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THE REASONS FOR THE DEMISE OF THE CLOTHING MANUFACTURING INDUSTRY IN SOUTH AFRICA: A CONTEMPORARY STUDY

BY

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DECLARATION

This dissertation has not been previously accepted for any degree and is being currently submitted in candidature for any other degree.

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Date: 04/10/05

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To my dear wife Frances, I thank you for your continuous support and encouragement throughout my studies and your unselfish commitment which you have portrayed right to the end.

I would like to dedicate this dissertation to my two sons, Brandon and Eric and hope that one-day they will follow suit.

ABSTRACT

The trade unions called in May 2005 for a nationwide strike of all retail stores unless the retail stores agree to stock a 75% local content of garments on their shelves. Retail stores have called on the Department of Trade and Industry for a national summit to address the crisis facing the clothing industry. The Department of Trade and Industry in turn has appointed a task team to investigate the current situation in the clothing industry.

On the surface it would appear that there is a serious crisis in the clothing manufacturing industry in South Africa and there is, but the big issue is what is causing the crisis. The answer is simply, the strength of the rand.

This study was prepared to determine the reasons for the demise of the clothing manufacturing industry in South Africa. The study conducted a survey on various parties and organisations concerned with the wellbeing of the industry to determine what their opinions were relating to the crisis facing the industry.

The results of the survey revealed a host of reasons contributing to the decline of the industry. These reasons include the rigidity and inflexibility of the labour relations system in South Africa which has led to an unproductive and inefficient labour force in the industry.

The lack of investment incentives in the industry is also determined as a cause of the crisis in the industry. Retail buyers are deemed to be price makers forcing the industry to seek alternative means away from local manufacture to reduce prices resulting in the importation of garment from abroad.

South Africa's trade liberalisation policy and the lack of protection barriers to prevent or control of the surge of imports into the local market is also part of the problem facing the clothing industry.

All these factors contribute to the decline of the clothing manufacturing industry, but all concerned parties of the industry are of the opinion that the primary reason causing the crisis in the industry is the strength of the rand.

The strength of the rand coupled with the monetary policy of China has resulted in a flood of imported garments into the South African market and has resulted in an increase in job losses in the clothing manufacturing industry, hence the uproar from all concerned parties.

The problem really begins with the currency peg of the Chinese currency to the US dollar. As the US dollar depreciates against other global currencies so to does the Chinese currency depreciates. The result is that Chinese products becomes cheaper, hence the flood of imports.

South Africa is not alone in the world in facing a crisis in their industry. The US and the EU and many other nations are facing similar problems in their domestic industry precipitated by a flood of imported garments especially from China.

Recently the US Senate voted on a bill to impose a 27.5% across the board tariff on Chinese imports into the USA unless China changed its currency system.

The way to defuse the crisis is beyond the scope of this study since the monetary policy of South Africa is to maintain a free floating exchange rate and to let the market forces

determine the value of the currency and therefore as the ex Minister of Trade and Industry, Mr Alec Erwin, says “we have to learn to live with it”.¹

The way to defuse the crisis will be a global effort to force China to adopt a market economy. Then the market forces will level the playing fields and then it is up to each domestic economy to fight for the survival of their industries.

Only then can South Africa address all the other reasons contributing to the demise of the clothing manufacturing industry in an effort to save the industry and to encourage investment into the industry, ultimately creating much needed employment.

¹ China – A monster threat to our clothing industry? Cindy Lee Moritz. http://www.pursuit.co.za/archive/dec03_china.thm

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CHAPTER 1 – RESEARCH PROPOSAL

1.1 Introduction

“Rex Trueform. The name alone was shorthand for well stitched 1950s glamour – pin stripe suits, white silk handkerchiefs, martini glasses. Smart men wore Rex Trueform suits. For 68 years the factory in Salt River, Cape Town, its name emblazoned on the front with neon gleam, stood for the buoyancy of the garment industry in the Western Cape.

Rex Trueform was the jewel in the glittering diadem that crowned the garment industry in the 1950s, 1960s and 1970s, and that shone with names like Fairweather, Riviera and Wolpe – now all closed.

What lies behind the closing of Rex Trueform is a cross thatch of new labour laws, old traditions, worker demands and bosses’ expectations. The whole thing is muddy, dire, and filled with imponderables. The words that rattle like dice in the hand are China and the strengthening rand” (Sampson, 2005).²

The clothing manufacturing industry in South Africa has gone from predominately manufacturing for local use and exporting to a declining manufacturing industry substituted by imported products and clothing exports have almost dried up completely.

Irrespective of how unemployment is defined or measured, there is no doubt that South Africa is suffering from high and rising unemployment. It is the most serious social and economic problem together with HIV/AIDS facing the country (Mohr & Fourie, 2003).

This study seeks to determine the reasons for the demise of the clothing manufacturing industry in South Africa.

² Sampson, Lin. *From riches to rags*. Sunday Times Lifestyle – Sunday Times. May 1, 2005. <http://www.sundaytimes.co.za>

From the end of 2002 the clothing manufacturing industry started to shrink, in the last year (2004), 109 clothing manufacturing companies closed down and employment in the industry is reportedly decreasing on daily basis.³

1.1 Background of the study

Following the 1994 democratic elections and the lifting of sanctions, the clothing industry received a boost due to the fact that many clothing manufacturers secured manufacturing and distribution licenses of branded merchandise that were unavailable in South Africa prior to the 1994 elections in support of the sanctions against South Africa.

The clothing industry was further assisted by the introduction of The Africa Growth and Opportunity Act (AGOA), which was signed into law by former U.S. president Bill Clinton on 18 May 2000, and covers the 8-year period from 01 October 2000 to 30 September 2008.

AGOA provides eligible countries from Sub Saharan Africa (SSA) exporting to the US with the opportunity to benefit from an average 17.5 percent customs duty advantage relative to non-African suppliers up to 2008. In essence the AGOA agreement is a method for the US to assist Sub Saharan economies without directly investing in the local economies.

The Department of Trade and Industry (DTI) also assisted the clothing industry by offering export incentives in the form of duty credits (DCCS). A further supporting factor for the clothing manufacturing industry in the first eight years of democracy was the continuous depreciation of the rand.

Together with the AGOA, DCCS and the depreciation of the rand, the price of locally manufactured garments become very competitive in the international markets and encouraged manufacturers to embark on export strategies. The majority of clothing

³ Leon Deetlefs – National Compliance Manager – National Bargaining Council of the Clothing Manufacturing Industry.

exporting from South Africa was undertaken by the larger manufacturing companies who have the infrastructure to abide by the conditions of AGOA as well as having the manufacturing capacity to cope with the large volumes of merchandise required by the foreign customers. The medium to small manufacturing companies (SMMEs) focused on the local market.

Up to the end of 2002 the clothing manufacturing industry would be described as being in a healthy and stable state. The larger manufacturers predominately focused on their export programs and paid very little attention to the local market while the SMMEs focused on the local market and having just sufficient capacity to satisfy the local market without the market being able to influence the prices dramatically. With the rand at its peak around R13 to a US dollar, there was very little threat from importers. The volatility of the rand ensured that importers were reluctant to enter into long term commitments with retail buyers with the rand fluctuating dramatically on a daily basis.

From the beginning of 2003 the clothing manufacturing industry changed dramatically and entered a new era that has altered the face of the clothing industry in South Africa. The change in the clothing industry was precipitated by two independent factors, the first being the appreciation of the rand at the beginning of 2003 and the second being the South African government's commitment to the WTO to remove tariffs and protectionism from the importation of foreign goods from 2003.

This commitment to the WTO included the lifting of dumping duties on cotton fabrics and garments from China. Dumping is selling goods in a foreign market for less than their cost of production or below their fair market value (Hill 2003).

The result of the appreciating rand for the clothing industry stemmed the flow of exports and increased the flow of imported garments and immediately the local market went into turmoil. The appreciating rand removed the competitiveness of South African manufactured garments abroad, even with the assistance of AGOA and DCCS. This

situation forced exporting manufacturers to rethink their exporting strategies and in some cases they opted out of their exporting programmes.

The lifting of the tariffs barriers and compounded with the appreciating rand, opened up a steady stream of importing of foreign goods, particularly garments from the East. The appreciating rand counteracted any protection of any remaining tariffs resulting in an increase in the importation of foreign merchandise.

The local clothing market found itself in a precarious position with an abundance of suppliers, local manufacturers and importers, a limited demand and reduced exporting opportunities. This situation of an abundance of suppliers in the local market enabled the local buyers (retail stores) to become price makers, having influence on the price of products (Mohr and Fourie: 2003).

This has led to local clothing manufacturers competing with importers in a very limited market and is required to constantly adjust their strategies to remain competitive. The importers are constantly taking advantage of the appreciation of the rand by lowering the price of the imported merchandise to gain competitive advantage and market share.

At the same time the buyers (retail stores) have jumped on the bandwagon knowing that local manufacturers are competing with importers by demanding prices that are increasingly difficult to achieve by the local manufacturers.

One common strategy utilised by clothing manufacturers to remain competitive is to engage CMT (cut make and trim) manufacturers in rural areas in an attempt to reduce the unit cost of garments. CMT operations are usually low cost operations situated in rural areas where labour rates are lower than in urban areas. These CMT operations are able to provide manufacturing work at a lower unit to labour cost than a regular clothing manufacturer particularly in urban areas.

Due to the rigidity and inflexibility of the labour relations system in South Africa and the power given to the trade unions (Mohr & Fourie: 2003), the local manufacturers have very limited options available to lower the unit to labour costs. One option that has been adopted is the outsourcing of their manufacturing requirements abroad.

Outsourcing of clothing manufacturing abroad reduces the amount of manufacturing work provided by the clothing manufacturers to the CMT operators, increasing the unemployment in rural areas.

The reasons for the demise of the clothing industry in South Africa can be attributed to three reasons, namely;

- The South African Labour relations system
- The South African trade liberalization policies encouraging a surge of imported garments
- The exchange rate of the South African currency

All three reasons in their individual ways can be justifiably blamed for the demise of the clothing manufacturing industry.

The labour relations system in South Africa is too rigid and inflexible to sustain the industry and is also not conducive to encourage the industry to grow. The South African trade liberalisation and the South African implementation of the phasing out of the MFA contrary to the WTO guidelines have not protected the local clothing industry from foreign intervention in the domestic market. The exchange rate of the rand initially protected the local clothing manufacturing industry, but later as it appreciated, the rand left the industry exposed to import competition as substitutes to manufacturing.

Over and above the local reasons for the demise of the clothing industry is the global issue of the China influence in domestic markets. China is operating a nonmarket economy and flooding world markets to sustain its local capacity in fear of deflation at the detriment of the foreign domestic markets, South Africa included.

1.2 Motivation for the study

The motivation of this study is to establish the primary reasons both local and global for the demise of the clothing manufacturing industry in South Africa which is leading to an increase in the unemployment situation in South Africa.

Unemployment has been declining in the clothing manufacturing industry since 1994. But since the end of 2002 there has been a surge of imported garments into South Africa substituting locally manufactured products. In the wake of this surge of imported garments, local manufacturers are downsizing their plants which have accelerated the decline of employment in the clothing manufacturing industry.

Stakeholders in the clothing manufacturing industry, including organised labour, employer organisations, suppliers of raw materials and services, local provincial administrations and to a certain extent the national government are concerned with the current situation facing the industry. The concern is particularly regarding the increase in job losses in the clothing manufacturing industry and the general increase in unemployment.

A further motivation for the study is to document those reasons causing a decline in the clothing manufacturing industry and to propose recommendations to address those reasons in an effort to prevent the local clothing manufacturing industry from further decline.

1.3 Value of the study

The value of the study is to highlight all the reasons contributing to the decline in the local clothing manufacturing industry.

The decline and ultimate demise of the clothing manufacturing industry will add to the already increasing structural unemployment, therefore determining the reasons causing the demise of the industry will be valuable to the numerous parties concerned with the

wellbeing and longevity of the clothing manufacturing industry. These interested parties include;

- Organised labour – the trade unions.
- Employer organisations and bargaining councils.
- Local provincial government
- National government.

Determining the reasons causing the demise of the industry is the first step in an effort to save the industry from further decline and total demise. Recommendations to all parties concerned can be established once the cause to the problem is determined.

1.4 Problem Statement

The clothing manufacturers in South African are finding it difficult to compete in the domestic markets. The competition stems primarily from low priced imported garments especially from the far eastern countries.

Therefore the aim of the study is to determine what these primary reasons are for the decline of the clothing manufacturing industry and in so doing to answer the following question.

- What are reasons contributing to the decline of the clothing manufacturing industry in South Africa?

1.5 Objectives of the study

The objectives of the study are;

- To evaluate the impact the South African labour relations system has on the clothing manufacturing industry and to evaluate the impact the South African trade liberalisation policies has on the clothing industry.
- To determine those reasons for the demise of the clothing manufacturing industry in South Africa.
- To establish recommendations and suggestions for the long term survival, development and growth of the clothing manufacturing industry

1.6 Research Methodology

To achieve the objectives of the study a quantitative and qualitative exploratory survey will be conducted to determine and document the primary reasons that are causing the decline of the clothing manufacturing industry.

The research methodology to be used for the research survey will be conducted as follows;

- A quantitative pilot survey questionnaire involving 15 participants of the various organisations will be conducted to test the reliability and validity of the intended data to be collected as well as to test the success rate of the intended distribution method.
- A qualitative survey in the form of nine personal interviews will also be conducted with additional parties who can provide additional insight to particular areas that are also contributing to the decline in the clothing manufacturing industry.
- Based on the results of the pilot survey questionnaire, a further quantitative questionnaire will be completed by 89 participants of the various organisations who have a vested interest in the longevity of the clothing manufacturing industry.

The various organisations to be surveyed will be organisations concerned with the clothing manufacturing industry, the various organisations include;

- Trade Unions
- Employer Organisations and federations
- Clothing manufacturers
- Government departments
- Suppliers of raw materials and services to the clothing manufacturing industry

1.7 Sample Selection

No pre-determined sample of the population can be determined because there are too many organisations that have a vested interest in the clothing manufacturing industry.

The study will attempt to obtain a representative sample of the all organisations involved in the clothing manufacturing industry. Details of the sample are illustrated in detail in Chapter 3, Research Methodology.

1.8 Instrumentation

The survey to be undertaken will be exploratory research in the form of a questionnaire of seven questions put to the organisations concerned with the clothing manufacturing industry. The exploratory research will also include conducting personal interviews with various parties to obtain further insight especially from organisations that are experts in their field.

The aim of the research is to establish the primary reasons for the decline in clothing manufacturing industry. Hence, the questionnaire will entail questions specifically to obtain opinions from the various parties concerned with the clothing industry to determine the reasons for the decline of the clothing manufacturing industry.

Details of the questionnaire and the analysis of the questions selected for the questionnaire are presented in Chapter 3, Research Methodology.

1.9 Pilot Testing

The questionnaire will be pilot tested before mass distribution to ensure that the distribution method will create a favourable response rate. The pilot testing will also ensure that the questions posed to the population sample will achieve data that is reliable and valid.

1.10 Procedures

The questionnaire together with a covering will be distributed to as many organisations as possible. Distribution will include hand delivery, posting, faxing and e-mailing.

A covering letter will provide the participant with the motivation, the value and the objections of the study and will provide the assurance of the confidentiality of the survey.

Details of the student undertaking the study will also be included in the covering letter.

1.11 Limitations

The pre-investigation for this study revealed that government departments are reluctant to provide information relating to the current situation in the clothing manufacturing industry as well as any information regarding the government's future plans to address the current situation.

Therefore the study has relied on primarily on the internet and secondary data sources for information pertaining to the current situation in the clothing manufacturing industry.

Pilot testing of the research questionnaire is expected to alleviate as many limitations discovered as possible.

1.12 Structure of the project

This section outlines the different chapters that will be presented in this study.

1.12.1 Chapter 1 – Research Proposal

A research proposal serves as a work plan in that it clarifies the objectives of the research and lays out the steps that will be followed in the research process.

1.12.2 Chapter 2 – Literature Review

Chapter 2 will cover the theoretical aspects relating to the labour relations system of South Africa including aspects that are determined to rigid and inflexible in the system.

Chapter 2 will also cover aspects relating to the South African trade liberalisation policies including aspects relating to the WTO and the phasing out of the MFA. Chapter 2 will also discuss the factors about the China influence in the local industry and highlight the current economic growth in China as well as the Chinese currency. Chapter 2 will discuss the exchange rate of the rand. The discussion will include the performance of the exchange rate since the general elections in 1994 to date and highlight factors that initially depreciated the currency and later appreciated the currency.

Chapter 2 will include a review of the theory of a SWOT and Gap analysis to be used in Chapter 5 of this study.

1.12.3 Chapter 3 – Research Methodology

Chapter 3 will cover the research methodology in order to determine the reasons for the demise in the clothing manufacturing industry. Chapter 3 will detail the questionnaire to be used in the survey. This will include an explanation of the choice of questions to be used in the questionnaire.

1.12.4 Chapter 4 – Results of the Survey

Chapter 4 will present the results of the research survey. A graphic display of each question's results will be presented.

1.12.5 Chapter 5 – Recommendations and Conclusion

Chapter 5 will focus on an analysis of the data collected in the research survey as well as from the personal interviews. The analysis of each question will be discussed and the results will be compared to the objectives of the study.

Chapter 5 will include a SWOT and Gap analysis of the clothing manufacturing industry to determine and recommendation the strengths and weaknesses of the industry and the results to form part of the recommendations of this study. The results of the information gathered from the research together with the results of Question 7 and the SWOT analysis will be used to formulate recommendations and suggestions to save the clothing manufacturing industry from further and total collapse.

Recommendations will also include suggestions of the need for further research based on the information gathered from this study. Chapter 5 concludes with a summary of the study.

1.13 Conclusion

Chapter 1 sets out a research proposal to determine the reasons for the demise of the clothing manufacture industry. A framework for the study is presented to explore the reasons responsible for the decline of the industry.

Chapter 2 follows with the literature review. The chapter starts with a discussion of the labour relations system followed by a discussion on the trade liberalization policies and then a discussion about the exchange rate.

A discussion about the China influence in the local clothing industry is also presented in chapter 2 and the chapter closes with a discussion on the theory of a SWOT and Gap analysis to be used in chapter 5.

2. CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

The demise of the clothing manufacturing industry has been attributed to numerous reasons, both micro and macro environmental reasons.

This chapter will address;

- **South Africa's Labour Relations System.**
- **South African Trade Liberalisation Policies.**
- **The China influence in the local clothing industry.**
- **The South African currency.**

The chapter will commence with a discussion about the labour relations system in South Africa and highlight aspects that are deemed to be rigid and inflexible of the system.

The chapter will then discuss the South African trade liberalization policies and will include a discussion of aspects relating to the WTO and the phasing out of the MFA.

The chapter will discuss the China influence in the local clothing industry including the current Chinese economic growth as well as a discussion relating to the currency peg of the yuan.

The chapter will also discuss the volatility and the fluctuation of the rand.

The chapter will conclude with a theoretical discussion of a SWOT and Gap analysis to be used in chapter 5.

2.2 South Africa's Labour Relations System

The shape and character of a labour relations system in a country is determined by its macro-environmental influences such as the social, economic and political (legal)

environment. The macro-environmental influences are then manifested in certain micro-environmental labour relations responses internal to an organisation or industry.

The history of labour relations in South Africa is a story of a long and intense struggle that spans more than three hundred years and the transition from the apartheid labour relation system of the past to the new democratic system it is often described as a miracle. From the humble beginnings of the Cape Colony to the discovery of diamonds and gold, through the apartheid era and into democracy to the present day the labour force and labour relations have been contentious with labour systems either favouring one party more than the other (Finnemore, 2002).

During the 1920s and 1930s unions grew in strength all over the world including South Africa. The rise of unionism in South Africa was a direct result of many foreign workers who came to work on the gold mines and diamond mines from all over the world and brought the concepts of unions with them (Grobler et al, 2002).

As a result of the rise of unionism in South Africa as well as the strikes on the mines, the first Industrial Conciliation Act was passed in 1924. This act gave workers the right to organise and bargain collectively with employers in disputes about wages, job security, benefits and other work conditions (Grobler et al, 2002).

After the Second World War, in 1948, the National Party won the general election and with its ideology of apartheid brought a more rigorous and authoritarian approach than the segregationist policies of previous governments. It did so against the background of a revival of mass militancy during the 1940s, after a period of relative quiescence in the 1930s when Black groups attempted to foster unity among themselves (Burger, 2005).

2.2.1 Post 1948 apartheid: suppression of communism and black trade unions

In 1950 the Nationalist government passed the Suppression of Communism Act. This act allowed for large numbers of trade unions to be banned and their leaders either were

arrested or banned. Political organisations such as the African National Congress (ANC), which had supported many of the trade unions, were also the targets of the legislation.

In 1945 there were approximately 200 black unions with 158 000 members and by 1961 there were only 60 unions with a total membership of 64 000. The Congress of South African Trade Unions (COSATU) was formed in 1985 amalgamating 33 union organisations and at its inception COSATU had a total membership of 450 000. COSATU identified itself with political problems as well and the organisation provided its members a political voice with a support of the ANC which was still banned at the time (Finnemore, 2002).

Although political parties such as the ANC and PAC were still banned during the 1980s, they were able to recruit members through their trade union alliances. Through these alliances, political parties were able to use the labour force to exert pressure on the South African government through mass actions, strikes and stayaways, which contributed towards forcing the government into political reforms.

During February 1990 the ANC, PAC and SACP political parties were unbanned and their leaders including Nelson Mandela were released from incarceration. Four years later in 1994 South Africa had its first democratic elections which gave birth to the new South Africa.

Prior to the general elections in 1994, political parties such as ANC were unsure of their supporter base. To ensure success at the general election an alliance was formed between the ANC, SACP and COSATU. The alliance strategy was to use organised labour during the political campaign to gain access to the work force. In exchange for this assistance during the political campaign, COSATU unionists were to be given parliamentary seats and key government positions in the new government to be formed after the elections. The support of COSATU and its members for the ANC in the elections was a significant aspect of the ANC victory (Finnemore, 2002).

Prior to the general elections in 1994, the clothing sector employed 125 000 workers in approximately 1 600 formal enterprises, 86 000 were employed in 410 companies registered with the Bargaining Councils and covered by collective bargaining agreements. Manufacturing plants employing 500 + workers accounted for 30 percent of the entire workforce but only 3.2 percent of establishments. Those employing 200 – 499 accounted for another 20 percent of the workforce but only another 5.6 percent of establishments (Gibbon, 2002)⁴.

Statistics relating to CMT manufacturers were not recorded prior to 1994 as many of the CMT operations were either unlicensed or unregistered operations.

2.2.2 The new democratic labour relation system – post 1994

With a long history of labour related issues, the transition through the apartheid years to democracy is often described as a miracle (Finnemore, 2002).

A miracle in the eyes of some but in reality the essence of the change was to place senior union members in the newly elected government of national unity and to change the labour relation system from an employer favoured system to an employee favoured system.

The new appointed government created legislation to regulate labour in line with the international standards of the International Labour Organisation and finally the new labour relation legislation comprised of the following acts;

- Labour Relations Act
- Basic Conditions of Employment Act
- Employment Equity Act
- Skills Development Act

The combination of these acts with other legislation is seen as the engine of social-economic policy espoused by the ANC government (Finnemore, 2002).

⁴ Data source – Statistics SA's 1993 Census of Manufacturing

The new legislation for labour is not without controversy and opposition. There is a widespread view, especially among certain political parties, business people and organisations for the unemployed, that the South African labour market has become too rigid and over-regulated. The opposite view is expressed by others, especially among members of the trade union movement.

The South African Chamber of Business is of the view that the South African labour market is over-regulated and that the government has gone too far in protecting the rights of workers. It is felt, given the high unemployment rate and the need to become more internationally competitive, that there is not a proper balance between the rights of employers on the one hand and trade unions and workers on the other hand with respect to employment regulation (SACOB).⁵

Unnecessarily complex and rigid labour legislation has caused clothing firms great difficulties and has, together with high labour costs, resulted in the relocation of several firms to neighbouring African countries (Nkem-Abonta, 2005). According to the ANC Deputy Secretary General, Mr. Sankie Mthembu Mahanyele, the ANC acknowledge that the strict labour laws are contributing to the country's high unemployment rate (Mutikani, 2005).⁶

According to a study of 60 countries by the London based Economist Intelligence Unit, South Africa's labour laws are among the most rigid and restrictive in the world (Cardo, 2003).

The parties opposing the new laws see the new legislation as generally interfering too drastically with the market forces by;

- Giving too much power to the employees and unions.
- Stifling small businesses by imposing centralised bargaining agreements on them.

⁵ SACOB – http://www.sacob.co.za/labour/labour_Market_flexibility.doc

⁶ Mutikani, Lucia. Our labour laws 'taking away jobs'. Flexibility focus of reform call. Daily News. Independent News and Media – May 18, 2005.

- Providing too many protections for employees from dismissals for misconduct or incapacity.
- Promoting affirmative action and creating inequities, inefficiencies and tension in the workplace.
- Placing too many requirements on employers leading to disincentives to employ labour and resulting in a shedding of labour contributing to high unemployment.
- Failing to prevent strikes.
- Doing little for the unemployed. (Finnemore, 2002)

The new legislation favours and protects the employee in the workplace, but because of the rigidity and inflexibility of organised labour controlling the system, the system has created an unproductive and inefficient work force that is not conducive to employment. While the labour system is seen as being rigid, it also is at the same time flexible depending where the employer is located in the country. Employers in urban metro areas are subjected to a more rigid labour relation system compared to employers in rural areas. Wages also vary depending on the location of the employer.

According to the executive director, Mr. Len Smart, of the Natal Clothing Manufacturers' Association (NCMA), employers in non metro areas are paying only 30 percent of bargaining council rates, while those in metro areas were paying 50 percent of gazette wage rates (Inggs, 23/3/2005). The executive director of the NCMA stated that the South African Clothing and Textile Workers' Union (SACTWU) would not make any concessions on wages for struggling manufacturers applying for exemptions from the agreed wage rates (Inggs, 4/4/2005).

Factors of the labour system that are seen to be rigid and inflexible in the clothing manufacturing industry are;

1. Wages
2. Hours of work
3. Dispute resolution – dismissal

2.2.3 Wages

The compensation of people at work has become one of the most demanding problems facing management of organisations in South Africa. The effort to control salaries has become a critical problem for companies competing in the global marketplace (Grobler et al, 2002).

Wages are always a contentious issue between organised labour and employers. Organised labour is duty bound to negotiate the maximum amount of wages for their members. The employers on the other hand are duty bound to negotiate the least amount of wages to be paid to the employees in an effort to create more profit for the shareholders of the organisation. In the past employer, employers controlled and dictated compensation rates and adopted a take it or leave it attitude. Since the inception of the Basic Conditions of Employment Act (1998) employers are governed the act in terms of remuneration, benefits and terms and conditions employments (Grobler et al, 2002).

The question is often debated if employees should be paid for performance or the time they spend on the job. Pay is an important variable in motivation; therefore organisations need to investigate different reward methods so that they can use pay to motivate high levels of employee performance (Robbins & Decenzo, 2001).

There are two basic systems for compensating employees;

- Time-based system
- Output based (incentive) system or pay for performance system

Time-based system compensates employees for time the employee has worked during a pay period (Stevenson, 2002). Output based system compensates employees according to the amount of output they produce during a pay period, thereby tying pay directly to performance (Stevenson, 2002).

The wage system in the clothing industry follows the time-based system, it does not allow for the output based incentive system. Therefore regardless of the output performance of the employees, they still receive a set compensation. With this type of system, the organisation has very little chance of reducing prices in the face of competition. Employees prefer the time-based system of pay because of the fixed amount they will receive per day, week or month. The disadvantage of the time based system is the pay does not get adjusted if the employee is unproductive. Also employees that are more productive than others are also penalized because the system cannot compensate them for being more productive (Grobler et al, 2002).

According to the president of the South African Textile Federation, employees in the clothing and textile industry earned US\$215 (R1 290) per month in January 2002 and by September 2004 the wage had increased to US\$500 per month. Competitors in the Far East pay between US\$40 and US\$100 per month for the entire period (Nduru, 26/01/2005).

According to Victor Chinn of the Training Within Industry (TWI), work based incentive schemes date back to the mid 1950's when mass production methods required a more focused system of management. He adds that between the 60s and 80s, clothing manufacturing companies adopted a scheme that rewarded machinists that performed better than the considered normal days work.

By the 1990's, the world markets opened up and manufacturers needed new methods to motivate their workforces. The answer for many manufacturers was to introduce a system termed "piecework".

When an employee is paid on the basis for the amount of work done it is termed piecework. The system is best adapted to standardized operations in which quantity is preferred to quality. Its advocates maintain that it pays the worker according to his ability. Its opponents argue that it tends to pay the best worker what he would receive on a time

basis, while other workers receive less than they would by the hour and that it forces the pace of work.

Chinn says that if South Africa wants to be part of the global manufacturing nations, the industry should pay wages based on a system of reward for excellence. He adds, “if we continue to do it the way we are doing it; paying the way we are paying, we will not have an industry. The industry is not dying, it is moving and if we don’t get our act together, some other country will do it for us.”⁷

Ebrahim Patel of SACTWU does not share the opinion about piece work with Chinn. Patel’s ideal is to see a shared vision and commitment within the industry that require cooperation between works and management and he believes that this will not be promoted by piecework. Patel adds that a reward system should be structured that recognises and rewards skills and creates incentives for an employer to use those skills as well as incentives for a worker to acquire those skills.

Together with compensation, hours of work in clothing manufacturing industries are an important variable in the productiveness and efficiency of the industry which will result in the industry being competitive or not.

2.2.4 Hours of work

Productivity is an important factor in determining how competitive an organisation is, higher productivity means lower costs (Stevenson, 2001).

Productivity is a measure of effective use of resources, it is an index that measures output relative to the input used to produce them and it is usually expressed as a ratio of output to input (Stevenson, 2001).

⁷ Victor Chinn comments – http://www.pursuit.co.za/archive/junjul02_piece.htm

Since 1994, SACTWU has been successful in negotiating wages increases at or around the rate of inflation, both below or above, barring 1996, only after a 10 day strike in the industry. These wage negotiations have been without any reference to the issue of productivity (Gibbon, 2002). During the 2003 annual wage negotiations for the clothing sector, SACTWU proposed that the hours per week to be reduced to 40 hours, SACTWU were not successful in this matter.

2.2.5 Dispute Resolution - Dismissal

The Labour Relations Act states that every employee has the right not to be dismissed. The procedures for dismissal are clearly outlined in terms of Schedule 8 - Code of good conduct: Dismissal.

In terms of the Act, dismissed employees have the right to ascertain if their dismissals were fair. Dismissed employees have the right to refer the dispute to the Council of Conciliation, Mediation and Arbitration (CCMA) within 30 days of the date of dismissal. Generally the employee or their trade union representatives apply to the CCMA to invoke the system in cases of unfair dismissal. The objection to the procedure of conciliation from the employer is that the employee is deemed to be innocent and the employer deemed guilty of unfair dismissal until the employer proves to the commissioner of the conciliation hearing that the dismissal was both procedurally and substantially fair.

The application for conciliation by the employee or the trade union in the event of a dispute does not afford the opportunity to the employer to prove that the dismissal was conducted in a procedurally and substantively fair manner before the conciliation hearing. In the event that the employer does not attend the hearing, the hearing will still continue in the employer's absence. The information used in the application for the hearing by the employee will be used as the only evidence for the dispute.

Figure 1 - CCMA most recent statistics

Total Cases Referred 1 April 2004 to 28 February 2005	117172
Highest Referring Issues	
Unfair Dismissal Disputes	81%
Unfair labour practice	7%
Matters of mutual interest	4%
Collective bargaining	3%
Other	3%
Severance pay	2%

Source: CCMA. <http://www.ccma.org.za/>

The statistics indicate that the majority of the issues referred to the CCMA are the issues relating to dismissals. Given the process for conciliation, the conciliation hearing affords the employee's a second chance of having his case heard by an independent party and has nothing to lose and it does not cost him anything. The employer bears the expense of the hearing in time and money.

Whilst the three main contentious issues of the labour system facing the clothing industry suggest that these issues are responsible for the labour system to be rigid, these same issues may also be responsible for contributing to the unemployment situation in the clothing industry and South Africa.

2.2.6 Unemployment

Job creation and poverty relief was a leading goal of government policy during the first decade of democracy. During the first ten years of democracy the government applied four strategies to address the unemployment situation, namely;

- Reconstruction and Development Programme (RDP) of 1994
- Growth, Employment and Redistribution Strategy (GEAR) of 1996
- Micro Economic Reform Strategy (MERS) of 2001
- Growth and Development Summit (GDS) of 2003

Unfortunately little success was achieved in the struggle to create sufficient jobs in the economy through these strategies (Streak, 2004).

The unemployment rate was estimated to be 28.6% at the time of the 1994 general elections in South Africa. The most recent estimates (March 2004) find the unemployment rate to be 41.2%.⁸ Unemployment in South Africa is structural in nature, not transient. It has grown out of changes in the economic structure since 1970, including those associated with technological development, the declining importance of the agricultural sector, liberalisation and global entry. The structural nature of unemployment is also closely tied up with the legacy of apartheid schooling (Streak, 2004).

2.2.7 NEDLAC

The National Economic Development and Labour Council (NEDLAC) is a statutory body that played an important role in producing the final draft of the Labour Relations Act.

NEDLAC has the following objectives to achieve;

- Sustainable economic growth in South Africa
- Greater social equity in the community and workplace
- Increased participation of all major stakeholders in shaping economic, labour and development policy (Grobler et al, 2002).

A number of stakeholders are represented at NEDLAC including;

- Organised Labour – the trade unions
- Business – through employer organisations
- Government – through ministers of departments including Labour, Finance and Trade and Industry.
- The community – through various civic associations.

⁸ Statistics South Africa 2004

Since the inception on 18 February 1995 NEDLAC has reached no fewer than 38 agreements and reports.⁹

2.3 South African Trade Liberalisation Policies

South Africa undertook a bold trade liberalisation journey ten years ago by lowering tariffs and exposing the previously highly protected economy to the perils and benefits of global trade (Ntingi, 2005). The South African government ratified the Marrakesh agreement on April 6, 1995. This agreement is a by product of the Uruguay round of the General Agreement on Tariffs and Trade (GATT), which led to the creation of the World Trade Organisation (WTO).

2.3.1 General Agreement on Tariffs and Trade – (GATT)

The original intention of GATT was to create a third institution to handle the trade side of international economic co-operation, joining the two “Bretton Woods” institutions, the World Bank and the International Monetary Fund (IMF).

In the early years, the GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT Anti-Dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system. The eighth, the Uruguay Round of 1986-94, was the last and most extensive of all. It led to the WTO and a new set of agreements.

2.3.2 World Trade Organisation – WTO

The WTO came into being on January 1, 1995 and is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

⁹ <http://www.nedlac.org.za>

The goal of the WTO is to improve the welfare of the people of the member countries and to create a more prosperous, peaceful and accountable economic world. The WTO has nearly 150 members, accounting for more than 97% of world trade with a further 30 other countries currently negotiating membership.¹⁰

2.3.3 Multifibre Arrangement – (MFA)

The MFA provided rules for the imposition of quotas, either through bilateral agreements or unilateral actions, when surges of imports caused market disruption or threat thereof in importing countries. Imposing quotas, importing countries were obliged to observe consultation provisions and specific rules and standards both in determining a situation of market disruption and when introducing and maintaining restrictions on exporting members.

South Africa adhered to the MFA providing protection barriers for the local industries especially the clothing industry. South Africa imposed dumping duties on all cotton fabric imported from China and garments manufactured from cotton fabric manufactured in China.

The MFA terminated on December 31, 1994 upon the entry into force of the WTO and its ATC on January 1, 1995.

2.3.4 WTO Agreement on Textiles and Clothing (ATC).

The ATC is an agreement to phase out the MFA and to be completed by January 1, 2005. The aim is to bring trade in textiles and clothing into line with the rules of the WTO. This agreement is seen as operating in the interests of developing countries, since it increases their access to the previously protected markets of industrialised countries.

The ATC outlined a programme for the integration of all products into GATT rules by 2005 which has been implemented. It applies to all WTO members whether or not they were signatories to the MFA.

¹⁰ WTO brief – <http://www.wto.org> – April 2003

2.3.5 Timetable for the ATC phase out.

The main provision of the agreement is a timetable for the progressive removal of quotas. Complete integration will be achieved at the end of the ten year transition period, i.e. by January 1, 2005 and has being implemented. The agreement provides a complete list of all the products which need to be integrated.

January 1, 1995, members were required to integrate no less than 16% of the total volume of 1990 imports.

January 1, 1998, a further 17% were integrated, followed by 18%.

January 1, 2002, the remainder was integrated when the ATC itself disappeared.

January 1, 2005, each member chooses what products to integrate, provided they cover at least one product of each of the four groupings:

- tops and yarns
- fabrics
- made-ups
- clothing.

As products are integrated into GATT, any quotas imposed on them will be removed. Through the staged integration process, the textiles and clothing products covered by the provisions of the ATC progressively shrunk, and the number of quotas diminished, and on January 1, 2005 the ATC was eliminated.

South Africa being a signatory of the WTO agreed to implement the phasing out of all tariff barriers including dumping duties that were protecting the local industries especially the clothing manufacturing industry.

2.3.6 Other provisions in the ATC

The ATC also provided guidelines and safeguards to protect local industries from the surge of imports from foreign economies that can flood local markets with cheaper

products. These guidelines and safeguards include the transitional safeguard measures. This provision is intended to prevent a sudden rise in imports of specific products from causing serious damage to the importers domestic industry. In order to be introduced there has to be evidence of significant damage.

Brazil and Turkey imposed these safeguard measures to protect their domestic industries from the surge of imports from China, South Africa has not.

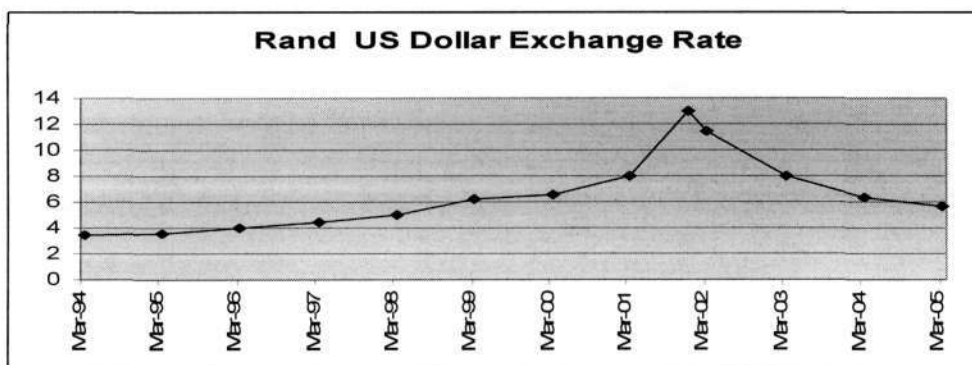
The effect of the liberalisation of trade may help or impede the development and economic growth of a country (Pugel, 2000).

2.4 Implementation of South African Trade Liberalisation Programme

Since the mid-1990s, South Africa has made considerable progress in opening up its trade policies. In 1994 South Africa committed itself to reducing and simplifying its tariff levels and structure in accordance with the GATT Uruguay Round. As a consequence tariffs have fallen, although the number of tariff rates and types remains high. Some estimates suggest that average tariffs in manufacturing have fallen from close to 30% in 1990 to around 10% in 2002 (Edwards & van de Winkel, 2005).

Prior to the 1994 elections the South African trade policy in relation to the clothing industry followed a very protectionist format and included various forms of protection barriers for the industry. Following the elections the government adopted the stance to bring the trade policies in line with international norms and become a signatory of the Marrakesh agreement in 1995 and a member of the WTO. For the first nine years of the democratic South Africa, global trade was focused on export orientation. The main reason for the export orientation was due to the value of the rand against the country's major trading partners. Since the 1994 elections until the end of 2002 the rand depreciated continuously against the currencies of the country's trade partners.

Figure 2 - Rand US\$ Exchange Rate



source – SA Reserve Bank¹¹

The weaker rand afforded SA manufactured products a competitive advantage in the foreign markets competing favourably on price against products produced in the Far East. The export orientation trade format was encouraged by formation of AGOA trade agreement. The AGOA agreement was signed into law on 18 May 2000, and covers the 8-year period from 01 October 2000 to 30 September 2008. The aim of AGOA was to provide African countries with tangible incentives to continue liberalizing their economies and building free markets, the focus being on trade and not aid.

These incentives were in the form of providing beneficiary countries in Sub-Saharan Africa (SSA) with more liberal access to U.S. markets, subject to certain requirements to be met. AGOA also identifies Sub-Saharan Africa as a “region richly endowed in both natural and human resources”, while “representing a region of enormous economic potential and significance to the U.S.”. The Act’s further aim is the establishment of a “United States-Sub-Saharan Africa Trade and Economic Cooperation Forum” to foster closer economic ties between the United States and Sub-Saharan Africa.¹² In essence, AGOA created a system of trade assistance for SSA eligible countries from the US without direct financial aid from the US.

¹¹ SA Reserve Bank - <http://www.reservebank.co.za>

¹² U.S. African Growth and Opportunity Act (AGOA)

In South Africa, AGOA was further supported by the DTI Duty Credit Certificate Scheme (DCCS) export incentives to further encourage exports. The DCCS was introduced on 1 April 1993 to influence and encourage textile and clothing manufacturers to compete internationally, independent of government subsidies. It is a system of earning duty credits based on exports of certain textile and clothing products during a given year.

Up to the end of 2002, South Africa was content with being a net exporter and had no hesitation in complying with the WTO trade rules and the phasing out of the old MFA. The average tariff level was lowered by approximately one third between 1994 and 1999, more than 10 000 tariff lines have been rationalized to less than 6 000, and differentiated tariff rates standardized to just six rates ranging between 0% and 30%. Quantitative and formula duties have been converted to *ad valorem* tariffs, and trade-related programmes that contravene WTO rules have been abolished with the result that South Africa's import tariffs are now among the worlds lowest (Nkem-Abonta, March 2005).

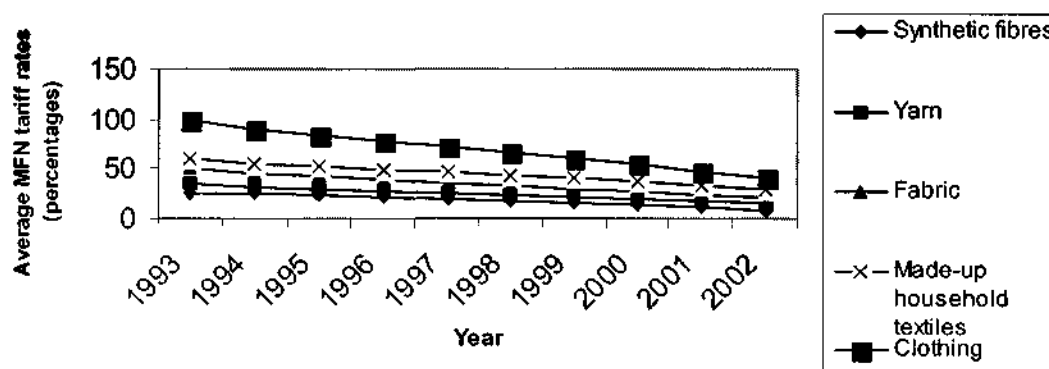
South Africa government created its own format to phase in the trade liberalization programme and is summarized in the following timeline;

Timeline summary of South Africa's Trade Liberalisation in the clothing industry.

- 1997: A phase-down of import tariffs begins. The government implements a phase-down to 20 percent on textiles and 40 percent on clothing over five years instead of over 12 years as required by the WTO.
- 2000: Weight-based minimum specific duties are removed, benefiting undervalued imports. Ad valorem duties on clothing are phased down from 60 percent in 2000 to 40 percent in 2002, ahead of WTO requirements.
- The EU/South Africa free trade agreement comes into effect.
- May 2000: AGOA is promulgated in the US, giving eligible African countries duty and quota-free access to US markets for specified categories of goods.

- March 2001: AGOA takes effect in South Africa. This may have raised concerns among local retailers that domestic clothing manufacturers would focus on export markets, leading them to increase their interest in imports.
- 2001: The weak rand cushions the effect of the tariff adjustments.
- 2002: As the rand rebounds, the combined effect of a strong currency and a reduction in levels of protection favours a move to imports.
- 2003: Duty rebates on a number of fabrics not available in South Africa are removed, effectively pushing up the cost of certain locally produced apparel.
- August 2003: The anti-dumping duty imposed on imports of underwear from China is dropped.
- From January 2006: The duty on imports of apparel from Southern African Development Community countries, which currently stands at 10 percent, is due to be removed altogether (Inggs, March 2005).¹³

Figure 3 - South Africa's Tariff Liberalisation Programme



Source: DTI¹⁴

Although never anticipated or predicted, at the beginning of 2003, the exchange rate started appreciated especially against the US \$.

¹³ Clothing crisis jeopardises jobs - Margie Inggs - March 22, 2005 – <http://www.busrep.co.za>

¹⁴ DTI – www.dti.org.za

Over a period of eighteen months, from the beginning of 2003 to mid year 2004, the South African clothing industry went from a local manufacturer and exporter to an importer with the manufacturing sector declining and the exports almost non existent.

Figure 4 - South African Trade Figures in the clothing industry at a glance.

	1998	2001	2002	2003	2004
Estimated Revenue	R11bn	R11bn	R12.4bn	R14.3bn	N A
Exports	R0.8bn	R1.9bn	R2.6bn	R2.6bn	N A
Imports	R1.3bn	R2bn	R2.5bn	R2.8bn	R4.3bn
Av \$ Exchange Rate	R5.53	R8.60	R10.50	R7.60	R6.40
Employees	135833	133818	119745	113457	110739

Source: Busrep March 2005.

The increased openness of the South African economy, both in terms of tariff reductions and increased trade flows, is expected to have impact upon industry behaviour. International trade restrictions affect both the pricing and output behaviour of domestic and foreign firms. How these firms respond depends crucially on the market structure within the home and foreign countries. International competition is expected to be a major source of market discipline, even when the markets are faced with imperfect competition. International competition reduces the market power of domestic firms and thereby reduces the ability of firms to raise prices above marginal costs (Edwards & van de Winkel, 2005).

The intention of the South African trade liberalization and globalisation policies was to bring trade policies in South Africa in line with the global trading partners but in doing so, the policies have also created situations that have a negative impact on local industries in South Africa in particular the clothing manufacturing industry.

The negative impacts created by the trade liberalisation policies include;

- The increase of imported garments into the country.
- The increase of importation of illegal garments.
- The under invoicing of imported garments.

These negative aspects have resulted in the clothing manufacturing industry to become uncompetitive especially in the local markets. But the impact of these negative aspects not only affects the clothing industry, but is also depriving the country of much needed taxes and is also contributing to job losses.

Increased pressure from organised labour and employer organisations forced the government to react to the situation facing the clothing manufacturing industry and appointed a task team to investigate the situation at to report back to the government with suggestions and recommendations to address the situation.

2.4.1 Task Team

A task team was appointed by the former Minister of Trade and Industry, Mr. Alec Erwin, in May 2004 to investigate the increase in imports of clothing from China. The task team comprises of representatives from the DTI, representatives of clothing and textiles, footwear and labour.

The initial task of the team was to agree on quotas limiting Chinese imports with the Chinese government by September 2004, but by November 2004 no agreement had yet been established (Inggs, Jan 2005).¹⁵ The Chinese government rejected the quota system. They have in the interim agreed to apply a 20 yuan tax on all products to be exported

As at April 30, 2005 no further meetings of the task team have taken place and the progress of the investigation into the surge of Chinese imports has in essence not progressed since it was established in May 2004.

In contrast to the task team setup by the DTI to address the Chinese import situation, the USA has also setup commission to review the current non-market trade policies exercised by China. This commission, the U.S.-China Economic & Security Review Commission, meets on a regular monthly basis and to date has formalized recommendations to be submitted to the US Congress to move China to be compliant with WTO commitments.¹⁶

¹⁵ Inggs, Margie. *State-led textile task team flops*. Business Report – Independent News and Media – January 20, 2005

¹⁶ <http://www.uscc.gov/>

According the WTO, China is in violation of its WTO obligations in a number of areas impacting on vital economic interests of WTO member countries. The WTO is about free trade in market economies. China is part of the WTO but does not have a market economy and therefore has an unfair trade relationship with other member countries.¹⁷

South Africa is not alone facing the dilemma of Chinese products flooding the local markets. Most of the WTO members are facing the same dilemma and on March 3, 2004, WTO member countries signed a declaration calling for an emergency meeting of the WTO to address the situation. The declaration was termed the Istanbul Declaration Regarding Fair Trade in Textiles and Clothing. In summary the declaration calls on the WTO to extend the deadline date for the final implementation of the final integration stage to December 31, 2007. The reason for the extension is to allow local economies to protect their industries from the surge of the Chinese imports into their economies.

To date the WTO has not moved on its position as far as the phasing out of the MFA and the introduction of the free trade policies. No extensions or amendments to the agreements have been made.

2.5 The China influence in the local clothing manufacturing industry.

The China influence and their methods of trade play a significant role not only in the South Africa economy, but in many of the other global economies as well.

South Africa as well as all the free world economies are market economies, that is the governments do not over interfere in the markets and allows a largely free trade system. China on the other hand is a non-market economy; the government interferes in the workings of their market by subsidizing various resources and manipulates their currency. China as a non-market economy trading in market economies is a violation of the WTO

¹⁷ <http://www.wto.org>

trade agreements. Trading a now market economy affords China a competitive advantage that market economies find it difficult to compete against.

The affects of the China influence on the South African has negatively impacted on various industries but especially on the clothing manufacturing industry which has resulted in a decline in the industry as well as significant job losses in the industry.

At the expense of the local and certain global economies, the Chinese economy is experiencing an economic boom and with the boom comes a certain amount of economic growth. Rapid economic growth can also create problems to sustain the economic growth which may be facing China.

2.5.1 Sustaining the growth rate in the Chinese economy.

The current Chinese economy is experiencing rapid economic growth. The official growth rate is mentioned to be around 9%, but economic observers believe the real rate to be around 12%. But at the same time, the economy is running out of resources and inflation is expected to increase. The economy is now off the top of its investment-driven business cycle and is moving toward a position of substantial overcapacity, which may begin to weigh heavily on prices next year and should see exports surge (China Daily, March 2005).¹⁸

For the past two decades China is the world's fastest growing economy and has become a major force in the global economy. But the ostensibly communist regime in Beijing is struggling to put the brakes on the economy. The need to put the brakes on the economy and slow it down is because the Chinese is experiencing an extreme form of overheating (Coates, 2004).

¹⁸ Consequences of China's shifting economy - http://www.chinadaily.com.cn/english/doc/2005-04/29/content_438598.htm

Signs of overheating are unmistakable:

- An explosion of credit.
- Rampant overcapacity
- Nine tenths of manufacturing goods are in oversupply.
- Return of inflation.(Coates, 2004) ¹⁹

The president and prime minister have assured financial markets that measures are being taken to rein in excessive investment and they are engineering a 'soft landing' for the economy but, so far, with no discernible impact.

Last year, according to official statistics²⁰, China's gross domestic product (GDP) grew by 9.1%. Independent economists have viewed official Chinese statistics with skepticism, believing them to be exaggerated and believe the figures understate reality; the economy may in fact have grown by 11 or 12% in 2003. One reason for the discrepancy is that city and provincial governments are playing down local growth data in order to avoid penalties from Beijing aimed at reining in overheated sectors such as property, steel and cars (Holland, 2005).

The Chinese gross domestic product (GDP) grew 9.5% in the first quarter of 2005. Strong exports played a big role in driving the first quarter growth, rising 35% from a year earlier. China posted a US\$16.6 billion trade surplus in the first quarter, compared with a US\$ 8.4 billion deficit a year earlier.²¹ In an effort to cool the economy, in October 2004, the central bank raised interest rates for the first time in nine years, increasing the benchmark lending rate by 0.27 percentage points to 5.58% (Bei, 2005).

The biggest concern for the Chinese economy is the increase in investment growth and the capital flows in the economy's most over inflated sectors. Investment growth in fixed assets rose 23% in the first quarter of 2005. Chinese policymakers are well aware of the increase in capital flows creating a classic bubble in the Chinese economy and are

¹⁹ socialistworld.net - <http://www.socialistworld.net/eng/2004/08/03china.html>

²⁰ National Bureau of Statistics. <http://www.stats.gov.cn/english/>

²¹ National Bureau of Statistics. <http://www.stats.gov.cn/english/>

attempting to cool down the economy by applying both administrative controls and higher interest rates.

China displays many features of Asia's 'tiger economies' in the period leading up to their spectacular crash in the summer and autumn of 1997. Last year, fixed asset investment accounted for an unprecedented 47% of China's GDP, with the construction sector accounting for half this figure. By comparison, in 1992-96 fixed asset investment in South Korea, Thailand and Indonesia averaged 40% of GDP, still extremely high by international standards. In the same period, Indonesia, Malaysia, Thailand and the Philippines experienced money and credit growth rates of 25-30% a year. China's money supply grew by 20% last year, and bank credit (new loans) by 56% (Huang, 2005). The main problem in the case of the 'tigers' was that their exports became uncompetitive on world markets just as this new industrial capacity came on-line. The sharp rise of the US dollar in 1995, to which most Asian currencies were linked, priced them out of world markets (Coates, 2004).²²

China has taken into account the economic indicators that are similar to those indicators prior to the Asian Crisis in 1997 and have taken precautions to counteract these indicators. A notable precaution has been the cutting of interest rates six times since 1997, but recently the central bank has increased the interest rates again.

China's economic situation may stem from deflation (falling prices), the opposite to inflation (rising prices). Currently inflation in China is 5.6% and is the central bank believes it is controllable by increasing interest rates. The more serious problem is the potential for deflation arising from such extreme levels of overcapacity. Deflation not only squeezes profits, it magnifies the problem of debt, making repayments costlier in relative terms. This is a potential time-bomb for the Chinese economy which has financed its investment boom with unprecedented levels of credit (Coates, 2004).

²² socialistworld.net - <http://www.socialistworld.net/eng/2004/08/03china.html>

Deflation in the Chinese economy is not purely Chinese problem: if the country's pool of unsold goods is re-routed onto world markets the result will be a massive injection of deflation into the world economy.

2.5.2 China's currency – Yuan

The Chinese yuan has been pegged to the US dollar for more than a decade and has recently followed the American currency on its downward spiral against the world's major currencies including the rand.

Pegging a currency to another currency in essence means that the pegged currency follows the movements of the currency to which it is pegged. Economies that are not stable especially in situations of high inflation, generally peg their currency to another more stable currency. Pegging a currency does not allow the market forces of the currency's economy to determine the value of the currency and is seen as interference by the government in the economy which in turn deems the economy to be a non market economy.

The yuan is undervalued by approximately 25%²³, the undervaluation is determined by the cost of items supplied from China compared to the cost of equivalent items supplied by other countries.

Maintaining the peg with the US\$ affords the Chinese an unfair advantage over their competitors because as the US dollar fluctuates either up or down, so to does the yuan. Currently the US dollar is depreciating against the other major global currencies which in affect means that the yuan is depreciating and the end result are that Chinese products are constantly getting cheaper.

China government has come under intense pressure from foreign governments especially from the USA, to reassess their exchange rate policy of their currency. US manufacturers

²³ information sourced from US-China Economic and Security review commission – www.uscc.gov

blame the currency peg to the US dollar for the bulk of the US trade deficit with mainland China. The US manufacturers argue that the currency peg makes US imports and China mainland exports cheaper, giving mainland companies an unfair price advantage of 25% to 40%²⁴.

The Chinese government has two options available regarding their currency policy, they can either raise interest rates or they can abandon the currency's peg to the US dollar. Both options have been under discussion for some time which indicates how reluctant China is to move on either front.

Higher interest rates would be the most effective way to regain some control over credit levels and investment, but the results may be too dramatic. By encouraging people to save, and making consumer loans more expensive, this could undermine consumption at a time when the opposite is sorely needed in China. A rise in interest rates will also aggravate the banks' problems with 'non-performing loans' which, according to official estimates, are equivalent to 20% of GDP. Some economists believe the figure is closer to 40% (Coates, 2004).²⁵

Another problem is the huge sums of so called 'hot money', around \$12 billion a month pouring into China as foreign banks and hedge funds bet on an imminent rise in the yuan. Hot money in an economy is money that flows into an economy for speculative reasons, where investors are looking to make a quick profit, but as easily as it flowed in, so to can it flow out with devastating effects on the local economy. Higher interest rates could trigger even bigger speculative inflows which, as the experience of the 'tigers' showed, are highly destabilizing (Coates, 2004).

Revaluation of the yuan is not a painless option, either. On the plus side, it would ease inflationary pressures, cheapen imports of raw materials, and postpone the need for a rise in interest rates by putting the brakes on some forms of investment. It would also help to cool trade tensions with the US, China's biggest export market. But the risks are considerable, not least because the central bank may not be able to control the currency's

²⁴ Reuters - Washington

²⁵ socialistworld.net - <http://www.socialistworld.net/eng/2004/08/03china.html>

rise once the present dollar peg is abolished. Exports would suffer, as would foreign direct investment, but the financial system, too, could be placed under new pressures from speculative assaults on the yuan. The global effects would be considerable, especially if China was forced to begin selling its massive foreign exchange reserves, worth \$440 billion in May 2004, which have helped finance the twin deficits (federal budget and balance of payments) of the Bush administration in the US (Coates, 2004).²⁶

From China's side, by maintaining the currency peg is the wisest choice to maintain currency stability. The central bank sites three reasons to maintain the currency peg. The first reason is that since 1998 Chinese businesses are shifting their foreign exchange holdings left outside the country back to China. The second reason is the increasing number of overseas Chinese citizens remitting forex back to invest in the booming real estate sector and financial markets. The third reason is inflows under capital accounts as a result of "improper" expectations for yuan appreciation.

China is well aware of the pressure on the yuan in the marketplace as well as from governments but is holding out on their currency stance as long as possible and the main reason for this is to build up the forex reserves whilst the yuan is undervalued. Whilst the yuan remains pegged to the dollar, China is purchasing forex at a 25% discount. As soon as the peg is removed and the currency is revalued, forex will cost China 25% more.

A further issue of concern is as the Chinese government tries to head off overcapacity by restraining investment, the savings surplus and hence the trade surplus will increase. Any revaluation of the currency large enough to counteract these forces would have been about 40% as a minimum estimate. A revaluation at this rate would probably plunge the economy into serious deflation (China Daily, March 2005).²⁷ It is unlikely that the Chinese government will take such a dramatic step. Instead, if the Chinese government should capitulate to foreign pressure on their monetary policy they are likely to pursue greater exchange rate flexibility by switching to a trade-weighted basket peg.

²⁶ socialistworld.net - <http://www.socialistworld.net/eng/2004/08/03china.html>

²⁷ Consequences of China's shifting economy - http://www.chinadaily.com.cn/english/doc/2005-04/29/content_438598.htm

The US on the other hand has decided to force China to change their monetary policy. In April 2005, the Senate voted on a bill that would impose 27.5 percent across-the-board tariffs on Chinese imports to the United States unless China changes its currency system but this is violation of the WTO.²⁸ Initially China agreed to impose an export tax on all garments exported, but before the tax was implemented, China decided to drop the export tariffs, citing "The bottom line is: how can China buy planes if it cannot sell clothes?" (Sapa-AFP, May 2005).²⁹

According to the president of Clotrade, Mr. Jack Kipling, it is estimated that the yuan is about 40% undervalued and therefore Chinese products are on average cheaper by the same percentage to the equivalent products on the global markets (Moritz, 2003).³⁰

The rand has also appreciated against the US dollar by 30% in 2002 and a further 25 % between January and October 2003. This in essence means that as the rand appreciates, the price of imported Chinese products become cheaper. As long as the monetary policy of the China is to maintain the peg with the US dollar and the dollar continues to weaken against other global currency, Chinese products will continue to be cheaper and local equivalent products will find it increasingly difficult to compete.

2.5.3 Surge of imports from China

The removal of all the protection barriers of the South African clothing industry brought a surge of imports from many far eastern countries particularly China. According to the president of the SA Textile Federation, Mr. Walter Simeoni, currently 86% of all clothing imported in South Africa comes from China (Nduru, January 2005).

According to SACTWU, the value of clothing imports from China, is four times the value it was in 2002, accounting for three quarters of all clothing imports into South Africa. Over the same period, 36 000 jobs have been lost in the South African clothing, textile

²⁸ US turns up heat on China's currency. <http://www.busrep.co.za>

²⁹ Sapa-AFP. Textile dispute will be settled. Daily News. Independent News and Media. May 31, 2005.

³⁰ A monster threat to our clothing industry. <http://www.pursuit.co.za/archive/dec03> -Cindy Lee Moritz

and footwear industry and its SACTWU's opinion that these job losses stem from the surge of imports from China (Ntingi , 2005).³¹

Three factors are suggested that result in the very low cost prices of Chinese products that are imported into South Africa;

- China's currency
- State-subsidized recourses.
- Under invoicing

2.5.4 Chinese state-subsidizes

The Chinese economy is based on communistic ideology and all vital resources especially in the manufacturing industries are state subsidized. Vital resources include electricity, labour and transportation, all of which account for significant cost inputs into the manufacture of products especially clothing.

More than 50% of China's textile sector and 25% of the clothing sector is state-owned and subsidized by national government, provinces or municipalities. The establishment of privately owned clothing manufacturers is on the increase, they too are heavily subsidized including the construction of the buildings to house these privately owned factories. In addition, China gives its textile and clothing exporters a 13% rebate or export incentive, and Chinese banks make loans to firms that wish to build textile and clothing plants that often do not have to be repaid.

2.5.5 Chinese Labour Costs

Labour costs are the single biggest factor contributing to the cost of an item produced in clothing manufacturing. The cost of Chinese labour is among the lowest in the world at 3% that of the US, and roughly one fifth of the South African equivalent (Nkem-Abonta, 2005).³²

³¹ Ntingi, Andile. *Analysts not sure if free trade has helped SA*. Business Report – Independent News and Media – April 08, 2005.

³² Nkem-Abonta, Enyinna. *Textiles sector crisis - the DA's 8-step solution* . March 10, 2005 - <http://www.da.org.za/da/Site/Eng/News/Article.asp?ID=4985>

Wages rates in China are between US\$40 and US\$100 per month.³³ In South Africa the equivalent wage is US\$372 or R2 235 per month for a grade 1 machinist in the clothing industry working in a metro area. In a non metro area the same worker would earn US\$215 or R1 290 per month. Although the wage rates in China are on average much lower than the wages paid in other manufacturing industries around the global, the Chinese wage factor is not considered in the overall costing of products manufactured in China because the wages are subsidized.

In essence the wages rates in China are zero when compared to other global manufacturers for costing purposes.

2.5.6 Under Invoicing of Imports

Under invoicing is a common tactic used to avoid paying the required duty when products arrive at the imported market. The fundamental reason for under invoicing is to enter the importers market at a very low price and to knock out the competition. After the competition has left the market and sufficient market share has been secured, then the prices of the products are increased.

The Chinese manufacturers follow a trade principle of a third of the cost value of the order to be paid up front as a deposit, the balance of the cost value to be paid when the order is shipped. The Chinese export agents will then produce the shipping documents including the invoices to indicate only the two thirds value of the order. The deposit value is not disclosed as this amount has already been paid. On entry into the importing country, the import duties are calculated on the documents presented by the shippers who are none the wiser that the consignment has been under invoiced. The duty falls on the customs authority to police the amounts charged for imported merchandise but in South Africa no regulated amounts for merchandise are in force to be used as a guideline to ensure that consignments are invoiced at reasonable prices to prevent under invoicing.

³³ National Bureau of Statistics. <http://www.stats.gov.cn/english/>

It is very clear that the Chinese trade policies are in violation of the WTO rules. The unfortunate situation is that the members of the WTO never anticipated that China would become a threat to global trade. The free trade policies designed for all members to trade freely and fairly with each other are now confronted with one member not playing by the rules. The rules do not allow for the policies to be retracted protecting the local industries from this unfair trade practice.

2.5.7 The South African China Strategic Relationship.

On current trends China will be an economic superpower within a generation. Therefore engaging China politically and recalibrating South Africa's economic policies towards China are essential. This may not benefit the clothing manufacturing industry but may benefit other strategic industries.

On the surface it does not appear that the SA government has any type of strategic relationship with China. But the relationship SA has with China in other areas of trade may be stronger and more beneficial to the country as a whole than the clothing industry. Trade between SA and China has risen to R23bn. SA exports mainly commodities, minerals and base metals. Minerals and base metals account for 65% of SA's total exports to China.³⁴ China in return export to SA manufactured goods primarily electrical and electronic machinery. Clothing, textiles and footwear account for one third of the total exports from China.³⁵

Recently a memorandum of understanding was signed between SA and China regarding a nuclear link up. This memorandum of understanding is for the cooperation and development of pebble bed modular reactor (PBMR) technology. This technology is nuclear technology used in the manufacture of electricity. At this stage it is unclear what the relationship is and what benefits each country will derive in the future.³⁶

³⁴ Treat lightly around China. <http://www.saiia.org.za>

³⁵ Information sourced from <http://www.saiia.org.za/modules.php?op=modload&name=News&file=article&sid=497>

³⁶ Information sourced from <http://www.engineeringnews.co.za/eng/sector/energy/?show=64356>

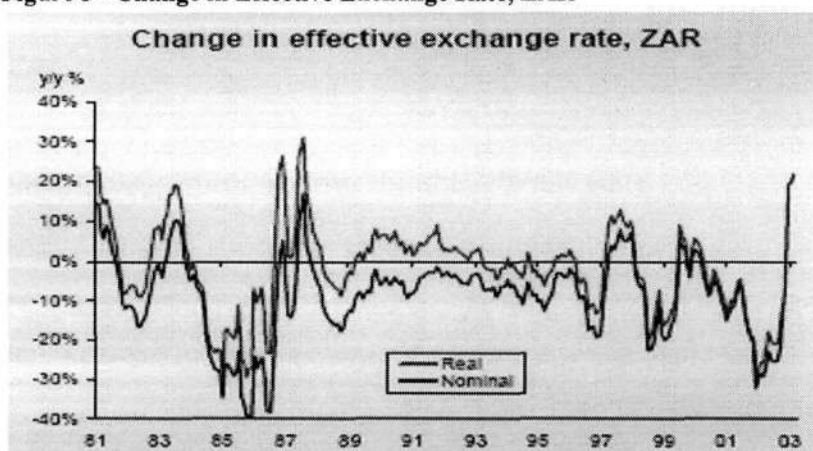
South Africa also exchanges mining technology with China and produces motor vehicles specifically for the Chinese market; these industries may be more lucrative and strategically more important to SA than the clothing industry.³⁷

During September 2004, the Ex Deputy President, Mr. Jacob Zuma, together with various parliamentary ministers and deputy ministers including the Deputy Minister of Trade and Industry, Mrs. Lindiwe Hendricks, traveled to China to hold discussions with their Chinese counterparts (Mokgola, 2004).³⁸ These discussions included the necessity to increase trade relations, competition policy and consumer protection (Mokgola, 2004).

2.6 The South African Rand Exchange Rate

The rand has improved by 43% since early 2002 and by 87% since its all-time low in late 2001 against the US dollar. Against the trade-weighted basket it has strengthened by 45% and 34% over the same periods. Or in rands and cents terms, the currency depreciated from an exchange rate of R3.50 per US\$ in 1994 to R13.00 per US\$ in 2002 and then appreciated to below R6.00 per US\$ in 2005³⁹.

Figure 5 - Change in Effective Exchange Rate, ZAR



source: ABSA- Economic Perspective – First Quarter 2002

³⁷ Treat lightly around China. <http://www.saiia.org.za>

³⁸ Mokgola, Thabo. Zuma's China trip 'successful'. BuaNews.

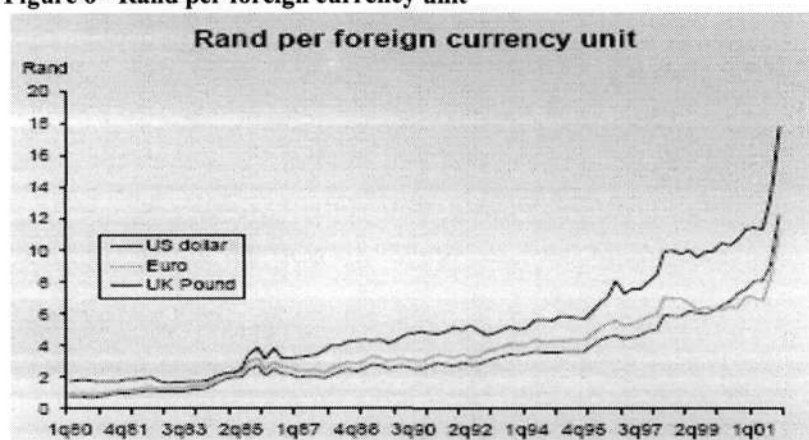
http://www.southafrica.info/doing_business/sa_trade/agreements/chinavisit-sept04.htm. - October 1, 2004

³⁹ <http://www.absa.co.za>

After sanctions were eased and the dual exchange rate system was abolished, the first major weakness in the currency emerged in 1996. During 1996 the currency declined by 15,6% against the US dollar. However, the rand quickly stabilized and even improved slightly after the release of government's GEAR (Growth, employment and redistribution) macro-economic strategy. 1998 saw another major collapse of the currency, this time as a result of contagion following currency collapses and financial systemic crises in most south-east Asian and Russian economies. Faced with acute pressures on the rand in the foreign exchange market during May 1998, the Reserve Bank embarked on a policy of trying to support the rand by substantial sales of dollars out of the foreign reserves, as well as intervention in the forward rand-dollar market by buying dollars spot and selling dollars forward, and then selling the spot dollars acquired to support the rand.

During 1999, the currency recovered somewhat and its real effective rate actually increased during the first six months of 1999 by more than 5%. However, as a result of high interest rates, economic growth in 1998 was only 0,8%, while insolvencies and liquidations in the private sector increased significantly. Measured on a year-on-year basis, the rand lost another 19,2% of its value against the US dollar, 14,9% against the British pound, and 17,4% against the euro in 2001.⁴⁰

Figure 6 - Rand per foreign currency unit



source: ABSA - Economic Perspective – First Quarter 2002

⁴⁰ Source – SA Reserve Bank – <http://www.reservebank.co.za>

This seemingly endless decline in the rand confounded analysts since many of the reasons given for the fall had been in existence for some time such as the Zimbabwe crisis with speculation that Mugabe's land reform antics in Zimbabwe would spill over into South Africa. The global economic conditions and domestic structural issues also played a key role in the continuous decline of the currency although the rand was initially, together with other emerging market currencies, adversely affected by the attack on America on 11 September 2001; no other currency in the world has suffered the same extent of depreciation since then.

The significant benefit of the depreciating rand was that it gave a boost to South Africa's exports. South African products gained market share abroad, exports rose in volume terms, which imparted further benefits on the balance of payments and economic growth in general.

Towards the end of 2002 the currency reached an all time record low of almost R13 to the US\$ due to foreign speculation on the currency and even prompted the national government to appoint a commission of inquiry into the rapid depreciation of the currency. However much the continuous depreciation of the currency confused analysts and economists, so to did its about turn and sudden appreciation also confuse the analysts and economists seeking reasons to justify the currency's performance.

Analysts concluded that factors both global and local can be attributed to the strengthening of the currency. From a global perspective, South Africa's low external debt, disciplined fiscal and monetary policies and investment grade sovereign rating have attracted interest in rand securities, driving down the sovereign risk premium. High relative interest rates do not always support a currency, but the current global conditions have been very conducive.⁴¹

Once a currency establishes a stronger trend, leads and lags start to take effect. Exporters start to take out forward cover and importers become braver and reduce cover. Foreign

⁴¹ ABSA - Economic Perspective – First Quarter 2002. <http://www.absa.co.za>

holdings through customer foreign currency (CFC) accounts are also reduced. The combined effect gives the currency further upward momentum and is also quite often the reason why markets overshoot on the upside as well as on the downside.⁴²

A second supporting factor has been the elimination of the official net open forward position (NOFP). In the past its existence has weighed negatively on sentiment and therefore on the rand. From 1999 onwards there was a commitment to withdrawing from the forward market. Ironically, the very process of achieving this objective also weighed on the rand. As dollars were withdrawn from the spot market any upside potential in the rand vanished, leading to aggressive speculation against the currency, particularly in 2001. The removal of this position has made the currency much more of a two-way bet and reduces the chances of a strong collapse in the future.⁴³

2.7 SWOT Analysis

SWOT is an acronym for the internal Strengths and Weaknesses of an organisation or industry and the external Opportunities and Threats facing the organisation or industry (Pearce & Robinson, 2003).

A SWOT analysis is widely used to obtain an overview of an organisation's or industries current strategic situation. The analysis is based on the assumption that an effective strategy derives from sound fit between internal resources, the strengths and weaknesses, and the external situation, the opportunities and threats (Pearce & Robinson, 2003). A SWOT analysis is an analysis of an organisation's or industry situation. Situation analysis is viewed as one of the fundamental elements of strategy formulation. Situation analysis is undertaken to provide an overview of best possible data, information, and understanding of the forces, trends, and root causes of a defined context in which it intends to intervene in the competitive marketplace (Fleischer & Bensoussan, 2003).

⁴² ABSA - Economic Perspective – First Quarter 2002. <http://www.absa.co.za>

⁴³ ABSA - Economic Perspective – First Quarter 2002. <http://www.absa.co.za>

The situation analysis consists of an environmental analysis. That is the microenvironmental situation relating to the internal situation of the industry or organisation and the macroenvironmental situation relating to the external situation of the industry or organisation (Fleischer & Bensoussan, 2003).

2.7.1 SWOT Definition

- Strengths – are those factors that make an organisation or industry more competitive than its competitors.
- Weaknesses – are limitations within the organisation or industry that prevents it from being competitive.
- Opportunities – are the favourable trends and demands in the market place available for the organisation or industry.
- Threats – are the unfavorable situations facing the organisation or industry in the market place (Pearce & Robinson, 2003).

2.7.2 SWOT Analysis

The SWOT analysis is done by listing all the four definitions and then matching the strengths with the weaknesses and the opportunities with the threats as presented in the following illustration.

		Internal Factors	
External Factors	Opportunities	Strengths	Weaknesses
		1. Internal Strengths matched with External Opportunities	2. Internal Weaknesses Relative to External Opportunities
	Threats	3. Internal Strengths matched with External Threats	4. Internal Weaknesses Relative to External threats

Figure 7 - The Common SWOT Model

Source: Adapted from: The Common SWOT Model – Fleisher & Bensoussan, 2003.

2.7.3 The value of SWOT Analysis

The value of a SWOT analysis is to determine where the strengths of an organisation or industries lie and what opportunities are available for the organisation or industry.

The analysis also determines where the organisation or industry is exposed to threats from competitors through the identification of the weaknesses in the organisation or industry. The intention of the analysis is to suggest to the organisation or industry where to capitalize on the existing strengths through the available opportunities and to try to overcome or limit the weaknesses to be able to compete with the threats from competitors.

2.7.4 Limitations of SWOT Analysis

The SWOT analysis is a descriptive model purely for situational analysis and does not offer recommendations to rectify or improve the current environmental situation. While the SWOT analysis is useful reducing a large quantity of situational factors into a manageable profile, the SWOT framework has a tendency to oversimplify the entire situation.

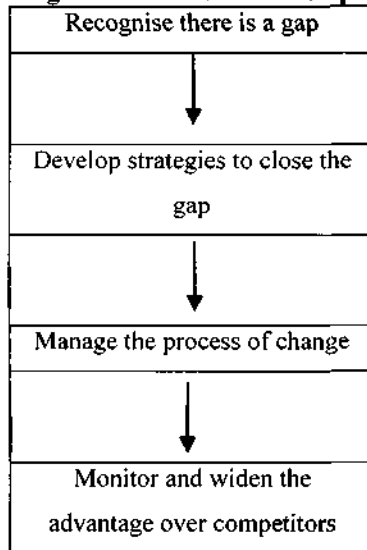
Analyzing the current situation of an organisation or industry is useful to determine where the organisation or industry is in relation to competitors and the analysis is in the position to suggest where the organisation or industry should be in relation to the competitors. Suggestions how to move the industry or organisation from its current situation to a future situation is called a Gap analysis.

2.8 Gap Analysis

In assessing strategies for the future, organisations and industries are usually concerned with understanding the incentive to change. The need for change is necessitated by the fact that the current situation in the organisation or industry is falling short of the organisation or industry aspirations, which is to be competitive in their market place. Gap analysis is one approach to assess the need for change (Ambrosini et al, 1998). More usefully, Gap analysis is less concerned with the fact that there is a gap between things, than how to close the gap. Recognition of the fact that a gap exists is only one stage in the

process. Having recognized that there is a gap, organisations and industries need to develop strategies that will close the gap, manage the process of change, and finally, monitor the process to ensure that the same gap does not reappear (Ambrosini et al, 1998). The process of the gap analysis can be graphically displayed as per figure 7 and 8.

Figure 8 - A model of Gap Analysis



Source: Adapted from: The Gap Analysis Model. (Ambrosini et al, 1998)

Performance Gap Analysis

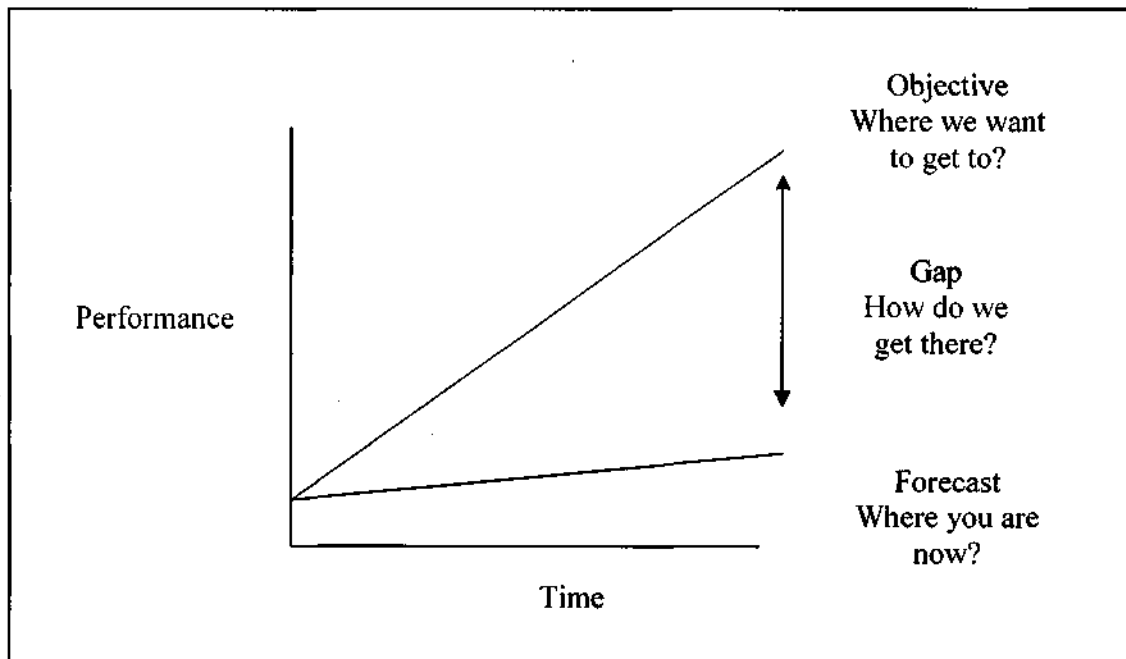


Figure 9 - Performance Gap Analysis

Source: Adapted from: Performance Gap Analysis. (Ambrosini et al, 1998)

A simple, but very powerful approach to the gap analysis centers around three questions;

- Where are we now?
- Where do we want to be?
- How do we get there?

The usage of these three questions frame the nature of the planning and forecasting problem facing the organisation or industry and allows for the application of other strategic planning techniques with purpose and direction.

Using the opportunities from the SWOT analysis as an answer to the Gap analysis question of “where do we want to be” and to capitalize on the identified strengths as “how do we get there” moves the organisations or industry away from the weaknesses and threats within the organisation or industry.

The SWOT and Gap analysis is detailed in chapter 5.

2.9 Conclusion

Chapter 2 discussed of the labour relations system and paid particular attention to the specific areas that are deemed to render the system as rigid and inflexible.

South Africa's trade liberalisation policies and the implementation of the WTO trade agreements and phasing out of the MFA was also discussed. The removal of protection barriers and dumping duties has caused an influx of competition particularly from China was highlighted and this lead to a discussion of the China influence in the local clothing manufacturing industry.

The discussion of the China influence in the local markets included a discussion about the Chinese economy currently in a state of rapid growth and their ability to sustain this rapid growth. A discussion on the Chinese currency was also included and paid particular attention to their currency peg.

Since large volumes of imports in South Africa stem from China and the Rand is free floating, the chapter included a discussion on the current situation of the Rand and the effects the appreciation of the rand has on imported products those local currency is pegged.

Some of these reasons can be addressed by the industry and recommendations and proposals can be formulated in an effort to overcome these reasons to ensure the longevity and well being of the industry. But there are reasons that are beyond the control of the local industry which has a major impact on the future status of the industry.

Chapter 2 concluded with a theoretical discussion on the application of a SWOT and Gap analysis to be used to analyze the clothing manufacturing industry in chapter 5.

Chapter 3 follows with the research methodology to determine the reasons and factors contributing to the decline in the clothing manufacturing industry in South Africa.

3. CHAPTER 3 – RESEARCH METHODOLOGY

3.1 Introduction

The objective of study is to determine the reasons for the demise of the clothing manufacturing industry.

To accomplish the objectives of this study the will answer the following problem statement

1. What other reasons are also contributing to the decline of the clothing manufacturing industry in South Africa?

In order to determine those reasons for the demise of the clothing manufacturing the study will conduct a quantitative research in the form of a questionnaire to be completed by the various organisations who have a vested interest in the longevity of the clothing manufacturing industry. The study will also conduct a qualitative research in the form of personal interviews on organisations who also have a vested interest in the clothing industry.

3.2 Sample Selection

The various parties to be questioned will be organisations concerned with the clothing manufacturing industry, these organisations include;

- Trade Unions
- Employer Organisations
- National government – DTI
- Local and national journalists
- Clothing manufacturing companies
- Suppliers to the clothing manufacturing industry
- Providers of services to the clothing manufacturing industry.

The entire population of all organisations concerned with the clothing manufacturing industry cannot be determined because there are too many different organisations and concerns that have a vested interest in the clothing manufacturing industry. The population of clothing manufacturers can be determined from employer organisations such as the NCMA in KwaZulu-Natal or the bargaining council. It is difficult to determine the populations of CMT manufacturers as they do not all belong to any employer group.

The questionnaire will be distributed to as many of the numerous parties concerned with the clothing industry as possible to determine their opinion regarding the reasons for the demise of the clothing manufacturing industry.

3.3 Instrumentation

The survey to be undertaken will be quantitative exploratory research in the form of a questionnaire of seven questions put to organisations concerned with the clothing manufacturing industry.

Additional to the questionnaire, a qualitative research in the form personal interviews, based on the questions posed in the questionnaire, will be conducted on certain organisations to obtain additional insight from these specific organisations. These specific organisations include;

- Trade unions
- Employer organisations
- Clothing manufacturers
- Journalists
- Shipping agents

The need to obtain this additional insight from these specific parties adds more clarity to certain factors contributing to the clothing industry. This additional insight includes a

discussion on the illegal imports of clothing into South Africa and forms part of the interview analysis in chapter 5.

The aim of the research is to obtain the opinion of the respondents regarding the reasons for the decline in clothing manufacturing industry; hence, the questionnaire will entail questions pertinent to the problem.

3.4 Pilot Testing

A pilot questionnaire was designed using the reasons for the decline in the clothing manufacturing industry stated in press articles. This formed the basis for the questions in the questionnaire.

This produced an initial questionnaire of ten questions primarily using the opinion variable for the questions. The questions required the respondent to select and option for each answer and also to supply an opinion based answer in the form of a statement of a few lines. The questionnaire was targeted at the upper management structures of organisations and with prior knowledge of posted questionnaire being intercepted as “junk mail”, the e-mail method of distribution was decided upon in an attempt to get the questionnaire directly to the targeted person’s desk.

A copy of the pilot questionnaire is provided in the Appendices – Appendix 1

The questionnaire was sent out to 36 e-mail addresses obtained from employer organisation’s membership directories and various other sources. Of the initial 36 questionnaires sent out, the following is a summary of the responses;

- Trade Unions – 2 questionnaires e-mailed – no response.
- Employer organisations – 5 questionnaires e-mailed – one response, two declined and 2 no response.
- CMT Employer organisation - one questionnaire emailed no response.

- Clothing retail group – one questionnaire emailed no response.
- Journalists – two questionnaires emailed no response.
- SARS - one questionnaire emailed no response.
- DTI - one questionnaire emailed no response.
- Clothing manufacturers and CMT - 23 questionnaires emailed – 15 responses.

The follow up investigation into the poor response for the initial questionnaire provided the following reasons;

- The questionnaire turned out to take too long to complete. The participant would initially start answering the questionnaire and then put it aside to complete it later and never returned the questionnaire.
- The questions required the participant to supply an opinion on certain issues. The participants were reluctant to supply detailed opinions stating that it took too long.
- The e-mail system of distribution did not provide the desired results as some of the intended participants simply ignored the e-mail.
- Sending the questionnaires to the upper management did not have the desired effect because in most cases the questionnaires were forwarded to personal assistance's to complete.

Following the results of the initial distribution of the questionnaire, the questionnaire design and approach to the distribution was changed.

The questionnaire was reduced to seven questions taking a maximum of between 3 and 5 minutes to complete. Assistance was also employed to assist with the distribution and collection of questionnaires.

The pilot testing also provided information that government departments as well as certain corporate organisations are not permitted to partake in any private survey as the information provided for the survey may be misconstrued as the official opinion of that department or organisation. Any opinion required for the survey from the government

departments or these certain corporate organisation can only be obtained from the official media releases from the department or the corporate organisation on the matter.

3.5 Questionnaire

The research intends to establish the reasons contributing to the decline in the clothing manufacturing industry; therefore the research needs to establish the awareness and the opinion variables of the various members of the clothing manufacturing industry. Hence, the questionnaire needs to entail questions that will probe the awareness and opinions of the situation in the clothing manufacturing industry from the respondents.

The key issue of the questionnaire is to present the pertinent issues relating to the clothing manufacturing industry to the participants in the form of answers to the questions presented in the questionnaire. This is to determine if the participant agrees or disagrees with the issue in relation to the clothing industry.

3.6 Questionnaire Selection and Analysis

The design of the questionnaire will affect the response rate and the reliability and validity of the data collected. Therefore it is important that each question achieves the intended objectives of the study.

A copy of the questionnaire is provided under Appendices – Appendix 2

3.6.1 Question 1

Do you think the clothing manufacturing industry in South Africa is in a crisis?

The question seeks to discover if the participant is aware of the current situation facing the clothing manufacturing industry. A negative response to the question terminates the questionnaire for the respondent.

3.6.2 Question 2

Do you think the clothing manufacturing industry in South Africa has declined during the past three years?

The question confirms the participant's awareness of the situation in the clothing manufacturing industry. Either choice of answer determines the respondent's opinion of the situation in the industry. This question verifies the objective of the study to determine if the clothing manufacturing industry is indeed declining.

3.6.3 Question 3

What do you think is the cause of the decline in the clothing manufacturing industry in South Africa? You may select as many options as you feel are appropriate?

This question focuses directly at the objectives of this study to prove what the reasons are for the decline of the clothing manufacturing industry. The question seeks to discover the participant's opinion of the causes for the decline in the industry. Participants may choose more than one option since there are various factors contributing to the decline in the clothing industry.

3.6.4 Question 4

Which of the following countries do you think the majority of clothing imports stem from?

The question seeks to determine the participant's opinion of which countries the majority of clothing imports originate from. This question also determines if the participant is aware that clothing imports is a factor contributing to the decline in the industry. If the participant does not indicate "clothing imports" as an option in question 3, the participant is directed to skip question 4.

3.6.5 Question 5

Do you think the South African government is doing anything to protect the clothing manufacturing industry in South Africa from foreign interference?

The question determines the awareness of the participant to the government's involvement or lack of involvement in the protection of the clothing industry. Although this question does not focus on any of the objectives of the study, it does seek to consider if the phasing out of the MFA and the introduction of the WTO trade agreements removed the protection of the clothing manufacturing industry from barriers to enter the market.

3.6.6 Question 6

If the Rand should weaken, do you think the clothing manufacturing in South Africa will improve?

The question seeks the opinion of the participant regarding the influence a depreciating the Rand would have on the clothing industry. This question is intended to determine if there is a relationship between the strength of the Rand and the decline in the clothing manufacturing industry.

3.6.7 Question 7

What do you think can be done to save the clothing manufacturing industry in South Africa?

The question seeks to determine the participant's opinion of how the clothing manufacturing industry can be saved. The results of this question are to provide recommendations to be used in chapter 5.

3.7 Procedures

The questionnaires together with a covering letter will be distributed to the various parties concerned with the clothing manufacturing industry.

The covering letter will inform the participants of the motivation, value and objectives of the study and the reasons for the required completion of the questionnaire. The covering

letter will also assure the respondent of the confidentiality of the questionnaire and will also provide the respondent the details of the student undertaking the study (appendix 3).

3.8 Personal Interviews

Data for the study will also be obtained through personal interviews.

The personal interviews will be based on the questions drawn from the pilot questionnaire together with a more in depth discussion in the following areas;

- The current status of the clothing industry
- Under invoicing and illegal imports
- Surge of imports from China
- The exchange rate of the rand
- Chinese economic policy including the pegging of the currency as well as the interference in the workings of the market
- The future of the clothing industry

3.8.1 Personal Interview Procedure

The interviews will be conducted either in person or telephonically. The interviewees will first complete the questionnaire used in the pilot testing. Following the completion of the questionnaire, an in depth discussion will take place. The completed questionnaires of the personal interviews does not form part of the pilot study response rate analyses and the data does not form part of the data collected in the second questionnaire.

3.9 Reliability of Data

The particular design of each question is to ensure the reliability of the intended data to be collected.

The design of each question was chosen so that the same result will be achieved regardless when the question is posed to the participant. No question was designed so that various times or situation may affect the result of the answer to the question. The design of the questions also ensured that similar observations will be reached by other observers.

3.10 Validity of Data

The validity of data is concerned with whether the data collected is actually the data the study intends collecting.

The participants of the research questionnaire may interpret the questions differently and supply information contrary to what is required. Therefore to ensure the validity of the data, the questions were designed to ensure that the participants understand the questions and supply the information that is pertinent to this study.

Both the reliability and validity of the questions were pre-tested in the pilot study.

3.11 Limitations

Certain participants were not convinced of the confidentiality of the survey and in fear of reprisals from their employees and or trade unions did not want to partake in the survey and did not respond or return the questionnaire.

Certain companies have policies restricting their employees from completing survey's that may be misconstrued as the company's official position on certain issues presented in the surveys. Government departments are reluctant to respond to surveys. Any information regarding the government's position on issues presented in surveys are referred to the government's official press departments on the issues.

These limitations emerged through the pilot testing of the questionnaire.

3.12 Conclusion

The intention of the survey is to determine the opinion and awareness of the participants regarding the reasons for the demise of the clothing manufacturing industry.

The questions were selected to focus on the specific factors that contribute to the decline in the industry. These specific factors were presented as answer options. The participant is expected to agree or disagree with the options presented.

The procedure of the survey is to send out as many questionnaires as possible to the parties concerned with the clothing manufacturing industry to determine their opinion regarding the situation in the industry.

The research questionnaire was pilot tested before mass distribution took place and the pilot testing revealed the need to change the question format and the method of mass distribution. The pilot testing also revealed the limitations that this study will experience through the research survey to be conducted.

Chapter 4 follows with the results of the survey and a graphic display of the data collected in the questionnaire as well as a discussion on specific points raised in the personal interviews.

4. CHAPTER 4 – RESULTS OF THE SURVEY

4.1 Introduction

The objectives of this study were to determine the reasons for the demise in the clothing manufacturing industry. To achieve this objective, the study conducted quantitative and a qualitative research to acquire primary data that would be used to determine the objectives of this study.

Two methods were used to acquire the primary data, a questionnaire and personal interviews. The questionnaires were distributed and collected via fax, e-mail and by hand. Interviews were conducted personally or telephonically and included a in-depth discussion in the interviewee's field of expertise to gain additional insight into pertinent issues pertaining to the clothing manufacturing industry.

4.2 Population Sample

The various organisations surveyed include;

- Clothing manufacturers including CMT manufacturers
- Raw material suppliers to the clothing manufacturers
- Employer organisations
- Trade unions representing the clothing industry
- Clothing retailers, the major chain stores.
- Bargaining council
- Service suppliers to the clothing manufacturing industry
- Government departments, SARS and DTI.

4.2.1 Population Sample Details

Organisation	Total Quantity
Industry Associations	6
Raw Material Supplier – Packaging	16
Raw Material Supplier – Threads, Yarns & Fibres	26
Raw Material Supplier – Fabric Manufacturers	16
Raw Material Supplier – Dyers & Finishers	14
Service Suppliers – Machinery	44
Service Suppliers – CAD	2
Apparel CMT Manufacturers	46
Apparel Manufacturers	1089
Retailer – Major Chain Stores	15
Trade Unions	2

Figure 10 - Population Sample Details.

Source: Pursuit Clothing and Textile Magazine Index - 2003

Population sample details are provided from once source who subscribe to the services of this source. Many of the apparel manufacturers are listed more than once by this source. If the manufacturer produces more than one type of garment, for example, trousers and shirts, the manufacturer will be listed as a shirt manufacturer and as a trouser manufacturer.

The entire population of all organisations could not be determined because the population frame for this study is too large.

The study conducted an initial pilot quantitative research e-mailing 36 questionnaires to the various organisations concerned with the clothing industry. A total of 15 questionnaires were completed and returned, 2 participants refused to partake in the survey and 19 did not respond.

The study then conducted a qualitative research in the form of personal interviews. An attempt was made to conduct 11 personal interviews; the study was successful in

completing 9 interviews. The 2 unsuccessful interviews were to be conducted with two government departments, both declined to be interviewed and part of this study.

The study then conducted a second quantitative research in the form of a revised questionnaire. A total of 121 questionnaires were distributed to the various organisations and 89 questionnaires were completed and returned. A total 32 questionnaires were not completed of these 18 participants did not respond and further 13 questionnaires were returned undelivered and 1 person refused to complete the questionnaire.

4.3 Personal Interviews Response Analysis.

A total of 9 interviews were conducted, summarised as follows;

- Bargaining council – one interview
- Clothing manufacturers – two interviews
- CMT Association – one interview
- Employer organisations – two interviews
- Import Export Shipping consultant – one interview
- Journalist – one interview
- Trade union – one interview

	Clothing Manufacturer	Employer Organisation	Trade Unions	Service Supplier	Bargaining Council	Government Department	Totals
Interviews Requested	2	3	1	2	1	2	11
Interviews Conducted	2	3	1	2	1	0	9
Interview Refused						2	2
Overall Response Rate							81%

Figure 11 - Personal Interview Response Analysis

An attempt was made to interview representatives from the DTI and SARS, both departments were reluctant to be interviewed.

The study wanted to obtain information from the DTI of how the department foresees the future of the clothing manufacturing industry and if there are any attempts from the government to save the industry from total collapse.

The importance of an interview with the SARS was to determine the control and policing of imports into the country as well as the situation surrounding under invoicing and the importation of illegal clothing.

The procedure of the personal interviews was based on the initial pilot testing research questionnaire. Each interviewee completed a questionnaire which does not form part and has not been included in the questionnaire results. Following the questionnaire a more in-depth discussion was held with each interviewee.

The in-depth discussion with each interviewee was based on the following topics;

- The current status of the clothing industry.
- The labour relations system of South Africa.
- The China influence in the clothing industry.
- The government's involvement and reaction to current situation in the industry.
- Under invoicing and illegal imports.
- The strength of the rand.
- Recommendations to tackle the current situation in the industry.
- The future of the clothing industry.

4.4 Personal Interview Survey Results

The in depth discussion provided additional information especially in areas where the interviewee is an expert in that particular field. This additional data forms part of the recommendations and the SWOT and Gap analysis in chapter 5.

4.4.1 The current status of the clothing industry.

All 9 of the interviewees are of the opinion that the clothing manufacturing industry is in a crisis and in a state of decline.

All 9 of the interviewees concur that the flood of imported garments especially from China into the local market is a serious threat to the clothing industry both currently and for the future.

Bossie⁴⁴ and Smart⁴⁵ believe the labour system and in particular the high wages paid in the industry is the major cause for the decline in the industry.

Deetlyfs⁴⁶, Govender⁴⁷ and Van Zyl⁴⁸ believe the lack of government support and lack of protection for the clothing industry has caused a surge of imports particularly from China.

Goldstone⁴⁹ is of the opinion that the demise of the clothing industry is due to the large number of non-compliant clothing manufacturing companies in South Africa. Non-complaint companies are those companies that do not belong to employer organisations and do not recognize or comply with any collective agreement.

4.4.2 The labour relations system in South Africa.

Govender and Smart, both representing employer organisations, are of the opinion that the labour relations and close shop agreements are too far apart and are driven by the unions resulting in the decline in the industry.

Govender and Smart believe that the lack of understanding of business by government has influenced the labour system.

Deetlyfs and Goldstone oppose the opinion of Govender and Smart, they believe that the labour system has brought stability to the industry and do not believe that the labour system is the cause of the decline in the industry.

⁴⁴ Bossie, Bernard – Ex Executive Member NCMA and clothing manufacturer

⁴⁵ Smart, Brett – Managing Director Prestige Clothing – Clothing Manufacturer

⁴⁶ Deetlyfs, Leon – National Compliance Manager – National Bargaining Council of the Clothing Manufacturing Industry.

⁴⁷ Govender, Cyril – General Secretary – CMT Association

⁴⁸ Van Zyl, Gert – Executive Director - CCA

⁴⁹ Goldstone, Glen – Branch Secretary - SACTWU

Deetlyfs and Goldstone believe that all issues that are perceived to be too rigid and inflexible should be negotiated to suit all parties concerned.

The trade unions through Goldstone's are of the opinion that if all manufacturers were compliant then as a united front of employers and employees, the situation in the industry can be addressed. But currently with the non compliant situation, many companies are closing down in metro area and re-locating to the rural areas and are joining the ranks of the non compliant organisations to take advantage of labour in an effort to remain competitive.

4.4.3 The China influence in the clothing industry.

All 9 interviewees believe that the China influence in the clothing industry is the most common reason for the decline in the industry this opinion supports the general opinion of the results of question 3 and 4 of the questionnaire.

The general consensus of the China influence is that it a serious factor affecting the clothing manufacturing industry, but the industry requires the assistance from national government, specifically the DTI and SARS, to confront the issue on behalf of the industry.

The industry on its own is powerless if the governmental departments do not provide the assistance to protect the industry from the surge of imports from China including under invoicing and illegal imports.

4.4.4 The government's involvement and reaction to current situation in the industry.

Van Zyl⁵⁰ is of the opinion that the lack of government involvement in the clothing industry is cause for concern and the blame for the current situation can be placed at the door of the government.

⁵⁰ Van Zyl, Gert – Executive Director – Cape Clothing Association

Although SA is a member of the WTO, the government did not consult the clothing industry when implementing the phase out of the MFA. The government never consulted the industry with regards to the WTO safeguard measures to protect the industry. The government did consult the industry before removing the dumping duties in 2003; the majority of the industry was opposed to the removal of the dumping duties. The government did not react to the objection nor did they investigate the situation any further. Had the government supported the industry before implementing the phase out of the MFA or removing the dumping duties, the industry may not be in its current situation.

Van Zyl believes that the government should come out in support of the industry and not duck their responsibility to protect the clothing industry from foreign involvement in the domestic market.

The reluctance of the various government departments to be interviewed supports Van Zyl's opinion that the government is ducking their responsibility to support and protect the industry.

The opinion of Van Zyl supports the results of question 5 of the questionnaire.

4.4.5 Under invoicing and illegal imports.

Bergh⁵¹ is of the opinion that under invoicing and illegal importation of garments stems from most of the far eastern countries, but mainly from China.

Bergh believes there are a two reasons for the under invoicing and illegal imports of garments, namely;

- The lack of control by the customs and excise by both countries including bribery and corruption of these departments.

⁵¹ Bergh, Riann – Import Export and Shipping Clearing Consultant – Riann Bergh and Associates.

- The 40% duty applicable to clothing imports.

Under invoicing and illegal imports begins by the moving of undisclosed or hot money out of the country. Once the money is out of the country, factories in China are approached who have overruns of garments which were originally produced for another market. These overruns can include branded merchandise that may not be imported into the country unless imported through the registered agent of the branded merchandise, therefore the importation is illegal. These factories are willing to clear these overruns at any cost as long as the transaction is cod, hence the need for the undisclosed money out of SA.

Once the transaction is completed, the documentation is prepared to disclose any amount of money the importer wishes to place on the documents.

China has an export tax applicable to goods leaving the country and SA has a 40% tariff on imported garments, therefore by disclosing a lesser value of the garments, importer is evading tax payable on both sides.

On arrival of the container, the customs officials examine the documentation and if the value of the container is above a pre-determine value for that type of merchandise, the container will not be inspected and released for delivery. The importers are aware of these pre-determined values and therefore will ensure that the documentation reflects these amounts. If by chance the container is stopped for inspection, only one customs official is sent to inspect the container and it is then easy to bribe the official to release the container.

Bergh believes a simple method to overcome the problem of under invoicing is to only allow transactions to be done through letters of credit (LC). Letters of credit are documents that are handled by the banks representing the exporter and the importer. The banks will only release the money when all the documents are in order and approved by all parties concerned including the customs and excise. Because the money is paid

directly into the exporter's bank account, there is no longer any incentive to do the transaction and will discourage the exporter to sell the garments.

Another possible way to tackle the problem is to appoint independent shipping agents to inspect the containers and to ensure that more than one official is involved in the inspection. Van Zyl agrees with Bergh and adds that only 6% of all containers entering SA are inspected by the Customs and Excise. The opinions of both Bergh and Van Zyl supports the suggestions made in question 7 of the questionnaire for the need for investigations into illegal imports.

4.4.6 The strength of the rand.

All 9 interviewees believe that the strength of the rand is a contributing factor to the decline in the clothing industry. The strength has caused the export market to dry up and has opened the door to the flood of imports. The opinions of the 9 interviewees support the results of question 3 of the questionnaire.

4.4.7 Recommendations to tackle the current situation in the industry.

Deetlyfs believes that 50% of factories in SA employ less than 100 workers and the majority is CMT operations, these factories and CMT are termed SMME's.

Deetlyfs suggests that special conditions pertaining to labour relations should be negotiated through the bargaining council and trade unions so that all SMME's become compliant. This special deal should include wage structures, working hours and other general conditions that would encourage the development of the industry. Once the industry is compliant then the playing fields will be level and it would encourage larger companies to outsource their requirements to these SMME's instead of outsourcing abroad.

Govender⁵² suggests that central bargaining should be scrapped and plant level bargaining should be introduced. This will facilitate more control by employers over employees and should result in more efficient and productive organisations and affording them the ability to be competitive.

4.4.8 The future of the clothing industry.

Bossie⁵³ and Smart⁵⁴ are of the opinion that the future of the clothing industry will be reduced to manufacturers seeking niche markets and utilizing cheaper production methods in the form of outsourcing to rural areas. Mass production garments will be sourced from abroad as long as the exchange rate remains at a value below R7.50 to the US\$.

Deetlyfs⁵⁵ believes that all local manufacturers should become compliant members of bargaining councils and to concentrate on and develop niche markets.

Goldstone is of the opinion that the future of the industry depends on the role players within the industry. Currently the role players are opposing each other and allowing the China influence to takeover the industry. To be able to counteract the China influence all the role players need to stand together.

Govender believes that going forward, if the government does not intervene and support the industry, the industry will disappear completely especially if the rand remains strong and allows companies to import rather than produce locally.

The result of the discussions with each interviewee forms part of the research analysis in chapter 5 and informs the recommendations of this study and the SWOT and Gap analysis.

⁵² Govender, Cyril – General Secretary – CMT Association

⁵³ Bossie, Bernard – Ex Executive Member NCMA and clothing manufacturer

⁵⁴ Smart, Brett – Managing Director Prestige Clothing – Clothing Manufacturer

⁵⁵ Deetlyfs, Leon – National Compliance Manager – National Bargaining Council of the clothing manufacturing industry.

4.5 Questionnaire Sample Response Analysis

	Clothing Manufacturer	Raw Material Supplier	Employer Organisation	Trade Unions	Retailers	Bargaining Council	Service Suppliers	Government Department	Totals
Delivered	38	31	5	3	12	1	27	4	121
Returned	27	25	5	1	8	1	22		89
Returned Undelivered	3	6			1		3		13
No Response	8		2	2	2		2	4	18
Refused to Complete					1		1		1
% of Total Responses	30%	28%	6%	1%	9%	1%	25%	0%	100%
Response Rate per Category	71%	81%	100%	33%	67%	100%	81%	0%	
Overall Response Rate									74%

Figure 12 - Sample Response Analysis

The returned undelivered questionnaires stem from e-mails returned because of incorrect e-mail addresses.

4.6 Questionnaire Survey Results

The results of each question from the questionnaire are analyzed individually and graphically.

4.6.1 Question 1

Do you think the clothing manufacturing industry in South Africa is in a crisis?

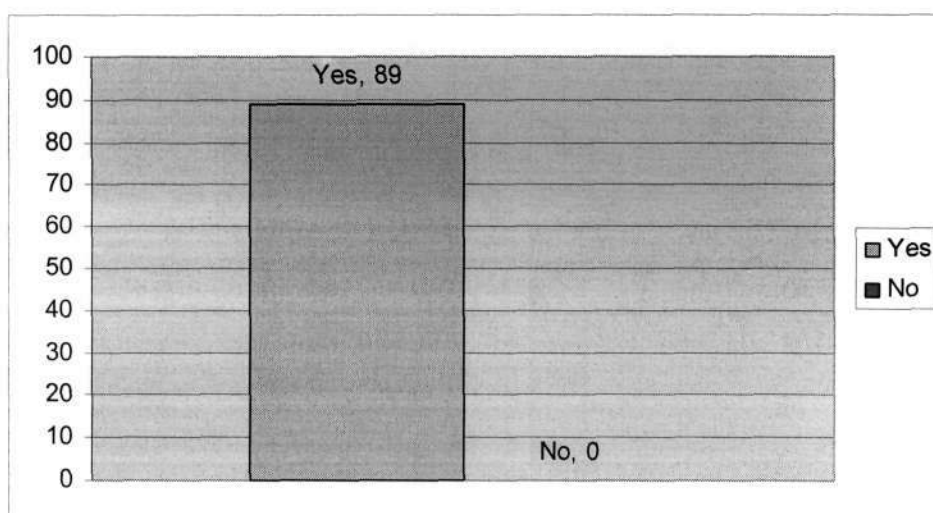


Figure 13 - Question 1

All 89 participants of the questionnaire survey indicated that the clothing manufacturing industry in South Africa is in a crisis.

4.6.2 Question 2

Do you think the clothing manufacturing industry in South Africa has declined during the past three years?

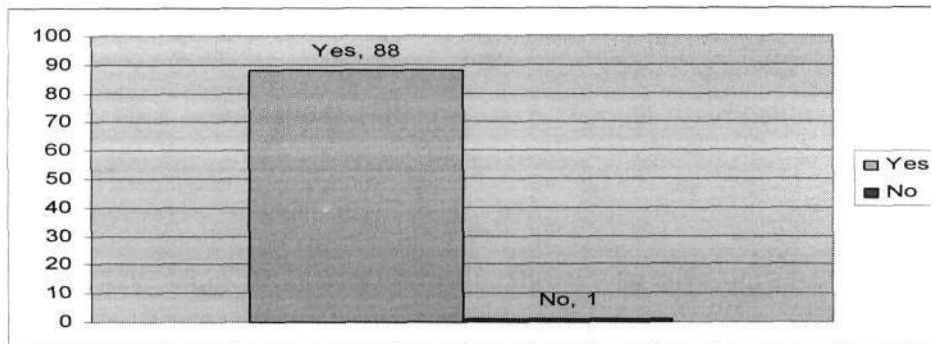


Figure 14 - Question 2

Only one participant of the questionnaire survey indicated that the industry had not declined during the past three years.

4.6.3 Question 3

What do you think is the cause of the decline in the clothing manufacturing industry in South Africa?

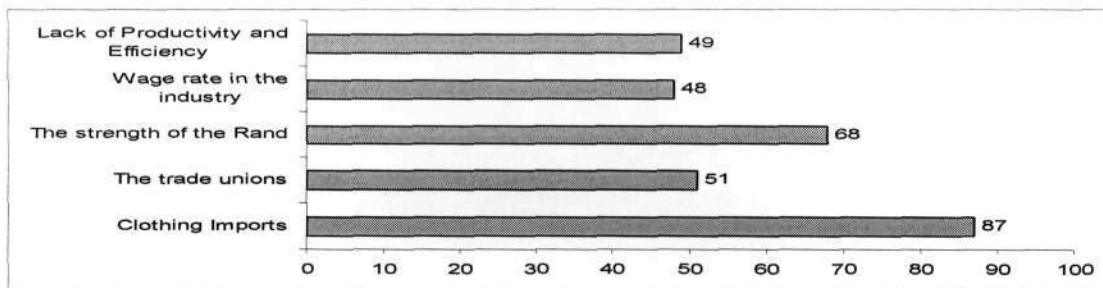


Figure 15 - Question 3

This question allowed the participants to choose more than one answer for the question. Out of the 89 returned questionnaires, 87 participants determined that clothing imports into South Africa were the cause of the decline in the clothing manufacturing industry. The strength of the Rand was determined as the next reason for the decline.

The lack of productivity and efficiency, the wage rate in the industry and the trade unions are all related to the labour relations system and therefore are combined as the third reason for the decline in the industry.

4.6.4 Question 4

Which of the following countries do you think the majority of clothing imports stem from?

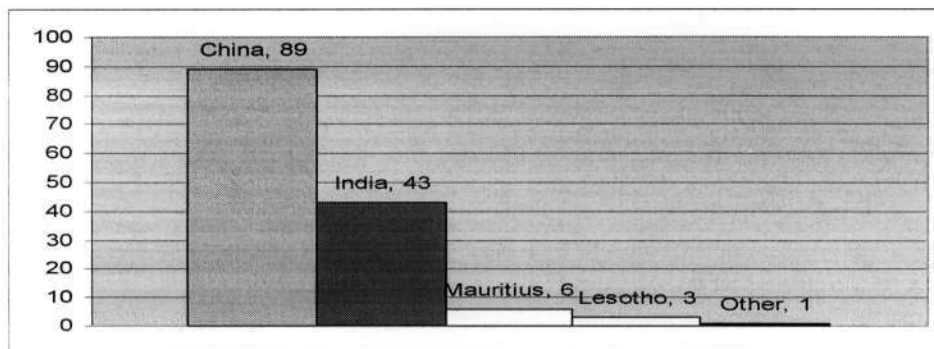


Figure 16 - Question 4

This question allowed the participants to choose more than one answer for the question. All 89 participants indicated that the majority of imports into South Africa stem from China, 43 participants indicated that India also contributed to the imports into South Africa.

4.6.5 Question 5

Do you think the South African government is doing anything to protect the clothing manufacturing industry in South Africa from foreign interference?

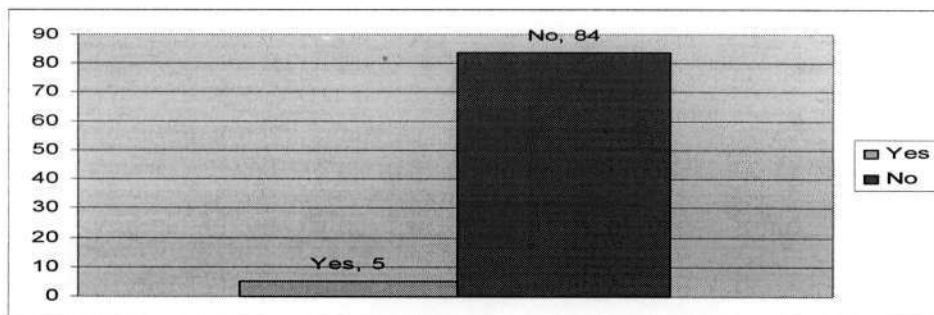


Figure 17 - Question 5

Only 5 participants indicated that the South African government are doing something to protect the clothing manufacturing industry, 84 participants are of the opinion that the South African government are not doing anything to protect the industry.

4.6.6 Question 6

If the Rand should weaken, do you think the clothing manufacturing in South Africa will improve?

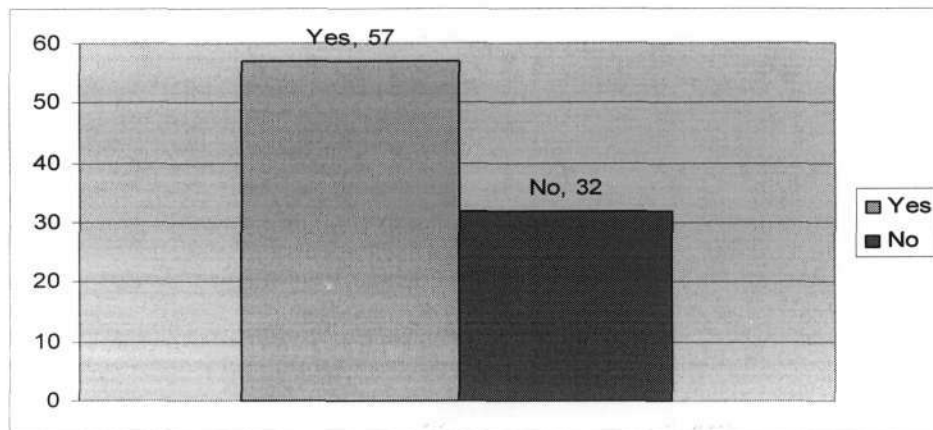


Figure 18 - Question 6

The results of this question indicated that there is no clear cut choice if the rand should weaken, would the industry improve, 57 participants believed that the industry would improve and 32 believe that the rand would have no effect on the status of the industry.

Further analysis of these results indicated that all the questionnaires completed by the retailers and service industries indicated that they did not believe that the rand would have any affect on the status of the clothing industry.

4.6.7 Question 7

What do you think can be done to save the clothing manufacturing industry in South Africa?

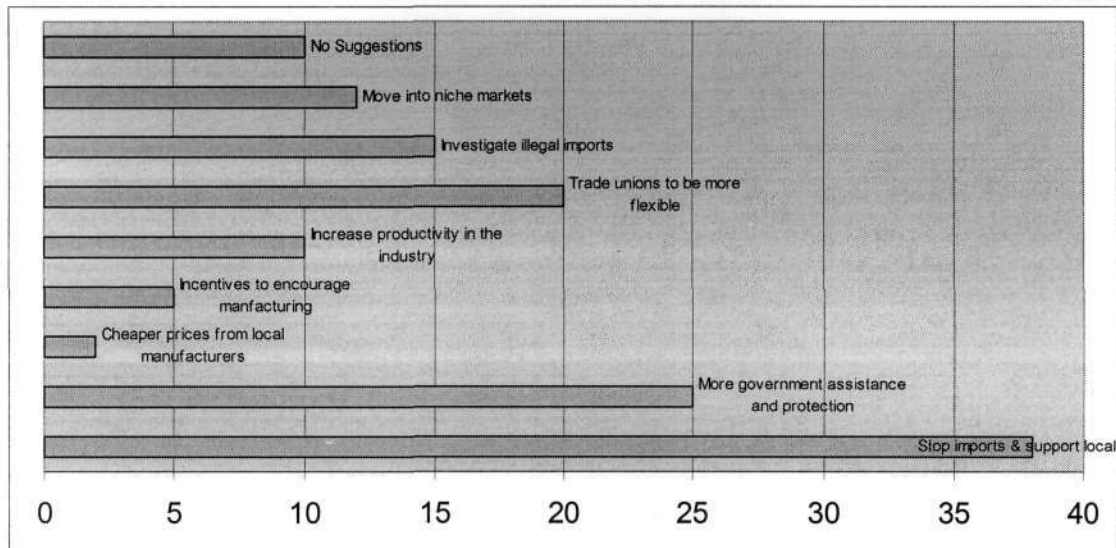


Figure 19 - Question 7

Stopping imports into South Africa and supporting local manufacturers is the leading suggestion that would save the clothing manufacturing industry.

The need for more government protection in the industry and more flexibility on the part of the trade unions were determined as the next suggestions to save the industry.

Moving to niche markets by local clothing manufacturers was suggested by 12 participants.

4.7 Limitations

The study was aware of certain limitations from the pilot testing before the questionnaires were distributed and tried to overcome this limitations by sending out more questionnaires to obtain a larger sample.

The major limitation of the survey was the lack of response from any of the government departments. The information that was expected to be provided by the government

departments would have given the study more insight into how the government viewed and would be addressing the crisis in the clothing manufacturing industry.

Certain corporate organisations were also reluctant to participate in the survey because the results or the interpretation of the results of this study may be misconstrued as their official stance on the issue of the clothing manufacturing industry in South Africa which may be contrary to their published official stance on the issue.

The e-mail method of data gathering was initially used for data collection for the pilot testing of the research questionnaire. The e-mail method was chosen because of the speed of mass distribution, the low cost implications and the direct access to the intended participants. An added advantage of using the e-mail method is the ease of gathering statistical information relating to the response rate and electronic gathering and analyzing of the information from the returned questionnaires.

The following is the response rate details of the pilot testing questionnaire;

Questionnaires Sent via e-mail	Questionnaires Returned	Declined To partake	No Response	E-mail Follow up	Telephonic Follow up
36	15	2	19	15	5

Figure 20 - E-mail method response rate.

A total of 36 questionnaires were sent out using the e-mail method, 15 responded, 2 declined to partake in the survey and 19 did not respond resulting in a 42% response rate. Of the 15 questionnaires returned, only 5 participants returned the questionnaires without either an e-mail or telephonic follow up request to complete and return the questionnaire.

Further investigations from the intended participants revealed the following reasons for the poor response rate of the e-mail method data gathering;

- Their company firewalls block e-mails that are not company related and also block e-mail with attachments to prevent viruses from entering their systems.
- Their mailboxes are setup to filter junk mail and spam mail.

- The intended participant passed the questionnaire onto their assistants to complete and return.
- The participant had received the e-mail but had not found the time to respond.

4.8 Conclusion

The objective of the research survey was to determine the reasons for the demise of the clothing manufacturing industry.

The response rate to the questionnaires was good due to the follow up work done by the assistants employed for this study. A total of 89 questionnaires out of 121 distributed were returned and 9 interviews were done out of the attempted 11 interviews.

The majority of the participants of the personal interviews and the questionnaires are of the opinion that clothing imports from China are the major reasons for the demise in the clothing manufacturing industry. The strength of the Rand as well as the labour relations system are also reasons contributing to the demise of the industry.

The participants are of the opinion that the South African government is not doing enough to protect the local industry. There was not clear cut opinion from the participants if the rand should weaken if the industry would improve. A large percentage of the participants suggested that clothing imports should be stopped and local manufacturers should be supported in an effort to save the industry. Moving the local manufacturers to niche markets was also suggested as method to save the clothing manufacturing industry.

The reluctance of both the DTI and SARS to be interviewed or to respond to the questionnaire limited the study to be able to provide information from the government department's point of view of the crisis in the clothing manufacturing industry.

Chapter 5 follows with an analysis of the results of the data collected from the research survey as well as the information supplied by the interviewees. A SWOT and Gap analysis is also presented in chapter 5 as well as recommendations for further research.

The chapter 5 closes with a conclusion of the study.

5. CHAPTER 5 – RECOMMENDATIONS AND CONCLUSION

5.1. Introduction

The objectives of this study were to determine the reasons for the decline in the clothing manufacturing industry. In order to determine those reasons the study undertook a research survey in the form of a questionnaire and well as personal interview on the various organisations that have an interest in the success and continued success of the clothing industry. The results of the survey have been presented in chapter 4.

In order to determine the objectives of this study an analysis is required of the results of each question from the research survey questionnaire. This analysis will determine the opinions of the sample used to gather the information of the survey.

Information gathered through the research survey and well as the personal interviews will be used to do a SWOT and Gap analysis to determine where the strengths of the industry lie and to suggest recommendations to move the industry from its present status to a more competitive status which should then assist the industry from further decline.

The study also revealed issues that fall out of the scope of this study but should be investigated because these additional areas could play a vital role in the attempts to save the industry from further collapse.

5.2. Question Results Analysis

The statistical results of each of the research question were presented in chapter 4 graphically displaying the prominent opinions of the participants of the survey. These results are analyzed and discussed as follows.

5.2.1. Question 1

The question was included in the questionnaire to determine how many people from the various organisations believed that the clothing manufacturing industry was in a crisis.

The entire sample of 89 participants used for the survey is of the opinion that the clothing manufacturing industry is in a state of crisis.

5.2.2. Question 2

Question 2 was used to confirm the opinions derived from question 1 by asking the participant if they thought the industry had declined during the past three years. Only 1 participant is of the opinion that the clothing industry has not declined during the past three years while 88 participants are of the opinion that the clothing industry has declined during the past three years.

5.2.3. Question 3

Question 3 focused on the objectives of this study to determine the primary reasons are for the decline in the clothing manufacturing industry.

The question was structured so that the participant could choose more than one answer to the question. The results indicate that 87 participants or 98% believed that clothing imports into South Africa were the primary reason for the current situation in the clothing industry, 68 participants or 76% believed that the Rand is a contributing factor. The trade unions is the third reason with 51 participants or 56%, the lack of productivity and efficiency and the wage rates were determined by 49 participants or 53% and 48 participants or 52% respectively.

These results support the comments that the lack of protection or barriers for entry into the local industry is indeed a concern. The ease to import garments into the local market supported by the strong Rand and the inefficient policing and control of imported garments are part and parcel to the problem in clothing manufacturing industry.

The comments that the labour relation system in South Africa is too rigid and inflexible are supported by the results of this question.

5.2.4. Question 4

The results of this question indicated that all 89 participants of the survey believe that the majority of clothing imports stem from China. The results of this question also support the global opinion that China is flooding the world markets with their products.

5.2.5. Question 5

A total 84 or 94% of the participants are of the opinion that the government is not doing anything to protect the clothing manufacturing industry from foreign interference. Only 5 participants believe that the government is providing protection for the clothing manufacturing industry.

The result supports a perception that the government undertook the phasing out of the MFA and introduction of the WTO trade agreements without proper investigation into the cause and effects that the local manufacturing industry would face without protection.

The removal of protection from the industry includes the removal of all dumping duties which were primarily imposed to prevent the surge of imports from a particular country. The results of question 3 indicated that 98% of the participants responded that clothing imports are a reason for the decline in the industry and together with the results of question 4 where 100% responded that imports stemmed primarily from China.

These two results indicate since the removal of the protectionism, the strength of the Rand and the lack of sufficient control of the importation of garments and under invoicing have encouraged the increase of imports into South Africa to the detriment of the clothing manufacturing industry.

5.2.6. Question 6

This question was included into the questionnaire to determine if there is a relationship between the appreciating Rand and the decline in the clothing manufacturing industry.

The question does not have a clear cut opinion although 57 or 64% of the participants are of the opinion that if the Rand depreciated, the clothing manufacturing industry would improve. The 32 or 36% participants who thought the Rand has no effect on the current status are participants from the retail sector and service supplying sectors.

The 64% result supports the comments that if the Rand should weaken to between R9 and R10 to the US\$ threshold then the clothing manufacturing industry will be able to be more competitive in the local as well as the export markets.⁵⁶

This result also supports that opinion that the currency policy of China and the appreciating Rand are related to the decline in the clothing manufacturing industry. As the Rand strengthens to the US\$ so then does the products from China become cheaper due to the currency peg at the detriment of the local clothing manufacturing industry.

5.2.7. Question 7

This question required respondents to give an opinion how they thought the crisis in the clothing manufacturing industry could be saved from collapse.

The results produced suggestions to help save the industry from further collapse. The prominent suggestion is to stop imports and to support the local manufacturing industry. There is a need for more government protection in the industry including more control over the importation of garments and illegal garments.

The trade unions need to become more flexible and productivity needs to be increased in the industry in an effort to get the industry to reduce the costs of locally produced garments.

⁵⁶ Njobeni, Siseko - SA's clothing industry in trouble -
[Http://ml.mny.co.za/_42256878002E23DA.nsf/0/C2256A2A005298FAC2256DD50019F297?Open](http://ml.mny.co.za/_42256878002E23DA.nsf/0/C2256A2A005298FAC2256DD50019F297?Open)

Participants also suggested that the local clothing industry move away from the competition of the imported garments into niche markets which demand smaller runs and these markets generally are prepared to pay more for these products.

5.3. Personal Interview Analysis

The personal interviews were conducted using the questionnaire as the basis of the interview. The interview focused on an in-depth discussion in the interviewee's field of expertise to gain additional insight from that field's perspective of the current situation facing the clothing industry.

5.3.1. The current status in the clothing industry.

All 9 interviewees are of the opinion that the clothing manufacturing industry is in a state of decline. The opinion of the interviewees supports results of question 1 of the research questionnaire where all 89 participants determined that the clothing industry is in a crisis.

All 9 interviewees believe that the flood of imported garments particularly from China is the primary reason for the decline in the clothing industry; this opinion supports the opinions of the participants of the questionnaire results where 87 participants believe that clothing imports are the primary reasons for the decline in the industry.

Additional reasons for the decline in the industry were also suggested by the interviewees. Two interviewees believe that the labour relations system is cause for concern for the industry. Three interviewees are of the opinion that the lack of government support and protection of the industry is causing the surge of imports at the detriment of the clothing industry. One interviewee suggested that the large number of non-compliant companies is causing the decline in the clothing industry.

5.3.2. The labour relations system in South Africa.

The opinions of the interviewees regarding the labour relations system in clothing manufacturing industry are mixed.

Two interviewees representing clothing manufacturers believe that the wage rates in the industry are too high causing the industry not to be cost effective and therefore the decline in the industry. Two interviewees representing employer organisations believe the close shop agreement and the labour relations system are too far apart and the close shop agreements are driven by the unions.

Two interviewees, one representing the trade union and the other representing the bargaining council, do not believe that the labour system is too rigid and inflexible. They believe that the system has brought stability to the industry. They believe that any issues that are deemed to be too rigid and inflexible should be negotiated to suit all parties concerned as long as the issues fall within the closed shop agreement. Issues such as wages, working hours and piecework do not fall within the parameters of the close shop agreement.

5.3.3. The China influence in the clothing industry.

All 9 interviewees believe that the China influence in the clothing industry is the primary reason for the decline in the clothing industry. This opinion supports the general opinion of the participants of the questionnaire where 87 participants determined in question 3 that clothing imports are the major cause for the decline in the industry and 89 participants determined that the majority of imports stem from China.

The China influence in the local industry is assisted by the strength of the rand as well as the lack of control and policing of the importation of garments into the country.

5.3.4. The government's involvement and reaction to the current situation in the industry.

One of the interviewees representing a employer organisation believes that the lack of government involvement to the crisis in the clothing industry is reason for concern.

The government did appoint a task team in May 2004 to investigate the situation facing the clothing industry and the task team had to recommend suggestions to the government how to tackle the situation. To date the task team has not officially or publicly made any recommendations on how to address the situation.

This study also attempted to interview a representative of the DTI to gain insight from the department's point of view as to how they are addressing the current situation. The DTI declined to be interviewed and referred the study to the official press releases to obtain the department's opinion regarding the current situation facing the clothing industry.

5.3.5. Under invoicing and illegal imports.

The shipping consultant was specifically interviewed to gain additional insight into the flood of imported garments particularly from China as well as the under invoicing of the imported garments and the illegal importation of garments.

The primary factor assisting the flood of imported garments as well as illegal garments and the under invoicing of imports is the lack of control of these imports by government department responsible for the control of importation of garments.

The illegal importation of garments pertains to the importation of fake designer or branded garments. These garments are manufactured illegally in the sense that they are manufactured and sold without the consent of the owners of the brand. These garments are generally sold at flea markets or street vendors at a fraction of the price of the genuine article.

Under invoicing is a form of tax evasion as illustrated in the following example;

	Invoiced Value per Garment	Total Garments Imported	40% import duty applicable
Example 1 - Garment invoiced correctly	R10.00	1000	R4000.00
Example 2 - Garments under invoiced	R5.00	1000	R2000.00

Figure 21 - Illustration of under invoicing.

The net end result of under invoicing is that the country is deprived of tax revenue and the garments are entering the country with a cost price well below the cost price of the same garment that is locally manufactured.

This study also attempted to interview a representative of the SARS to gain insight how they view the situation of control and policing of the importation of garments entering the country from China. The SARS declined to be interviewed and referred the study to the official press releases to obtain the department's opinion regarding the current situation facing the clothing industry.

5.3.6. The strength of the rand.

All 9 interviewees are of the opinion that the strength of the rand is a contributing factor to the decline in the clothing industry. The results of question 6 of the questionnaire determined that 57 of the 89 participants believed that the strength of the rand had an effect on the clothing manufacturing industry.

The interviewees, particularly the shipping consultant and the two clothing manufacturers are of the opinion that the strength of the rand is assisting the importation of garments from China.

5.4. SWOT and Gap Analysis.

Based on the results determined from the research questionnaire as well as the personal interviews, the study is able to determine the strengths and weaknesses of the industry as well as the opportunities and threats to the industry. This information suggests where the industry should strive towards so as to become more competitive. The study makes recommendations how to achieve these future objectives.

5.4.1. SWOT Analysis.

The clothing manufacturing industry is complicated and multi-faceted; hence it is difficult to generalize about it as a whole. A certain common denominator of the industry, based on the results of the research conducted for this study is that the industry is in a crisis and is in a state of decline. For strategic purposes it is feasible to replace the word “crisis” with “uncompetitive” for ease of understanding the current situation.

The purpose of conducting a SWOT analysis is to highlight the strengths that exist within the industry and then to match these strengths with the available opportunities that exist for the industry in an effort to move the industry into a competitive status.

The process of the SWOT analysis is to identify the strengths, opportunities and weaknesses within the industry and to match the strengths to the opportunities minimizing the weaknesses and then to move the industry way from the threats.

5.4.2. Identifying Strengths, Weaknesses, Opportunities and Threats

Strengths	Weaknesses
<ul style="list-style-type: none">• An existing established and experienced industry as well as support industry.• Established manufacturing quality standards.• Abundance of raw materials locally produced.• Abundant labour resource.• Relatively cheap infrastructure costs such as	<ul style="list-style-type: none">• Rigid and inflexible labour relations system• High wage rates paid in the industry• Unproductive and efficient labour force• Non complainant companies• Lack of unity amongst manufacturers• Inefficient policing and control on illegal

rentals, electricity and water. <ul style="list-style-type: none"> • AGOA and DCCS incentives to assist with exports • Although the exchange rate is strong it is relatively stable which is conducive to long term planning. 	imports <ul style="list-style-type: none"> • Retailers encouraging importation of garments by being price makers not price takers. • Retailers importing themselves at the expensive of local producers. • Lack of government support. • Man-made fibres produced in South Africa.
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Short and small run and niche market orders for both local and exports markets that the Chinese manufacturers are not interested in. • Establishment of incentives to encourage local manufacturing without subsidizing the industry which is in violation of WTO. 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Importation of cheap garments for mass markets.

Figure 22 - Identifying SWOT

Identifying the strengths, weaknesses, opportunities and threats to the clothing manufacturing industry was constructed from data gained through the research conducted for this study and additional information was supplemented with literature.

5.4.3. Analyzing the SWOT

5.4.3.1. Strengths

The dominate strength of the South African clothing industry is that it is well established industry. The industry has an established infrastructure with an abundance of labour available both in metro and rural areas.

The majority of raw materials used in the clothing manufacturing industry are locally manufactured. Many of these raw material industries were established during the years when trade sanctions were imposed against South Africa and have maintained and kept up to date with technological advancements.

The industry has export incentives in place through AGOA and duty credits are also available to exporting companies. The local currency is strong although not ideally suited

to exporting but a strong stable currency favours long term planning. The quality of garments produced by the local industry conforms to all the US and European standards because to comply with the AGOA trade agreement, manufacturers have to conform to the US and European quality standards.

5.4.3.2. Weaknesses

The major weakness of the industry is the rigidity and inflexibility of the labour relations system in South Africa.

The labour system has resulted in an unproductive and inefficient industry that demands high wages. The system has lead to companies withdrawing from bargaining councils and therefore not recognizing collective agreements. This situation has lead companies especially in rural areas to pay wage rates lower than the prescribed amounts with and end result that manufacturing companies within South Africa are not only competing with imports, but also competing with each other. The industry lacks unity amongst the manufacturers.

There is insufficient policing and control of imported garments including the importation of illegal garments. Part and parcel of this problem is the lack of control of under invoicing of garments entering the country.

Local retailers are encouraging imports by either importing themselves or by demanding prices for garments that are only achievable in markets that are subsidized and have lower economies of scale.

With the phasing out of the MFA agreement there are WTO guidelines the South African government should have followed to prevent the flood of imported garments. These options are still available, the process to investigate the viability of implementing these guidelines were given to the task team appointed by the government. Brazil and Turkey applied these guidelines to protect their industry.

South Africa does not manufacture sufficient man made fibres or polymer fibres, these need to be imported and then converted to garments. It is therefore cheaper to import the ready made garments.

5.4.3.3. Opportunities

Question 7 of the questionnaire asked participants to supply suggestions to save the clothing manufacturing industry from further decline and 12 participants suggested that the clothing manufacturing industry should move into niche markets.

The Chinese and Indian manufacturing industry is so large they need long runs of mass production to keep their industries functioning. Therefore both these two countries predominately only focus on producing garments for the mass market, in particular the cheaper end products.

The shorter runs and smaller orders especially for niche markets are ignored by the Chinese manufacturers. Their infrastructure does not allow them to produce small orders for the niche markets profitably.

Niche markets generally demand higher quality garments of short runs and are prepared to pay more for the garments. These niche markets are both in the local domestic market and in foreign markets. Niche markets include designer and branded merchandise.

5.4.3.4. Threats

The major threat confronting the industry is the importation of garments for the mass markets. These imports stem predominately from China and India as per the results of the survey.

The local manufacturing industry cannot compete with their Chinese and Indian counterparts. The South African manufacturing industry is not large enough to be able to compete affectively against the Chinese and Indian industries in the cheap mass market.

Both the Chinese and Indian industries have built their industries to focus on the mass markets and they have captured the market share of these markets globally.

There are various additional reasons which enable the Chinese industry to be very competitive in these mass markets. These factors include state subsidies in the industry, very low wage rates and under invoicing of their export product. The South African clothing manufacturing industry cannot effectively compete against their Chinese counterparts in the mass market industry.

5.4.4. Gap Analysis

Applying the Gap analysis to the information supplied from the SWOT analysis is done by answering the three Gap analysis questions as follows;

5.4.4.1. Where are we now?

The South African clothing manufacturing industry is currently in state decline. The local industry is uncompetitive in the mass markets and this is caused by a surge of imported garments particularly from China which is aided by the strong local currency as well as a rigid and inflexible labour relations system practiced in South Africa.

The local industry has lost market share to the importation of garments which has resulted in a decline in the industry and the loss of jobs within the industry.

5.4.4.2. Where do we want to be?

The clothing manufacturing industry in South Africa would like to be in a competitive situation for both the local domestic market as well as in the foreign markets. The industry would like to offer employment in the industry and would like to contribute to the economy and welfare of South Africa.

5.4.4.3. How do we get there?

To achieve the objectives of where the industry would like to be, changes need to be made to support the industry.

The changes that need to be made primarily are that the labour relations system needs to become less rigid and more flexible and to address issues to make the industry more competitive. These issues include the productivity and efficiency of the industry. This can be achieved by changing the method of compensation of employees in the industry for example.

The current wage system in the industry should change from a time based system to a performance based system. This in itself will force the industry to become more productive because the more the employee produces, the more they earn. The same applies if the employee should be unproductive, they will be compensated for exactly what they produce.

Companies that become more productive can start looking for markets that are not supplied by the importation of cheap garments from China and to lesser extent, India. These markets are called niche markets. Niche markets generally require smaller run orders that demand higher quality and are prepared to pay more for the products. Niche markets do not necessary only apply to the local domestic market but there are also niche markets in foreign markets.

Local domestic retailers should be encouraged to support local manufacturing companies and consumers should also be encouraged to buy locally produced garments.

5.5. Recommendations

Question 7 of the research questionnaire detailed in chapter 3, requested the opinion's of the participants to suggest recommendations in an effort to alleviate the clothing manufacturing industry from further decline.

Part of the personal interviews, requested the interviewees to recommend suggestions to tackle the situation currently facing the clothing manufacturing industry. The suggestions from the interviews concur with the suggestions from the participants of the questionnaires.

All the answers from question 7 were grouped together as detailed in chapter 4 and the suggested recommendations to address the decline in the clothing manufacturing industry are summarized in the following subsections;

- Review the importation of clothing.
- Review labour legislation in the clothing manufacturing industry
- Incentives to encourage local clothing manufacturing
- Chinese influence in the local market
- Establishment of niche markets

5.5.1. Review the importation of clothing

The removal of the protection barriers and the strength of the rand have encouraged the surge of the importation of clothing into South Africa. The WTO has guidelines in place to assist economies who are experiencing a flood of imports into their economies at the detriment of the local industries.

The South African government appointed a task team in May 2004 to investigate the flood of imports into South Africa and to propose recommendations to address the situation. To date the task team has not been effective in their task and no recommendations have been suggestions.

The USA is also confronted with the same dilemma facing the South African industry. They on the other hand have been proactive and appointed a commission called “US – China Economic and Security Review Commission”. This commission has a website and interested parties may obtain information on how the US is addressing their situation in the matter and they have hearing from affected parties in the matter to state their position

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and request assistance from the government. One of the results of the commission is the threat of imposing a 27% tax on all Chinese imported products unless China agrees to address their currency policy. The end result has been effective.

South Africa should follow the US example and also appoint a commission that the local industry can interact with the government to assist the industry from any further demise.

This study therefore recommends that the importation of garments into South Africa particularly from China should be reviewed in an effort to either limit or to stop the importation of garments from China altogether.

This study also recommends the need for further research into the importation of garments from China and the impact these imports are having on the local clothing manufacturing industry.

5.5.2. Review labour legislation in the clothing manufacturing industry.

The labour relations system is deemed to be too rigid and inflexible and in a sense favours the employee more so than the employer.

Productivity and efficiency are keys to the resurgence and development of the clothing manufacturing industry. Factors to be considered to improve productivity and efficiency in the clothing manufacturing industry include;

- Piecework
- Longer working hours
- Minimum wage rates for everybody in all areas.

Currently employees are paid a wage regardless how much work is produced; therefore there is no need to be productive. Piecework would improve productivity because the employee would only be paid for the amount of work he or she does, the more the person works, the more they would earn.

Working hours should be increased for the same wages in an effort to increase the output production for the same input of wages. Employees working in non metro and rural areas earn less than those who work in metro areas even if they work for employers who are members of bargaining councils and collective agreements. This encourages employers to relocate or to outsource production in to rural areas. This may offer the employer lower economies of scale in the rural areas and might develop rural areas. But the negative side of seeking lower economies of scale is too seek them abroad.

The trade unions and the bargaining council do not believe that the labour system is too rigid and inflexible. They believe that the system accommodates all parties concerned and their suggestion is to discuss and negotiate the various issues that the employers feel are detrimental to the industry. The NCMA believes that the labour system in the industry needs flexibility and currently (May 2005); the NCMA is refusing to participate in the bargaining council wage talks unless the union agrees to negotiate a two-tier wage model of KZN (Inggs, May 2005).⁵⁷ The two-tier system the NCMA is suggesting where semi formal employers only have to pay 60% of the wage rate applicable to formal employers (Inggs, May 2005).

According the Executive Director of the NCMA, Mr. Len Smart, the purpose of the NCMA refusing to participate in bargaining council talks is to force the union to recognize that there needs to be flexibility of wages according to market demand.

This study recommends that the labour legislation should be reviewed in an effort to make the clothing manufacturing industry more productive and efficient which should result in the industry becoming more competitive and conducive to the employment of labour.

⁵⁷ Inggs, Margie. *Clothing bosses want two-tier wage deal*. Business Report – Independent News and Media – May 29, 2005.

5.5.3. Incentives to encourage local clothing manufacturing.

The South African clothing manufacturing industry does not have any government incentives applicable to the industry to encourage investment in the industry.

Incentives to encourage investment do not have to equate to government subsidies for the industry. Incentives may be in the form of wage rebates or tax rebates for companies that employ above a certain quantity of employees. These wage rebates are to be calculated annually so that an annual average is maintained.

Other incentives include the provision of capital for fixed assets as well as working capital at reduced interest rates and long pay back periods to encourage investment in the industry. These incentives should be used to encourage foreign investment into the industry.

The study therefore recommends that incentives need to be formulated to encourage investment and growth in the clothing manufacturing industry.

5.5.4. Addressing the China influence in the local market.

The majority of garments imported into South Africa stem from China. The obvious reason for these imports is based on price which is assisted by the strength of the rand.

The lack of sufficient control by the Customs and Excise is allowing illegal imported and under invoiced garments to enter the local markets, these imports and under invoicing also stems from China. China's ability to manufacture garments cheaper than most other countries is due to two main reasons, the government subsidies and incentives given to the manufacturers and the under valued local Chinese currency.

The Chinese influence in global markets will continue until the internal Chinese policies are changed and currently there is no evidence that China has any intention of changing

their policies. If China continues to manipulate their currency, provide export tax rebates, subsidize almost everything including land, water and electricity, not to follow basic labour standards and not to adhere to basic environmental standards, it is incumbent on the governments of the world to tax imports from this non-market economy.

In terms of WTO rules, member countries can cut back the increase in Chinese imports provisionally if they pose a serious threat to the country's entire market. Therefore this study recommends that South Africa should limit the annual imports from China and not allow any increases on these limits until the local manufacturing industry cannot cope with the required demand.

5.5.5. Establishment of niche markets.

Currently the local domestic markets are being flooded with cheap imported garments predominately from China. Due to the current structure of the local domestic manufacturing industry, the industry is in no position to compete against these imported garments for local market share.

Adding advantage to the flood of imports is the strength of the Rand. As the rand appreciates against the US\$, so then does the imported garments become cheaper because of the Chinese currency peg to the US\$. Therefore the end result is that the local manufacturing industry has no way of competing against the Chinese imports and the only alternative is to look elsewhere for a market where the local manufacturers can be competitive.

Question 7 of the questionnaire required participants to suggest recommendations to save the clothing manufacturing industry from further decline and 12 participants suggested that local manufacturers move into niche markets.

Niche markets are markets that are generally smaller and focus on items for a particular sector within the market and do not seek the mass markets. These markets normally

demand smaller orders or short run order and demand a higher quality standard than the mass markets. Branded and designer merchandise fall into the niche market categories.

Manufacturers for niche markets are awarded manufacturing licenses to produce the products for these particular markets and generally do not have much competition in the market. Manufacturers can obtain manufacturing licenses for these niche markets for a foreign market and may only supply that foreign market. These niche market types virtually eliminate competitors.

The South African clothing manufacturers have the knowledge and expertise, readily available raw materials and therefore this study recommends that the local clothing manufacturers should pursue manufacturing for niche markets instead of trying to compete with the cheap imported products.

5.6. Recommendations for further research.

This study revealed the need for further research in the following areas;

- The investigation of the importation of garments into South Africa.
- The feasibility of manufacturing polymer fibres to manufacture polyester products.
- E-mail as a method of data gathering for research.

5.6.1. Investigation into the importation of garments into South Africa.

The results of the research determined that the flood of imports particularly from China is the major cause for concern and the study revealed through the interview with the shipping consultant that the importation of garments into South Africa is not effectively policed or controlled.

The main issues of concern is the fact that not enough containers are inspected which results in the entry of illegal garments into the country. Illegal garments are generally

fake designer branded garments which are then sold in flea markets or by street vendors and hawkers.

Another serious issue concerning the importation of garments is the under invoicing of these garments. Under invoicing results in less duty been paid for the imported garments, depriving the country of the much needed revenue and also out pricing the equivalent locally produced garments. The lack of control of imports is at the detriment of the local clothing manufacturing industry.

Further investigation and research should be carried out on the importation of garments including illegal garments and the under invoicing of the imported garments.

5.6.2. The feasibility of manufacturing polymer fibres.

South Africa does not produce sufficient polymer fibres to be used for the manufacture of polyester fabrics. Investigation should be conducted to establish the feasibility of this type of industry which would result in the clothing manufacturing industry becoming more competitive.

5.6.3. Email as a method of data gathering for research.

The e-mail method of data gathering was solely used for the pilot testing of the initial questionnaire. The choice to use this method was based on the perception that the method was ideally suited to mass distribution directly to the participants as well as the advantage of electronic gathering and analyzing of data from returned questionnaires.

The response rate of the initial questionnaire was only 42%, therefore this study recommends that the e-mail method should not be used as the sole means of data gathering. The e-mail method should be used in conjunction with the other methods of data gathering such as posting, faxing or by hand to gather data for research surveys.

5.7. Conclusion

The objective of this study was to determine the reasons for the demise of the clothing manufacturing industry.

The study reviewed literature regarding the labour relations system and the trade liberalization policies. The study highlighted the shortcomings of the labour relations system and the trade liberalization policies as well as the fluctuations of the rand and the impact these factors have had on the clothing industry. The study also discussed the influence China has in the local markets and the effects of their currency peg.

The objective of the study was achieved by conducting a quantitative research in the form of a questionnaire completed by the various parties who have a vested interest in the longevity of the clothing manufacturing industry. The study also conducted a qualitative research in the form of personal interviews to achieve additional insight into specific areas pertaining to the clothing manufacturing industry.

The research determined that the primary reason for the demise of the clothing manufacturing industry in South Africa was the flood of garments imports from China, aided by the strong rand and the rigidity and inflexibility of the labour relations system which made the local industry uncompetitive in the face of the flood of imports.

The study conducted a SWOT and Gap analysis to determine where the strengths of the industry lie, where the weaknesses are, and what opportunities are available for the clothing manufacturing industry and the threats to avoid. This analysis proved that the strengths of the local industry lie in their expertise in manufacturing, a large labour resource base to draw from, the readily availability of raw materials and incentives to export.

The weaknesses determined that the labour relations system has created an unproductive and inefficient industry. The opportunities lie in the establishment of manufacturing for niche markets that are currently not being exploited by the Chinese influence.

The Gap analysis determined that the local industry should move away from its current situation of being unproductive and inefficient trying to compete with the importation of cheap garments from China and move towards the niche markets. To achieve this, the labour relations system should be reviewed to become less rigid and more flexible which will result in the industry becoming productive, efficient and competitive.

The study recommended that the flood of imports into the country should be reviewed and either the imports should be limited or stopped altogether. The study also recommended that the labour legislation with regards to the clothing industry should be reviewed in an effort to make the industry more productive and efficient.

The study recommends the need for further research to be conducted on the importation of garments into South Africa particularly from China including under invoicing and illegal imports. The study also suggested that the feasibility of establishing the manufacture of polymer fibres to manufacture polyester fabrics should be investigated.

The study also revealed the shortcomings of solely using the e-mail method of data gathering for research. The study recommends that future research should not use the e-mail as the sole method of data gathering, but should use the e-mail in conjunction with other methods of data gathering.

The study focused on the situation facing clothing manufacturing industry from a local perspective only, but this crisis is not a local problem only. South Africa is not unique in experiencing a crisis in their clothing manufacturing industry caused by the flood of cheap garments from China. The Chinese influence has become a global issue with Chinese garments flooding all the global free markets. The Chinese manufacturing industry is so large it requires huge volumes of mass production to keep the industry

functioning and to sustain the rapid economic growth the country is currently experiencing. The only option the Chinese economy has to sustain its industry is to flood the global markets with cheap garments and can only achieve this by subsidizing the industry and manipulation the value of their currency. If the Chinese economy does not keep its manufacturing industry functioning, the country will head into a deflation situation.

Therefore from a global context, the way to tackle the situation is to exert global pressure on China to change to a market economy starting with unpegging their currency and removing the Chinese government's interference in the industry.

The need for employment in South Africa is crucial and the clothing manufacturing industry has been a source of employment for many years in both urban and rural areas. It is therefore incumbent on all concerned with the clothing industry to ensure that the industry remains active and all efforts must be applied to encourage investment and growth in the industry so that employment can be maintained.

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6.3. Acts

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6.4. Appendices

6.4.1. Appendix 1 – Questionnaire 1

1. *Does your organisation or company that you represent believe that there is a declination of the clothing manufacturing industry in SA – Yes / No*
2. *If your company imports garments, which country does your company predominately import garments from OR in your organisation's opinion, where do you think the majority of clothing imports to SA stem from?*
3. *In the opinion of your organisation, do you consider any of the following microenvironmental factors to be responsible for the declination of the clothing manufacturing industry in South Africa;*
 - a. *Lack of import duties and tariff barriers protecting the clothing manufacturing industry – Yes / No*
 - b. *Lack of productivity and efficiency of the local work force – Yes / No*
 - c. *Retail buyers demanding prices of garments that are only achievable by outsourcing the manufacture of garments abroad – Yes / No*
 - d. *The exchange rate of the rand making outsourcing and importation of garments a viable proposition – Yes / No.*
 - e. *The current wages demanded by the trade unions resulting in higher unit labour costs – Yes / No*
 - f. *The lack of incentives in SA to encourage local manufacturing in the clothing industry – Yes / No*
4. *As per the answer to question 3, why do you think, in the opinion of your organisation, that these factors are the most significant factors affecting the future of the clothing manufacturing industry in SA?*
5. *In the opinion of your organisation, how do you think the factors determined in Q3 can be addressed so that the clothing industry does not deteriorate any further?*
6. *In the opinion of your organisation, do you consider the Labour Relation system in SA to be too rigid and inflexible and why – Yes / No and why*

7. *In the opinion of your organisation, do you consider any of the following macroenvironmental factors to be responsible for the declination of the clothing manufacturing industry in South Africa;*
 - a. *The monetary policy of China (the currency peg of the yuan to the US\$) – Yes / No*
 - b. *South Africa's strategic relationship with China (SA exporting to China than protecting the local clothing industry) – Yes / No*
 - c. *The abolishment of the dumping duties on certain garments imported from China – Yes / No*
 - d. *The under invoicing of garments imported from China – Yes / No*
 - e. *The lack of power of the SARS – Customs and Excise, to police the importation of garments from abroad – Yes / No*
 - f. *Do you think the phasing out of MFA and the introduction of free trade is beneficial to the development of the clothing manufacturing industry in SA – Yes / No*
8. *In the opinion of your organisation, which macroenvironmental factor mentioned in question 7 do you think contributes the most to the declination of the clothing manufacturing industry in SA?*
9. *In the opinion of your organisation, how do you think the factors determined in Q7 can be addressed so that the clothing industry does not deteriorate any further?*
10. *In your opinion, what would encourage your company to revert back to local manufacture in an effort to create employment in South Africa OR in the opinion of your organisation, what do you think can be done to assist the clothing manufacturing industry from further declination in an effort to create employment in the industry*

6.4.2. Appendix 2 – Questionnaire 2

Your Name:

Your Company:

Please place a X in the answer you have chosen.

Do you think the clothing manufacturing industry in South Africa is in a

1 crisis?

Yes

or

No

If you have answered **Yes** to question 1 proceed to question 2, if you answered **No** to question 1, please forward the document to the writer.

Do you think the clothing manufacturing industry in South Africa has

2 declined

during the past three years?

Yes

or

No

3 What do you think is the cause of the decline in the clothing manufacturing industry in South Africa? You may select as many options as you feel is appropriate.

a Clothing Imports

Yes

or

No

b The trade unions

Yes

or

No

c The strength of the Rand

Yes

or

No

d Wage rate in the industry

Yes

or

No

Lack of Productivity and

e Efficiency

Yes

or

No

in the clothing industry

If you answered **Yes** to question 3a, proceed to question 4 if you answered **No** to question 3a proceed to question 5

4 Which of the following countries do you think the majority of clothing imports stem from?

a	China	Yes	or	No
		<input type="text"/>		<input type="text"/>
b	India	Yes	or	No
		<input type="text"/>		<input type="text"/>
c	Mauritius	Yes	or	No
		<input type="text"/>		<input type="text"/>
d	Lesotho	Yes	or	No
		<input type="text"/>		<input type="text"/>
e	Other please indicate below	Yes	or	No
	<input type="text"/>	<input type="text"/>		<input type="text"/>

5 Do you think the South African government is doing anything to protect the clothing manufacturing industry in South Africa from foreign interference?

Yes	or	No
<input type="text"/>		<input type="text"/>

6 If the Rand should weaken, do you think the clothing manufacturing in South Africa will improve?

Yes	or	No
<input type="text"/>		<input type="text"/>

7 What do you think can be done to save the clothing manufacturing industry in South Africa?

6.4.3. Appendix 3 – Covering Letter

Dear Sir / Madam

I am a student at the University of KwaZulu Natal (student no:202526886) completing my Masters in Business Administration.

As requirement for the completion of the degree, students have to complete a dissertation on a subject of their choice and the dissertation must include a research survey.

I have chosen to investigate the primary reasons for the demise of the clothing manufacturing industry in South Africa.

The motivation for the investigation is that currently there is an increase in job losses in this industry and there are numerous press reports stating the various reasons behind these job losses.

The objective of the dissertation is to conduct an investigation to discover the primary reasons for the decline of the clothing manufacturing industry in South Africa and to provide recommendations to address these reasons in an effort stop the decline in the industry.

The completed document should be of interest to numerous parties concerned with the well being of the industry, including provincial government, the Department of Trade and Industry, the trade unions, employer organisations and clothing manufacturers, to name just a few.

I request not more than five minutes of your time to complete the attached questionnaire and return it to me at your earliest convenience. I assure you of the confidentiality of the survey, no individual questionnaire's will be referred to or published in the dissertation, only the overall results will be analyzed and will form part of the dissertation.

Should you want a copy of the completed dissertation for your information, I will be happy to send you a copy after the document has been assessed and marked by the university.

I thank you in anticipation and look forward to receiving your completed questionnaire.

Regards and best wishes

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6.4.4. Appendix 4 - List of Abbreviations

AGOA - Africa Growth and Opportunity Act
ANC – African National Congress
ASEAN - Association of Southeast Asian Nations
ATC - Agreement on Textiles and Clothing
COSATU – Congress of South African Trade Unions
DC – Developed Country
DCCS - Duty Credit Certificate Scheme
DTI – Department of Trade and Industry
EU – European Union
GATT - General Agreement on Tariffs
IMF – International Monetary Fund
ITO – International Trade Organisation
LDC – Least Developed Country
MFA – Micro Fibre Arrangement
SA – South Africa
SACP – South African Communist Party
SACTWU – South African Clothing and Textile Workers Union
SARB – South African Reserve Bank
SMME's – Small Medium Enterprises
SSA - Sub-Saharan Africa
TMB - Textiles Monitoring Body
TNC – Trans National Corporation
USA – United States of America
US – United States
WTO – World Trade Organisation