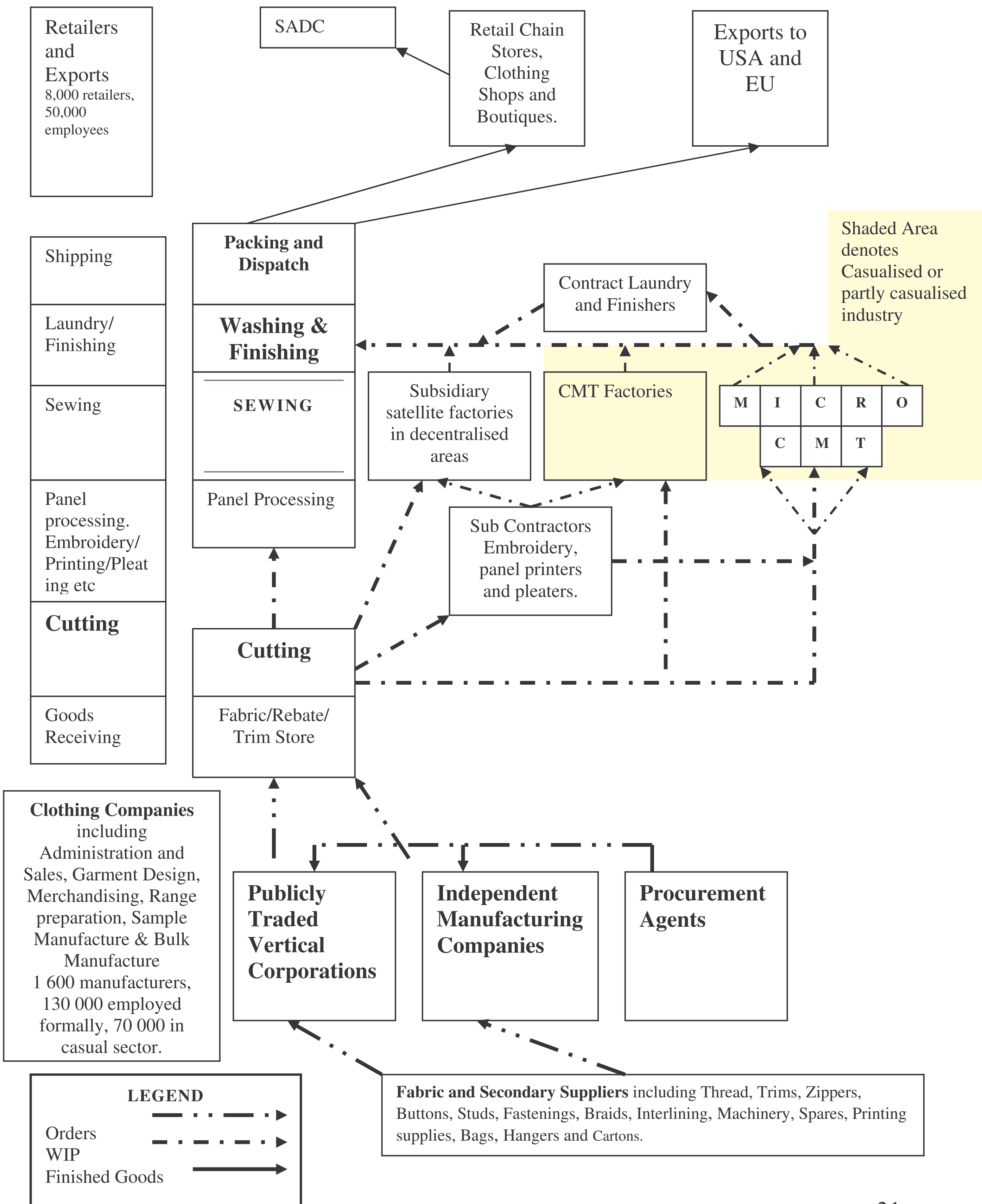
The manufacturing process for knits and woven garments is basically similar with the exception that heavier machinery would generally be used for the manufacture of denim jeans. Once the garments have been sewn and excess threads trimmed, they will either receive a wash treatment or proceed directly to pressing and packing.

The denim clothing industry usually requires processing in a laundry to give the desired fashion finish. There are a number of different types of washes including enzyme, stone, bleach and soft washes. These washes require enormous quantities of water and they often create wastewater effluent problems and may be potential environmental hazards. Many of the knit and mixed plants have laundry facilities that are used to soften garments or to remove pigment dyes.

Once the garments are complete they are compiled into their orders and packed in cardboard cartons or on hangers on rails. Finished goods for the domestic market are normally delivered by road. Export orders are packed in cartons and these are normally loaded into containers that travel by road or rail to the ports for shipment by sea.

The production map illustrates the enormous range of possible configurations within the industry in South Africa. Another factor is the service and speciality suppliers to the industry are also very comprehensive and diverse, employing significant numbers of people.

SOUTH AFRICAN GARMENT SUBSECTOR MAP



6 Subsector Dynamics

Having enjoyed half a century of protection the South African clothing industry went through a number of shocks in the mid 1990s as tariff barriers were lowered and the industry found itself exposed to international competition. One of the principle changes to occur was a loss of employment in the metro areas where the industry was traditionally located and an increase in casual employment within the industry.

While the industry in the Western Cape has remained reasonably stale, formal employment in the metro areas of Natal, Gauteng and the Eastern Cape has plummeted. A wide range of different manufacturing channels has developed in reaction to high wage levels negotiated through the bargaining councils and excessive labour legislation. The immediate effect of the casualisation of the labour contract and the emergence of manufacturing units that operate on an informal basis is that it is difficult to assess actual employment within the industry. It is also of interest that the regional industrial councils have lost most of their influence and control of the industry and the principal trade union, SACTWU, has lost a large number of members through the casualisation process.

Efforts are underway to bring the casualised industrialists back into the formal sector. Where these consist of CMT factories in the urban and rural areas this may be possible but the micro CMT workshops that have proliferated in the urban areas will be virtually impossible to regulate.

6.1 AGOA

The African Growth and Opportunity Act (AGOA) allows South African exporters to ship their products to the USA without incurring import duties or quota restrictions. This preferential Trade Agreement has been extended to 2010 and offers real advantage to the clothing industry. AGOA is the dominant driving force behind the growth in South Africa's garment subsector exports.

It is interesting to observe that over 10% of the garment exports are still entering the USA under the GSP scheme. This means that some exporters are using imported fabric brought in under the SACU duty rebate scheme (Schedule 470.03) and then exporting finished garments on a preferential dutiable basis to the USA. The DCC scheme allows them to do this and remain competitive.

The AGOA should be seen as a limited period of opportunity. If South Africa and its neighbours merely expand production to take advantage of the preference and do not proactively build their international competitiveness, then it may well be an opportunity lost.

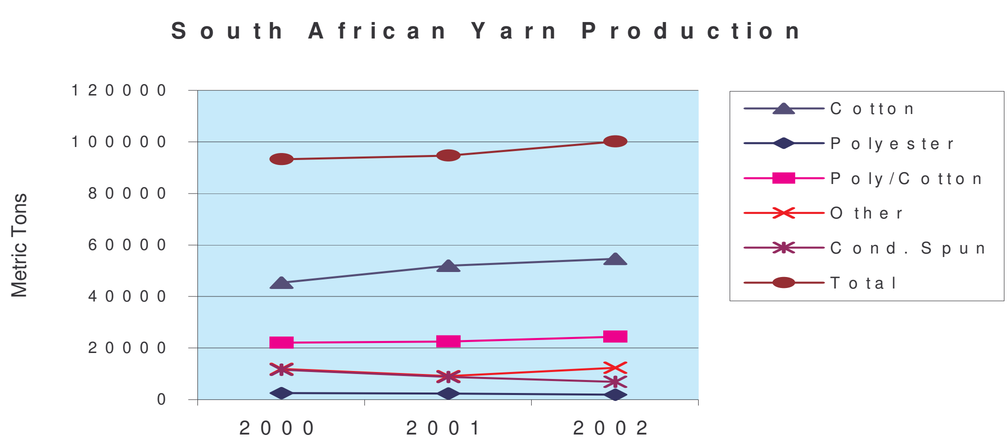
6.2 The Textile Dynamic

The textile industry and the clothing industry in South Africa, despite the vertical linkages, have always been at loggerheads. Clothing industrialists almost universally complain of the lack of customer service, indifferent quality and poor deliveries. It is obvious that healthy customer/supplier relations are not the order of the day. Probably as little as 30% of domestic textile production is used by the local clothing industry, the rest being taken up by upholstery, furnishing, household textiles and industrial textiles.

The Rules of Origin (ROO) requirements for both AGOA and the EU-South Africa Agreement require that garments from South Africa must use fabric sourced within an accredited state to qualify for preferential treatment. AGOA goes further and requires that the yarn used in the fabric must also qualify. South Africa does not currently produce sufficient fabric for its own requirements. All exports under preferential trade agreements will need to use regionally sourced fabric. After the cumulation exemption falls away from the LDC countries in the region in 2004, they will also have to source fabric from within the region. Will there be sufficient fabric to service the requirements for the current growth in exports? It seems unlikely.

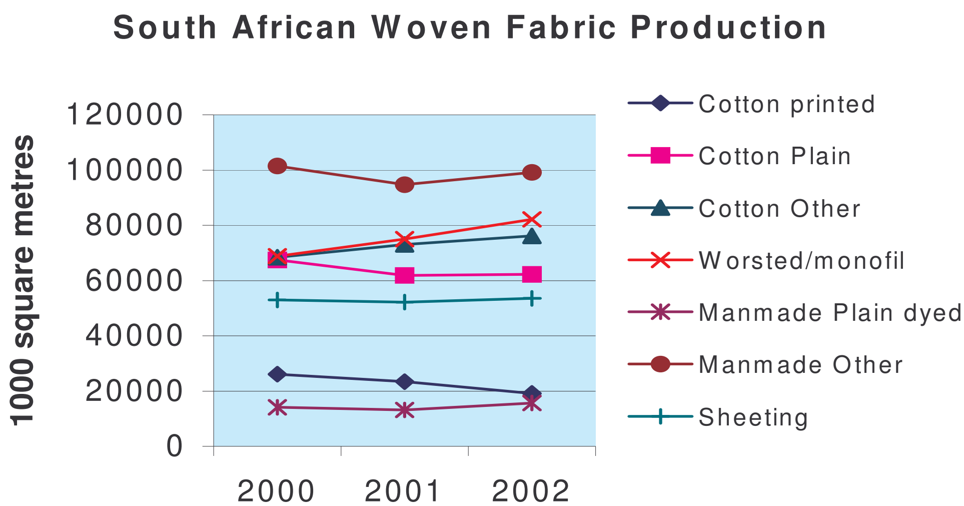
The AGOA has given special status to LDC countries, which allows them to import their raw materials from non-AGOA states up until 2004. This has spurred enormous growth in countries like Lesotho and Swaziland. The former uses in excess of five million square metres of cloth per month. If the 2004 LDC status is not extended it is likely that a requirement of some 2,000 tons of knitted fabric a month from Lesotho alone will need to be sourced in the region.

Is the textile industry responding to the predicted increase in demand? It believes it is. It is claimed that there is already sufficient yarn spinning capacity in South Africa to supply future requirements.



Statistics indicate that 95,000 metric tons of yarn were produced in 2001. Statistics to

May 2002 indicate a production increase of 5% to just over 100,000 tons. Recent capacity increases in a number of textile mills will increase outputs further.



Total woven fabric production shows a predicted slight increase of 2.25% from 399 million square metres to 408 million square metres in 2002 compared with 2000. While only the first 5 months for 2002 are actual figures, the rate of production increase is disappointing.

Production of knitted fabric has shown no increase in the first five months of 2002 and in fact would indicate a decrease or flat growth for the whole year.

Generally woven fabrics are measured in square metres and knitted fabrics by weight and when discussing total production square metres are used. The annual consumption of fabric in South Africa is in excess of 650 million square metres while domestic textile production is just short of 600 million square metres. The shortfall in production is made up by imports. Assuming that the AGOA 2004 deadline granting cumulation derogation to LDC states is not extended, and that South Africa's exports to the USA continue to expand, there is going to be a serious shortfall of available fabric that will constrain the exports of all states in the region.

The Lesotho knit fabric users claim that their consumption runs at 3,000 tons per month or 36,000 tons per year. This figure is probably exaggerated but even taking the consumption at 12,000 tons per year, this is equal to half of South Africa's entire knitted fabric production. It is obvious that attempts to source fabric in South Africa by the regional LDC countries post 2004 is going to cause enormous disruptions in supply.

The textile federation claims that yarn production is sufficient to supply the region's needs. Where the shortfall lies is in fabric production. Some mills have started to increase their capacities but this may well be too little too late. The investment required in building textile production capacity is high and one can understand the producers adopting a cautious approach to expansion. They need to be sure that demand will remain steady and that the move into exports is sustainable beyond the immediate preferential periods that currently exist. While the sourcing for fabric for exports has yet to become a scramble, there is evidence that this is happening. For example one of the USA medium sized chain stores has booked the entire capacity of a Cape knitted fabric manufacturer on behalf of the garment manufacturers that it will be working with to ensure that it will continue to enjoy the AGOA preferences.

While the garment industry is taking up local textile production for exports, shortfalls in fabric supply are being replaced by imports that are directed into the domestic market. This substitution may expose the bottom end of the market to additional competition from imported garments although fabric sourced in the East and landed in South Africa duty paid is frequently still cheaper than domestic fabric. If the fabric is imported using the DCC scheme then it will land in the country cheaper than domestic fabric.

There are currently two new textile mills under construction in the region. The Nien Hsing denim mill in Lesotho will produce one million square metres of cloth per month and the Ramatex mill in Namibia which will consume 20,000 tons of cotton lint annually implying a knitted fabric production of around 16,000 tons. While the denim mill in Lesotho will do little more than supply its own satellite garment factories, at least it will not be placing additional requirements on the South African producers. The Ramatex mill will be supplying a certain tonnage of fabric to South Africa including to its garment subsidiary in Dimbaza in the Eastern Cape. It is doubtful whether there will be any significant spare capacity beyond this other than a proposed spinning and knitting mill in Swaziland. While spinning is already operational, the knitting factory has yet to be built. This factory would produce around 600 tons of knitted fabric, which is deemed sufficient to support only 6,000 clothing jobs.

Another problem in the region is the shortage of manmade fibres and filament yarns. This is matched by a major surplus of production globally. The textile producers are not interested in setting up new capacity in South Africa as the returns are not good enough and the risks too great given the global glut. Synthetic fibre can be imported and spun into yarn locally and qualify Under the ROO as South African but filament yarns can not. Filament yarns are used in high-end fashion fabrics such as trilobals and georgettes. The shortage of this filament fibre is regrettable, as it will limit export development in an important market.

It is tempting when discussing the textile and garment industries to talk in regional terms particularly as both the EU and USA preferential trade agreements regard regionally sourced raw materials as conferring origin status on the manufactured garments as long as the regional state is accredited. The SADC Trade Protocol champions the cause of expanded trade within the region however the individual states have been slow to liberalise their trade and the protocol's rules of origin make free movement of goods across the region difficult. There is a slow phasing out of tariffs across the region with duties on fabric only being eliminated by 2005. Torturous supply line delays and customs formalities actively discourage integration and consolidation of the industries in the region. Where fabric producers use duty paid raw materials from SADC they find it virtually impossible to obtain a rebate on this duty when selling fabric to garment manufacturing exporters resulting in a higher cost to the clothing industry which is uncompetitive.[5]

Zimbabwe, one of the largest cotton growing states in the region and with reasonable textile capacity, is excluded from AGOA. Zambia also has idle textile capacity but is constrained from supplying into South Africa by tariffs, regulations and supply lines.

In the short term, the single greatest constraint to the development of garment exports to the USA and to Europe will be access to qualifying textile raw materials. It is important that the cost of production within both the textile and clothing industries be adequately researched and understood. The reasons why South African textiles are not competitively priced compared to imported fabrics need to be identified as this impacts directly on the sustainability of the clothing industry itself.

7 Institutional Framework

7.1 DTI

The Department of Trade and Industry through its various agencies, plays a major role in promoting the consolidation and growth of the clothing industry. The DTI is obviously instrumental in the macro policies that have placed the industry under pressure due to the lowering of tariff barriers. At the same time it actively encourages and assists the industry to become more globally competitive. The DTI introduced the DCC scheme specifically to assist textile and clothing exporters. It is one of a wide range of incentives and assistance available to clothing manufacturers.

[5] Masa Rubin - SADC Regional Textile Survey

The DTI assisted in the creation of the Export Council for the Clothing Industry and maintains close ties with this body resulting in strong lines of communication with the clothing industry.

7.2 The Industrial Development Corporation (IDC)

The IDC according to its chairperson, Ms W. Luhabe, is "one of the most important instruments for developing South Africa's economy to be viable, sustainable, environmentally and socially responsible."[6]

The IDC is a state owned self-financing national development finance institution with a mission to contribute to the generation of balanced, sustainable growth in Africa. It no longer limits its activities to the region and is able to view the garment industry through the full range of regional linkages starting at cotton and synthetic fibre production. The IDC has established a strategic business unit (SBU) specifically for the Clothing, Textiles, Leather and Footwear industries.

The IDC provides risk capital to fairly substantial ventures subject to a number of conditions and criteria. Besides commercial loans and guarantees, the IDC also finances the export and import finance programmes which assist businesses to manage their cash flows and this is of particular significance in the light of the large individual orders placed by USA customers.

In the clothing subsector the IDC is mainly involved in granting loans to install additional capacity and for working capital. The minimum loan size that the IDC will consider is R1 million for new business. The reporting requirements for the granting of a loan are formal and fairly sophisticated. This, coupled with the minimum loan size, exclude many smaller businesses from using this facility.

Smaller loans are available through the Khula scheme but at the time of writing this report, interviewees claimed that the Khula Scheme was not delivering its services effectively.

7.3 The Provincial Industrial Promotion Agencies

Each of the provinces in South Africa has an investment promotion agency that actively attempts to attract foreign and local investors to locate their businesses in that province. The system appears to work fairly well and some of the provinces have been particularly successful in attracting clothing companies.

The most prominent in terms of clothing are ECDC in the Eastern Cape, TIK (Trade and Investment KwaZulu-Natal) and FDC (Free State Development Authority). These three

[6] Chairperson's Statement – IDC Annual Report 2001.

agencies in particular incorporate former Bantustan developments where clothing industries have thrived.

TIK's estate in Newcastle known as Madadeni and the FDC's estate in Qwa Qwa are both booming with very little room for expansion. The ECDC's estate in Dimbaza by contrast has been losing its clothing industry some of which has relocated to Lesotho. The ECDC very nearly landed a massive US$100 million (18,000 job) textile factory investment by the Malaysian based Ramatex group. At the last minute this group decided to locate in Namibia. This is indicative of a weakness in the provincial development agency approach, as this crucial investment should never have been allowed to slip away from the ECDC. The Namibian central government itself became involved in the bid to attract Ramatex and was able to respond to their concerns and requirements far more proactively than the ECDC could do.

7.4 CSIR

The CSIR is South Africa's premier scientific and technical research institute that provides technological services to clients in industry, parastatals, government and any other entity that is willing to pay for its services.

The CSIR has a textile division that works with the textile subsector to develop new products and new technologies. It also has an environmental department that can provide a wide range of data necessary to assessing the environmental impact of industry.

7.5 SABS

The South African Bureau of Standards provides a benchmarking, testing and verification service to all branches of South African industry. This Bureau in conjunction with the CSIR, provide scientific and technological resource that is unique in the region and probably in sub-Saharan Africa. It provides an opportunity for the textile industry to develop highly technical fabrics and garments for specialised applications and then to verify these products against standards. This is the type of specialised niche market that South Africa should pursue.

8 Driving Forces

8.1 The Labour Dynamic

The industry has historically been divided into four organising employer associations representing its regional concentrations. These are the Cape Clothing Association, The Eastern Province Clothing Manufacturers' Association, The Natal Clothing Manufacturers' Association and the Transvaal Clothing Manufacturers' Association. All these associations have negotiated recognition and procedural agreements with the South African Clothing and Textile Workers Union (SACTWU) which is the most representative union in the industry.

Each region has established an Industrial Council, which is a bargaining forum where the minimum working conditions for the industry, are negotiated. Agreements are then promulgated into law and become binding on the members in the regions. Negotiated agreements cover most aspects of the employment contract including wages, hours of work, overtime rates, holiday pay, pension, medical aid, union check-off, provident fund, HIV/AIDS fund and training contributions. At the time of writing this report wages in the four regions were fixed at a minimum of R480 per week ($45) with additional overhead employment costs in the region of R140 per week (US$13).

In the past all employers were required to make monthly contributions to the Clothing Industry Training Board (CITB) which then provided skills training to the employees. A portion of the training contribution was used to run the activities of the Clothing Federation (CLOFED) which became the national trade organisation for the industry. CLOFED's functions included co-ordinating and facilitating the activities of its members and lobbying government on it's members behalf as well as "research, data collection, collation, analysis, interpretation, maintenance and dissemination of international and national data bases relevant to the Clothing Manufacturing Industry."[7]

The formal structures of the industry worked efficiently in an environment of high tariff protection and the concentration of the industry into the four regions but did little to enhance international competitiveness.

The opening up of the decentralised industrial estates in the former Bantustans and the distorting incentives on offer began the process of undermining the formal organisation structures in the industry. The wages paid in these areas was far below the minimum set by the industrial councils in the regions and the Government subsidised these low wages often in excess of the actual wages paid. It was possible to make a profit on the wage bill simply by employing staff and producing nothing! All manner of industrialists scrambled to take advantage of these unrealistic incentives and the decentralisation centres boomed. A significant development was the arrival of Taiwanese clothing manufacturers in South Africa to set up in the Bantustans.

As a pariah state, South Africa, in the years of apartheid, maintained diplomatic relations with very few countries and Taiwan was one of them. The Taiwanese industrialists were quick to see the advantage of being paid to employ staff and many of them set up in Natal, Free State and the Eastern Cape in particular. They brought with them a work ethic and industrial relations policy that was new to South Africa and in many cases offensive. Trade union activity was effectively barred from their factories and workers were not allowed to organise collectively.

[7] CLOFED Handbook 2000/2001

The factories in the decentralised areas were geared towards servicing the South African market as economic sanctions excluded them from the export markets. As this was the traditional preserve of the formal industry in the four metro regions, it brought considerable competitive pressure on these regions.

Many clothing businesses were forced to open their own satellite plants in the decentralised areas in order to take advantage of the low wages and incentives and so remain competitive. Alternatively they restructured their own manufacturing activities, scaled down their metro operations and sourced their merchandise from Cut, Make and Trim (CMT) operators from the rural regions.

Many clothing establishments, unable to compete in the metro areas while complying with the terms and conditions established under the Industrial Council, and unwilling to decentralise, simply opted out of the Industrial Council agreements. They have achieved this in a number of ways and with varying degrees of success.

Many industrialists in Natal have opted out of the Industrial Council agreement and are employing their staff under the Basic Conditions of Employment Act that lays down a minimum wage in the region of R230 per week.

In some cases manufacturers working with the Industrial Council system have negotiated special agreements with the union to pay significantly below the agreed minimum wage to tender on specific orders. If the tender is successful then the industrialist hires staff at the reduced wage for the period while the order is manufactured. Once the order is complete the staff are released until the next tender is won.

A large manufacturer successfully negotiated with the union for the retrenchment of the entire staff of a decentralised factory and their rehiring at 60% of their previous wage.

A significant development in the industry is the attempt to casualize the employment contract with all employees. The Confederation of Employees in Southern Africa (COFESA) encourages employers to retrench their employees and then purchase their labour through a sub-contractor agreement. This model has been very successful and COFESA claims hundreds of recruits with the garment industry. COFESA is a vibrant organisation that provides its members with detailed interpretations of all aspects of labour legislation. There is no doubt, however, that the COFESA model is based on tricky legal ground as it is "likely that the courts would look at the real relationship between the owner and the individual and would also consider the individual's level of sophistication."[8]

The National Bargaining Council for the clothing industry established with intensive pressure on manufacturers by SACTWU is an attempt to set basic conditions of employment and wage bands across the industry. This will replace the regional

[8] Frans Rautenbach – (Author – Liberating South African Labour from the Law.) – Personal Testimony.

bargaining councils. Negotiations on this National Agreement are currently underway and it is thought that the concept of separate wage bands for the metro and rural areas will be accepted. It is the intention that this new agreement will apply across the industry although it is doubtful that all industrialists will accept this passively.

8.2 Globalisation

South Africa, with its well-developed and sophisticated economy that endured years of isolation and protection, has felt the brunt of globalisation and trade liberalisation in recent years. The clothing industry has been damaged by the experience but in the main seems to have reacted well and adapted to the new circumstances.

The main effect of lowering of trade barriers to imports has been the need to develop more globally competitive models within the industry and this has been done reasonably effectively through the different types of production models mentioned earlier in this report. The spin off from becoming more globally competitive has been the ability to access export markets successfully.

Export orders are generally of a scale not previously experienced by South African manufacturers, which is leading to much larger manufacturing facilities than previously seen in the region. The size of orders allows for massive efficiency improvements by virtue of the fact that there is a minimum of style change on production lines.

The danger exists that once the preferential advantages to South Africa's exports are lost, and if the DCC scheme is withdrawn, that the country will no longer be globally competitive. South African's are innovative, strongly entrepreneurial and generally well trusted by their trading partners. There is no reason why, given that they are adequately informed of trends and changes in the industry, they should not develop key relationships and niche markets that are sustainable.

8.3 AGOA and the DCC Scheme

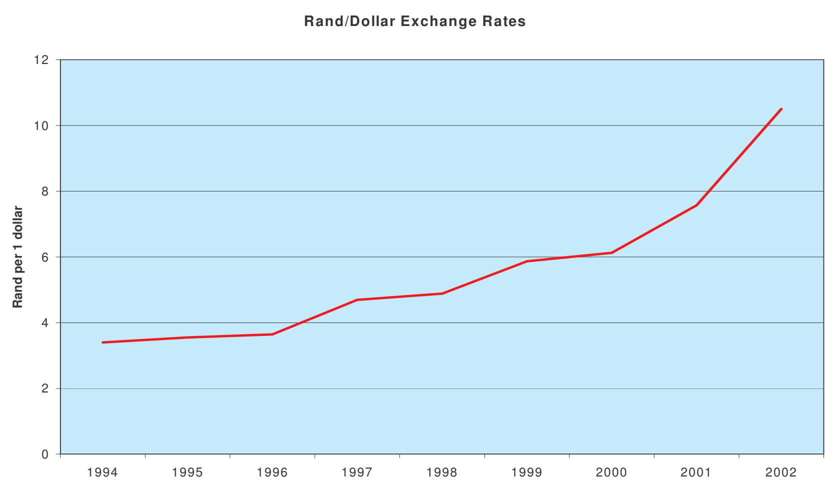
The African Growth and Opportunity Act has created a lot of interest amongst USA garment buyers as they can source garments that are not subject to duty and quota and therefore they land in the USA cheaper. Many large clothing brands and retailers have set up agents or offices in South Africa to source their garment requirements in the region.

An important change that is beginning to take place in the regional sourcing of clothes for the US market is that it is better to import higher end garments duty free because the savings are greater. Lesotho, which built its industry on the back of absolutely basic commodity type garments, has noticed a definite swing to more value-added garments. This trend is important for South Africa as it offers a very real opportunity to build the right type of supplier profile – one that suits this country.

The Duty Credit Certificate (DCC) Scheme grants exporters an import duty credit based on a percentage of their exports. The exporters interviewed indicated that they were currently exporting at cost and that this DCC scheme constituted their profit. The scheme is obviously attractive to potential exporters and has helped to develop the market significantly.

8.3 Inflation and the value of the Rand

Political uncertainty in the Zimbabwe led to wide spread speculation in currencies during the latter half of 2001 causing the South African Rand to plummet in value against its major trading partners. The currency halved in value against the US Dollar in 2000 and 2001 although it is currently in a fairly stable trading range. This decline was good for exports and increased the competitiveness of regionally produced garments.



Source: Oanda Corporation. www.oanda.com

The Rand has lost 50% of its value against the dollar in the past two years.

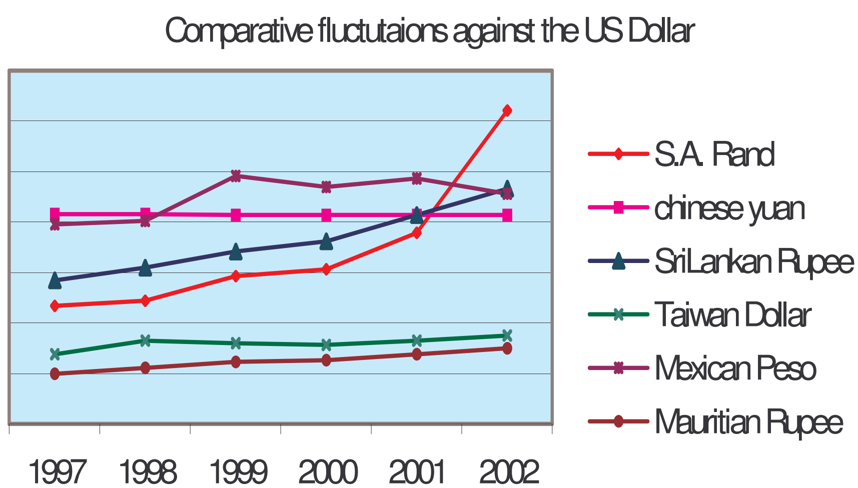
The major local costs of the garment industries in South Africa, wages and utilities, become relatively cheaper in terms of their dollar selling prices.

One of the primary causes for the decline in the value of the Rand has been the persistently high inflation rate in South Africa compared with its main trading partners. While fiscal authorities have done an excellent job in constraining the inflation index to levels just below 10%, there has been a recent reversal in this trend and inflation figures for 2002 could well be at the 14% level. The South African Reserve Bank has used its ability to upwardly adjust interest rates in an attempt to control inflation. There have been four upward adjustments to the interest rates in 2002 alone.

High interest rates affect the ability of industrialists to replace their plant and invest in new technologies. All industrialists interviewed complained of the high costs of borrowing and felt that this was a real constraint to their ability to compete competitively. This is significant when compared to a survey of Lesotho where none of the industrialists listed finance costs as a factor. This is because the Lesotho factories are inevitably owned and financed by South East Asian companies where they borrow offshore at historically low interest rates.

There is growing opposition to the use of the interest rate instrument by the Reserve Bank in Government circles in South Africa. At the same time it is the high interest rates that are holding the currency within a tight trading range. Any relaxation of interest rate policy will lead to a swift decline in the Rand that will be good for exports but will cause inevitable damage to inflation control.

The high rate of inflation will inevitably lead to a steady decline of the Rand against its trading partner currencies. As long as this is carefully controlled it will help to maintain the cost competitiveness of the South Africa's exports. The chart below represents the relative value of major garment competitor countries against the US dollar. It can be seen



that the Chinese Yuan is very steady against the dollar. If this trend continues it implies that China will gradually become relatively more expensive allowing garment producing states like South Africa to remain competitive.

Source: Oanda Corporation. www.oanda.com

The above graph shows the exchange rate movement against the US Dollar of some of South Africa's competitor countries. The Rand shows by far the most marked decline. The Rand is shown here at R10.40 to the US dollar. In early 2002 it declined to over R12 to the dollar but has since recovered some of its weakness. (This graph is not a representation of relative currency value but only of rate movement.)

8.4 The South East Asian Industrialists

Originally invited to invest in South Africa by the previous South African regime during its period of international isolation, the South East Asians mostly established clothing factories in the decentralised areas. These entrepreneurs brought to the region a work ethic, a competitive spirit and a knowledge of world markets that South Africa had not seen before. Invariably inscrutable and difficult to understand the Asian investors have got on with their business without integrating into the association structures available in the industry.

Many South East Asians have been accused of flouting local labour laws, ignoring international working condition standards and running sweatshops. In some cases this is true and a number of factories have been closed or prosecuted for illegal working practices. While the activities of a few have tarnished the image of the majority, there is a general improvement in working conditions in the industry brought about by the Customer Codes of Conduct discussed below.

While these industrialists have extraordinary capacities to produce goods at competitive quality and price, many lack the sophisticated managerial motivational tools as developed in the Western countries. It is possible that the full integration of these manufacturers into the regional association structures could lead to synergies that could drive the industry into becoming a world class player. The place to start is to recruit them into joining and participating into the Export Council and CLOTRADE.

8.5 Investment Opportunity Window

A strong window of opportunity exists for South African garment and textile manufacturers. The advantages offered by AGOA will be diminished long before the projected end of AGOA in 2010. It is relatively simple for the garment industry to add capacity but not so for the textile industry.

Due to high investment costs, finance costs and the uncertainty of the future of the garment industry beyond the demise of the MFA in 2005, the textile industry is adopting a very cautious approach to expanding capacity. This could develop into a self-fulfilling prophecy. The textile industry will not expand sufficiently to meet anticipated demand meaning South Africa cannot take full advantage of garment export opportunities.

8.6 International Consumer Standards

Efforts by concerned consumers and international labour organisations have focused attention on the working and environmental conditions under which products are manufactured. This attention and the possibility of negative publicity have forced all the international brands to adopt Codes of Conduct to which factories must comply while producing their products.

These Codes of Conduct are driving the transformation of the garment sector globally and are having a major effect on South Africa. All factories producing for export to the USA under AGOA have to comply with minimum standards and they are inspected regularly to ensure their compliance. It is the Codes of Conduct that is opening the South Africa garment sector to change in its industrial relations policies.

It is unfortunate that South African retailers have not universally adopted similar codes of conduct. At this point there is no clear understanding of *reputational risk* associated within unethical sourcing in the value chain amongst South African retailers. It is clear from the experience in Lesotho and other countries that when buyers insist on their suppliers adopting ethical standards; one observes a very strong force for change. Codes of conduct have proved more effective in changing the conditions in factories than years of union activism and Labour Department inspections and prosecutions.

It is obvious that industrialists, who wish to run sweatshops and operate outside the laws of the country and of basic human dignity, will graduate to servicing markets that do not require any form of compliance. It is unacceptable that this should be the production of merchandise for South Africa's home market. The formal garment sector and labour representatives should be assisted in encouraging the large retailers to establish a uniform code of conduct for suppliers and a method of supplier evaluation and regular assessment. Without this the industry stands at risk from the "one bad apple" syndrome.

9 Constraints and Opportunities

The two principal constraints facing the clothing industry in South Africa are the availability of regionally sourced **fabric** and the cost of **labour**. These two issues have been discussed at length under section # 6. Fabric shortages are already being felt in the industry and this will become a major constraint on growth in the region if the 2004 LDC status deadline is not extended. The cost of labour is relative to production efficiency and there is scope for significant efficiency improvement particularly in the decentralised industry.

9.1 Access to Finance

All industrialists interviewed complained of the high cost of finance as a constraint on their ability to finance expansion and the investment in new technologies. High interest rates in a stable foreign exchange situation do add significant costs to the manufactured product. The cost of borrowing is also inhibiting re-investment in the textile industry when it should be gearing up for increased demand.

Difficulty in accessing finance is also inhibiting the growth of smaller CMT factories that find it impossible to meet the borrowing criteria of the lenders. They simply do not have the means of producing the reports and projections required and they may not have formal books which satisfy borrowing criteria. Generally they require bridging finance to assist them in taking on larger orders. While pre and post shipment finance is available through the IDC this is geared towards larger businesses with formal administration procedures.

9.2 HIV/Aids

The clothing industry is one of the most labour intensive industries in Southern Africa and the workers within the industry must be construed as one of the most "at risk" groups within the population. The gender ratio in most clothing factories is in the region of 85% female and may of these would be in the 18 to 45 year old age range.

While this survey did not include in depth analysis of individual factories, in discussing HIV/AIDS with factory owners it emerged that deaths that are assumed to be AIDS related were noticeable in the Natal factories but had not been specifically observed in the Western and Eastern Cape or Qwa Qwa in the Free State.

It is generally accepted that the prevalence of HIV/AIDS in the clothing industry is high but there are no statistics that can be relied on. Antenatal clinic incidence of infection is obviously skewed towards the sexually active (and unprotected) in the target population. One aspect that is relatively certain is that high incidence of HIV infection will, in the absence of treatment, result in full blown AIDS which will result in the death of the worker.

High incidence of HIV/AIDS has a direct affect on productivity due to:

- Morbidity – The illness of workers resulting in absenteeism (authorised sick leave) or unauthorised absenteeism.
- Other absenteeism - Compassionate Leave and funeral attendance.
- Mortality – the death of workers.
- Poor staff morale – resulting from fear and uncertainty about HIV/AIDS and the loss of colleagues, family and friends.
- Disruption in the Workplace – due to increased workloads and discrimination against those believed to be HIV infected. [9]

A direct cost factor for industrialists is the investment in skills training for HIV infected individuals. In the absence of a structured programme to deal with the pandemic within the industry and an anti retro-viral drug distribution system to extend the working life of infected workers, the provision of costly training is uneconomic.

[9] Aids Brief for Sectoral Planners and Managers – Edited by Rose Smart – funded by USAID

SACTWU do run an extensive training course on HIV/AIDS that is financed by contributions from employees and the workers. While this is a start, there is no doubt that the industry will be at risk through the loss of skills and any intervention in the clothing industry should include a comprehensive analysis of the pandemic and an effective mitigation strategy.

Any intervention is relatively meaningless unless the extent of the problem is known. It is important to conduct anonymous HIV testing in sample factories in the key clothing production areas. This will give a meaningful picture of the size of the problem within the industry. Unless the extent of the problem is known, it is impossible to plan meaningful interventions. For example if an industrialist knows that 10 % of his staff is HIV positive, then that industrialists can realistically quantify the cost of providing his infected employees with anti retrovirals as well as introducing an education and prevention campaign. There does not seem to be much point in conducting a voluntary counselling and testing exercise unless the industrialists are in a position to deal with the results.

9.3 Health, Safety and the Environment

The clothing industry is relatively benign from a health and safety point of view in a normal operating environment where the minimum legal standards are observed. Unfortunately this is not always the case. There have been particularly odious reports emanating from the Newcastle area of gross violation of basic human rights perpetrated by unscrupulous factory owners.

The Department of Labour have felt that they were powerless to intervene as the factory owners claimed that the workers in their factories were subcontractors (the COFESA model) and as such not subject to the Basic Conditions of Employment Act or Health and Safety regulations. The recent altering of the legislation to outlaw this type of pseudo contractual arrangement is to be welcomed. It should be noted that the legislation was promulgated in June 2002 but, at the time of writing this report, nothing has been done to bring errant manufacturers into line.

10 Key Points of Leverage

The points of leverage are those points where, working with a few individuals or organisations, it is possible to reach a much larger audience of participants within the industry. In the clothing industry there are normally two distinct audiences that can be addressed and these are the garment sector industrialists and the workers. The points of leverage are nodes where the participants gather or associate.

10.1 Geographic Concentrations

The clothing industry, while spread across a number of South African provinces, still remains relatively concentrated in the areas where it exists. The decentralised areas of the Eastern and Western Cape, KwaZulu-Natal and Free State have strong concentrations of clothing producers clustered in their industrial estates. The traditional clothing production areas retain clustering of the industry. This means that it is relatively easy to access the formal industry by visiting locations.

10.2 Bulk Garment Buyers

Bulk buyers of clothing are very influential in the industry. Working conditions in the industry have been fundamentally changed through the application of ethical codes of employment practise insisted on by the garment purchasers. The buyers have brought about this change where decades of Labour Department and trade union activity have been ineffective. While the US buyers have been the most instrumental in bringing about change, there is a need for local buyers to insist on similarly pushing for ethical standard of production to manage their own reputational risk.

10.3 Trade Policy, Labour Policy and Incentives

The DTI and IDC have a wide range of incentives to encourage investment, technological upgrading, employment and exports. The principal incentive that is benefiting garment exporters is the Duty Credit Certificate (DCC) Scheme. The Government is an active participant in trade negotiations and can use its powers of persuasion to negotiate and influence preferential agreements such as AGOA and the EU-RSA Free Trade Agreement. The clothing industry needs to dedicate time and resources to ensure that individuals charged with influencing trade, labour and incentives policy are well informed about the impact of policy change in the industry.

10.4 The Industrialists

10.4.1 The Export Council for the Clothing Industry in South Africa

The Export Council for the Clothing Industry in South Africa, established by the clothing industry with assistance from the DTI, addresses the concerns of clothing exporters. Mr Jack Kipling, a very experienced and erudite ambassador for the clothing industry in its export endeavours, chairs the Council.

10.4.2 CLOTRADE

While the Export Council represents the needs of clothing exporters, there is a need for a representative body for the general garment industry including those manufacturing for the domestic market. Plans have been made for the introduction of a new organisation to be called the Clothing Trade Council or CLOTRADE. This organisation will take over many of the functions of the now defunct Clothing Federation (CLOFED) with the distinction that CLOTRADE will actively encourage all domestic garment producers to join the organisation regardless of whether they are affiliated to the Regional Councils or whether they are fully integrated manufacturers or just CMT operators. CLOTRADE's success is essential for the effective management of macro issues affecting the industry. It should be actively encouraged and be given initial support to enable it to achieve a representative membership as soon as possible. It should be noted that much of the visionary leadership in the clothing industry is based in Cape Town where the established industry is more stable and the headquarters of a number of the major players in the industry are located.

10.5 Pursuit – Industry Magazine

Pursuit is the bi-monthly industry publication for the clothing and textile industries. It is informative and publishes articles on all manner of pertinent subjects from fashion trends to technological developments. With a current distribution of 6000, the magazine is supplied free and reaches most people in the supply chain. It is an effective tool for reaching senior management and owners in the more formal sector of the industry.

10.5 The Workforce - South Africa Clothing and Textile Workers' Union (SACTWU)

The main workers' representative union for the garment industry in South Africa is the Southern Africa Clothing and Garment Workers Union (SACTWU.) The union is affiliated to COSATU and has its headquarters in Cape Town. While SACTWU has recently had some internal power struggle problems, it is predominately stable. It has been engaged with the employer representative bodies for many years and is well aware of the constraints and opportunities facing the industry.

SACTWU plays a major advisory role to the Government on all aspects of policy relating to the clothing industry and not simply those matters pertaining to industrial relations and conditions of employment. The union maintains a full time research department that investigates all aspects of trade policy, customs procedures, regional trade issues as well as investigating the labour dynamic within the Southern African context.

The union is a committed partner to developing the clothing and textile industries in South Africa. It has demonstrated in recent negotiations both on a national bargaining level and in individual company negotiations that it is prepared to take a pragmatic, informed approach to building the industry in the region. On the other hand it is relentless in its pursuing of those companies that flout basic working conditions and health and safety legislation even though frequently both local authorities and police connive against the prosecution of exploitative industrialists.

Any planned clothing industry intervention should involve SACTWU even if only on an informative basis. On the other hand it is likely that significant and cost effective research could be conducted through the union's research facilities particularly as union involvement implies direct access to the factory floor.

10.7 The Clothing, Textiles, Footwear and Leather Sectoral Education and Training Authority – CTFL- SETA

In recent years the Government has established the SETA training schemes for all sectors in the economy including one for the Clothing, Textiles, Footwear and Leather Industry (CTFL – SETA). The SETAs are funded by direct contributions from employers for each worker employed. This contribution overrides the training contribution made under the Industrial Council schemes and has led to the demise of the CITB and has effectively removed the funding to CLOFED which has now become defunct.

The headquarters of the CTFL – SETA is located in Pinetown in KwaZulu Natal. All industrialists spoken to believe that their SETA is operating well and delivering competently.

The SETA is financed by a one percent levy on company payrolls. Sixty percent of a company's levy is available to be granted back to them in the form of payment for training. To receive this grant the company must apply to the SETA and prove that the requisite training has been done.

The SETA does not provide training itself but acts as a distribution, monitoring and evaluation agent for training run within the industry itself. The CEO of the Seta, Mr David Bowen is a highly qualified and experienced educationalist and is very aware of the requirements of his organisation.

Currently the Seta provides learnerships within the industry in subjects such as clothing manufacture processes and technology as well as fashion, clothing design, mechanics and pattern making. These learnerships are presented through the Technikons. Students are attached to manufacturers and attend lectures in the evenings.

According to David Bowen, there are insufficient specialist training providers in South Africa at the moment to service the industry. He feels that there is an urgent need for world class training materials that could be supplied to the training departments in individual companies as part of their training resources. These should be competency based training materials that are learner driven such as CD ROM programmes.

Some of the training that he would like to develop through the SETA includes basic Business Development Skills for emerging entrepreneurs such as:

- How to run a business
- Inventory Control
- Costing
- Entrepreneurship, etc.

Other training areas that need to be developed include health and safety programmes, planned maintenance courses, as well as soft skills training.

Currently companies have to submit a workplace skills plan (WSP) to the SETA in which they indicate their training programme including who will be trained, in what course, what the expected outcome will be, when and at what cost. The Seta monitors the training for quality of materials and delivery.

Mr. Bowen has a clear vision of how to build the capacity of his operation which includes developing linkages with the top training institutes in Europe and the local “Centres of Excellence” which are the Durban Institute of Technology and the Peninsula Technikon in Cape Town.

Building a highly skilled workforce is an essential key to keeping the South African clothing industry in a position to offer a unique service to international clients. It is these skills that will lift the domestic industry above the level of most sub-Saharan competitor countries and could provide the lead in developing added value across the industry in the region.

11 The Garment Industry’s Role in Poverty Reduction

The garment industry is labour intensive and the cost of job creation at around R3,000 per job is cheaper than most industrial sectors. Growth in this sector leads directly to significant employment creation that, by virtue of the wages paid, has a direct and immediate effect on poverty reduction. By the same token, the loss of garment industry jobs has an immediate deleterious effect on the community. Besides the direct wages paid to employees there are significant trickle-down benefits throughout the community as the wages are spent on local suppliers of goods and services.

The South African employment model incorporates a paternalistic approach to the employment contract where there is a strong social element to the employment contract that includes benefits such as pension, medical aid, funeral benefits and compassionate leave etc.

The global garment industry of which South Africa is now becoming an integral part does not offer any social contract in the employment of its workers but has become a pure purchaser of labour. At the level of competing factories any additional costs to the employment contract have direct affects on the international competitiveness of the business and thereby threaten its long-term viability.

The changing dynamics of the industry and its move from formal to casualised labour contracts does not diminish the industry’s role in poverty reduction. In fact the areas of significant growth in the industry are in poor rural areas where labour is concentrated and work opportunities are thin such as KwaZulu-Natal and Free State Province. The micro CMT businesses developing in the urban areas provide real opportunities for workers to develop entrepreneurial skills and build their own businesses.
This does not mean that one should encourage a low-wage, sweatshop environment, but rather that the essential nature of the contract should be borne in mind when drafting

legislation that assigns additional costs to labour. The labour contract should be clear and unambiguous and should contain cast iron protections in terms of working conditions and health and safety standards. Freedom of association and the right to bargain collectively are also non-negotiables in the labour contract.

It is generally accepted that Foreign Direct Investment (FDI) is a key ingredient for successful economic growth in developing countries.[10] Growth is one of the single most important factors affecting poverty reduction and the FDI implicit in the expansion of the garment subsector is of enormous significance to South Africa.

There are many significant ways in which FDI affects the quality of growth and assists in poverty reduction. The requirements of investors contribute to the quality of infrastructural development. Customers' requirements contribute to improving environmental and labour standards due to concerns about reputations in markets. FDI stimulates increased economic activity that generates revenues and taxes, which increase the Government's ability to provide safety nets for the poor. Technology transfer is another key component of FDI that drives growth and reduces poverty and finally FDI can and should contribute to the wider community through programmes of social responsibility.

FDI in the garment industry supplies the cash income requirement, which is essential in creating a trickle down into the poorer sectors of the economy. Another advantage is that the educational entry level for workers into the garment industry need not be particularly high thereby not specifically excluding the extremely poor from participating.

12 Conclusions and Recommendations

South Africa's clothing industry is mature and sophisticated. It covers almost every conceivable type of clothing and utilises a large range of fabric raw materials, many of which are manufactured locally. The industry has been through a period of consolidation but has readjusted well to the heightened competition it has been exposed to. The industry has become far more competitive and, if it is able to capitalise on its strengths it will do well during the next few years as it takes advantage of the AGOA preferences.

One of the biggest constraints of the industry is the domestic textile industry on which it relies. This industry, dominated by a few large companies, is not giving the local clothing industry the service that it needs to maintain its competitiveness in price, quality or service nor will the industry be able to handle the volumes required by exporters in the region. The clothing industry is over reliant on the DCC scheme that is driving its export growth as surely as AGOA is. The industry's export performance is relying on two artificial props that may be of limited benefit in the long term. South Africa has to

[10] Foreign Direct Investment and Poverty Reduction – M. Klein, C. Aaron, B. Hadjimichael

develop niche markets and specialist products and services within its clothing industry to continue to compete in exports and indeed, maintain its share of the domestic market.

Commark being a SACU based project, should take a regional view of the garment industry, and commit to assisting it to build its global competitiveness, consolidate the gains made and assist in its future development and growth.

The countries in the region are confronted with different problems. South Africa's problems are those of effectively exploiting the industry's unique strengths and assisting in the marketing of those strengths. The other countries in SACU probably all have the problems of low productivity, poor industrial relations, and a poor public perception of the industry.

HIV/AIDS is a regional problem and the clothing industry with its high-risk population provides an important node for a considered intervention that would assist the long-term sustainability to the industry.

Shoddy environmental practices are endemic throughout the region in the industry and there is a lack of research into significant health and safety risks, if any, within the industry.

Despite the problems faced by the industry in the region and the hurdles it needs to clear in terms of competing in a global market without protections, the South African clothing industry will survive beyond AGOA, DOHA and the MFA. It has the skills base, the technical resources and the vertical structure necessary to compete on an even playing field. The manner in which it can address the problems of uncompetitive raw materials and inefficient production will determine the industry's future success and size.

The industry should use AGOA and the EU-RSA Free Trade Agreement to increase its penetration of the export markets and consolidate the relationships that it develops. There is much that can and should be done to build the industry's global competitiveness through skills upgrading, technological transfers and empowering previously disadvantaged individuals to participate in the ownership of production which will result in more efficient production models. Should the industry succeed, it will drive the sustainability of textile and garment production in the region.

The following recommendations are made firstly specifically for South Africa and then for the SACU region generally.

South Africa

It is recommended that:

1 Commark identifies and initiates strategic research studies such as a cost comparative analysis of South African produced yarn, textiles and clothing.

2 Commark assist CLOTRADE to establish a representative membership by contributing financially to its initial marketing efforts and sponsoring strategic seminars in the main clothing production regions under the CLOTRADE banner. Correctly constituted CLOTRADE should be an ideal mechanism for implementing Commark interventions within the clothing industry.

3 Commark assist the CTFL – SETA to source world class training materials for provision to the clothing industry while ensuring that it uses a market development approach in its relationship with training providers.

4 Commark assist the funding SACTWU research projects that have a strategic bearing on the industry.

SACU

It is recommended that:

5 Commark commits a portion of its resources to assist the clothing industry in the SACU region for the period of the project and that these resources be used to develop a strategic regional vision for the clothing industry. It should assist in the enhancement of regional co-operation to stimulate the development of the supply chain from cotton growers to finished product.

6 Commark commission research in conjunction with relevant partners that monitors the industry in all areas that have bearing on it including but not restricted to:

- HIV/AIDS
- Environmental Issues
- Social Issues
- Trade data
- Trade Agreements
- Technological developments
- Labour Issues
- Business Development Issues
- Training
- Legislative…etc.

7 Proactively participate in the implementation of HIV/AIDS interventions within the clothing factories throughout the region.

8 Give consideration to the funding of technical assistance projects within the clothing industry where these are considered to be critical to the sustainability or growth of the industry.

9 Consider participation in trade negotiations, trade lobbying and trade information dissemination programmes where pertinent or when asked to do so.

10 Contribute to a clothing and textile perspective in the SADC and NEPAD regional trade negotiations.

11 Assist in promoting the concept of Reputational Risk and Ethical Sourcing to Southern African retailers in an effort to make the working conditions gains in the industry endemic and not limited to those manufacturers that are exporting.

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In the years since 1994 the Government has pursued a policy of trade liberalisation which has effectively lowered the duty rate on clothing imports from over 90% to 40% opening the South African market to cheap imports from the Far East. This, coupled with the Duty Credit Certificate (DCC) scheme discussed in detail under section # 3 of this report, resulted in the South African market becoming flooded with imports which seriously affected the performance of local clothing manufacturers, particularly those located in the metro areas. Prolific smuggling and dumping of garments has exacerbated the situation.

The quota advantage disappears in 2005 when the Multi Fibre Agreement (MFA) falls away. The fact that China has been admitted to the WTO will result in vigorous competition from this country in the garment arena.
Also Other POLICY DCC etc